

AMENDMENT TO REVENUE ACT OF 1932

HEARINGS

BEFORE

**THE COMMITTEE ON FINANCE
UNITED STATES SENATE**

SEVENTY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 5040**AN ACT TO EXTEND THE GASOLINE TAX FOR ONE
YEAR, TO MODIFY POSTAGE RATES ON MAIL
MATTER, AND FOR OTHER PURPOSES**

MAY 2 AND 3, 1933

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AMENDMENT OF REVENUE ACT OF 1932

TUESDAY, MAY 2, 1933

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

The Committee met, pursuant to call, at 10:15 o'clock, a.m., in room 312, Senate Office Building, Senator Pat Harrison presiding.

Present: Senators Harrison (chairman), Reed, King, Walsh, Couzens, Barkley, Connally, LaFollette, Gore, Clark, McAdoo, Hastings, Keyes, Byrd, Longergan, Metcalf, and Walcott.

The committee had under consideration H.R. 5040 which is here printed in full as follows:

[H.R. 5040, Seventy-third Congress, first session]

AN ACT To extend the gasoline tax for one year, to modify postage rates on mail matter, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 629 of the Revenue Act of 1932 is amended by striking out the following: " , or after June 30, 1933, in the case of articles taxable under section 617, relating to the tax on gasoline."

SEC. 2. The President is authorized during the period ending June 30, 1934, to proclaim such modification of postage rates on mail matter (except that in the case of first-class matter the rate shall not be reduced to less than 2 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interests of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, 1934. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentage of gross postal receipts specified in section 1001 (c) of the Revenue Act of 1932 as amended by this act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.

SEC. 3. (a) Section 1001 (a) of the Revenue Act of 1932 is amended by striking out the period at the end thereof and inserting a colon and the following: "*Provided*, That for experimental purposes, such additional rate shall not apply on or after July 1, 1933, to first-class matter mailed for local delivery."

(b) The first sentence of section 1001 (c) of the Revenue Act of 1932 is amended, effective July 1, 1933, by striking out the period at the end thereof and inserting a comma and the following: "except that in the case of such post offices as have city or village letter-carrier service 90 per centum of the gross postal receipts shall be counted for such purpose."

SEC. 4. (a) Effective fifteen days after the date of the enactment of this Act, section 620 of the Revenue Act of 1932 is amended to read as follows:

"SEC. 620. TAX-FREE SALES

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax under this title shall be imposed with respect to the sale of any article—

"(1) for use by the vendee as material in the manufacture or production of, or as a component part of, an article enumerated in this title;

"(2) for resale by the vendee for such use by his vendee, if such article is in due course so resold;

"(3) for resale by the vendee to a State or political subdivision thereof for use in the exercise of an essential governmental function, if such article is in due course so resold.

For the purposes of this title the manufacturer or producer to whom an article is sold under paragraph (1) or resold under paragraph (2) shall be considered the manufacturer or producer of such article. The provisions of paragraphs (1) and (2) shall not apply with respect to tires or inner tubes or articles enumerated in section 604, relating to the tax on furs."

(b) Effective fifteen days after the date of the enactment of this Act, section 601 (c) (1) of the Revenue Act of 1932 is amended by adding at the end thereof the following:

"Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax shall be imposed under this section upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him, but for the purposes of this title such vendee shall be considered the manufacturer or producer of such lubricating oils."

(c) Effective fifteen days after the date of the enactment of this Act, section 621 (a) of the Revenue Act of 1932 is amended by inserting after paragraph (2) thereof the following new paragraph:

"(3) to a manufacturer, producer, or importer in the amount of tax paid by him under this title with respect to the sale of any article to a dealer, if the manufacturer, producer, or importer has in his possession such evidence as the regulations may prescribe that (A) such article has after the date this paragraph takes effect been delivered by the dealer to a State or political subdivision thereof for use in the exercise of an essential governmental function and (B) the manufacturer, producer, or importer has repaid or agreed to repay the amount of such tax to the dealer or has obtained the consent of the dealer to the allowance of the credit or refund."

SEC. 5. (a) Effective on the 15th day after the date of the enactment of this Act, section 616 (a) of the Revenue Act of 1932 is amended to read as follows:

"(a) There is hereby imposed on electrical energy sold for domestic or commercial consumption a tax equivalent to 3 per centum of the price for which so sold."

(b) Effective on the 15th day after the date of the enactment of this Act, section 616 (b) of the Revenue Act of 1932 is repealed and section 616 (c) of such Act is amended by striking out "any payment received for".

The CHAIRMAN. The committee will come to order. Gentlemen, we have H.R. 5040 here, and the representatives of some of the power groups desire to be heard. At their suggestion I have delayed calling the committee this morning, and told them we would have a brief hearing on the electric energy tax provision. If the groups have agreed upon some particular party to present this matter, the committee would like to hear from them. We are not going to extend these hearings at length. Is it the pleasure of the group to have one person present this matter, or do you want us to fix a limitation of time here and take it up piecemeal? Who appears for the power group?

Mr. WEADOCK. Mr. Chairman, it is quite agreeable to us to have Mr. Hagenah present the matter to the committee on behalf of the Edison Institute. There are one or two others who desire to present the individual companies' cases. They would want but very little time.

The CHAIRMAN. How long does Mr. Hagenah want?

Mr. WEADOCK. If he could have an hour, it would be greatly appreciated.

Senator GORE. And who speaks for that group? Is he the sole speaker?

The CHAIRMAN. He is the sole speaker for that group. You say there are two or three others who want to be heard?

Mr. WEADOCK. Just for a matter of 5 or 10 minutes each.

The CHAIRMAN. This committee is going to sit until 12 o'clock. Both sides should be represented on the proposition. We will give to the power group 1 hour and 15 minutes, and the balance of the time will be used by those in opposition to their views, so if Mr.

Hagenah can get through in less than an hour, that will give those who appear for the power group that much more time. But we are going to close the hearing at 11:30 from the viewpoint of the power group.

Senator BARKLEY. How about time for cross-examination? Are you going to make any provision for questions?

Senator GORE. Why don't you let him have 45 minutes?

Senator KING. Let us not cross-examine.

Senator REED. Oh, he won't be going 5 minutes, before he will be subjected to questions.

The CHAIRMAN. If it is agreeable to the committee, suppose we let Mr. Hagenah complete his statement before we cross-examine him.

Senator WALSH. I should like to have the record show who composes the Edison Institute.

The CHAIRMAN. Will you furnish to the reporter the group that comprises the Edison Institute, Mr. Hagenah?

STATEMENT OF WILLIAM J. HAGENAH, REPRESENTING THE EDISON ELECTRIC INSTITUTE

Mr. HAGENAH. Mr. Chairman, and Senators: My name is William J. Hagenah; I reside in Chicago; I appear on behalf of the Edison Electric Institute, which comprises in its membership approximately 75 percent of the electric light and power industry of the United States.

In order that you might know what weight to attach to the statement of facts that I will present to you, it was suggested that I state to you something of my experience. I have for 27 years been engaged in the public-utility business. My experience has been, to a large extent, on the public side of this question. I was first connected with the Railroad Commission of Wisconsin, and have since been employed from time to time by the public-service commissions of six other States. I have also represented a large number of cities of the United States and Canada in public-utilities cases, and a number of large public-utility organizations in the United States and in foreign countries.

The measure that is before you in the bill introduced in the House has come to my attention, and I have read the measure and the discussion in the Congressional Record dealing with it.

Senator WALSH. Who are you representing before this committee?

Mr. HAGENAH. The Edison Electric Institute, representing the utility companies, at least 75 percent of their operations in terms of invested capital and population served.

Senator WALSH. Thank you.

Mr. HAGENAH. This measure is so profoundly important in the principles involved, and in the series of consequences that would follow its adoption, should such be the sentiment of this committee and the Senate, that I desire to discuss at length the effect of this measure. I desire to discuss it from the standpoint, first, of the revenue that it will produce; secondly, the place of such a tax in the fiscal scheme of the Federal Government, the States, and the minor political units; third, the present financial condition of the electric industry; fourth, the consequences which will flow from the adoption of this act as it affects the ratepayers, the employees of the companies,

the owners of these properties, and the public generally, and the further effect which the passage of such a measure would have on the feeling of confidence in the United States.

Obviously the purpose of any measure seeking to impose a tax is to produce revenue. At the present time this measure, as the 3 percent tax is paid by the domestic and commercial customers, is producing approximately \$32,000,000. However, if this tax is transferred from the customer, to be paid by the company, there will inevitably follow a net reduction in revenue to the Federal Government. This results from the fact that the electric light and power companies are now paying to the Federal Government, in the form of a Federal income tax, either 13¾ percent or 14½ percent, according to the form of report, whether individual or consolidated, and if \$32,000,000 is to be added to the operating expenses and tax burdens of these companies, the net amount which the Federal Government will receive as a tax from this measure will be reduced by the 14½ percent or the 13¾ percent applied to the \$32,000,000, which will be not less than \$5,000,000.

More than that, 21 States at the present time are levying some form of income tax, some form of tax on net earnings, or some form of franchise tax, the revenues from which will suffer a reduction to the States and the minor political units to which that revenue is devoted, if the operating expenses of the public utilities are increased by the amount of this tax. This reduction to the States and minor political units from the transfer of this tax will be not less than \$1,000,000. The net revenue which the Federal Government will receive if this tax is imposed on the companies will be a reduction from the \$32,000,000 now collected to approximately \$27,000,000, plus the reduction of an additional \$1,000,000 in the revenues of the States.

What benefit is there, gentlemen, in transferring this tax at a time when the Government is in need of revenues, and when the minor political units are in need of revenue, the net result of which will be to make a large reduction in the revenues?

The electric companies further believe there is no reason why they should be singled out and made the object of discrimination by having levied against them an excise tax. There are some electric power companies that are financially sound and of good credit who could pay this tax, but there are a great many companies at the present time which cannot absorb this tax obligation without having serious difficulties in meeting their interest and other fixed charges and taking care of their corporate maturities. This is a tax on gross and for that reason is a tax on production. It is a vicious tax, as a tax on production has always proved to be where tried in this country and in Europe.

An equitable principle of taxation requires that it shall be applied according to the ability to pay. All companies have gross earnings, but not all companies have the same relationship of their net earnings to their gross, with the result that if this measure is passed the strong companies can pay it, but the weaker companies which serve the thousands of smaller communities of the United States, including down to mere hamlets, will be unable to meet this burden without a serious impairment of their financial condition and an interruption of the quality of service which they have been furnishing.

There is, gentlemen, in the fiscal system of this country some need for a balanced distribution of the taxes. Not all of the agencies having the power to levy taxes should tax at the same time the same sources of wealth or the same sources of income. There must be, from the simplest political science standard, a distribution of the taxes between those peculiarly adapted to the Federal Government, those adapted to the States, and those taxes adapted to the minor political units. Yet there has resulted through the application of this tax a series of overlapping taxes and a duplication in burdens that is becoming almost crushing to many of the companies.

This has been recognized by the United States Government itself in the preparation of a booklet which appeared less than 6 months ago, entitled "Double Taxation." I shall read a few sections from that report, and so that the Senators may follow me, I have for distribution the excerpt from which I will quote.

Senator COUZENS. While you are looking that up, do you mind me asking if the manufacturers sales tax is not a gross tax, a gross sales tax?

Mr. HAGENAH. The manufacturers sales tax is, of course, a gross tax, but the manufacturer can pass that on, and does pass it on, but in our situation it is not possible to do that because of regulation by the States.

Senator COUZENS. Do competitive conditions always permit the manufacturers sales tax to be passed on?

Mr. HAGENAH. Sometimes they do not; many times they do. There are some times where the competitive situation is more serious than others, but the profits of competitive industry have been such that they have been readily able to absorb that tax or pass it on, because there is no restriction by the States on the charges which they may make, whereas our charges are fixed by the State itself, and, after the State has fixed the rate, then for the Federal Government to put an added burden on the company which has not been provided State in the rate fixed, is bound to lead to a serious result to the electric companies.

Senator COUZENS. Under the decisions of the court aren't you entitled to a return on your investment in the rate fixed by the State commission?

Mr. HAGENAH. We are entitled to earn a reasonable return, but there is no guarantee that we shall make that reasonable return.

Senator COUZENS. When you have a monopoly, what prevents you from making a fair return?

Mr. HAGENAH. The economic distress of the community, and competitive conditions, competition with those not subjected to regulation. If our competitors were also regulated we would be better able to protect ourselves. But our rates are fixed, and the agencies with which we are in competition are not subject to regulation.

Senator COUZENS. What companies are those?

Mr. HAGENAH. We are in competition with oil, gas, privately owned generating stations, individual plants in manufacturing establishments, in office buildings, There is always the right of any customer to supply himself with a substitute service if he feels it is to his advantage to do so.

Senator WALSH. How much electricity is generated by private sources not subject to regulation?

Mr. HAGENAH. I am unable to say, sir; what it is for the entire United States.

Senator WALSH. Never mind. You may answer it later.

Mr. HAGENAH. I did present a statement on that subject for the House Ways and Means Committee a year or so ago, in which was shown, according to the United States Bureau of Labor Reports, and the census of manufacturers, the percentage of power being supplied by manufacturers and others from sources other than public utilities. That is a matter of record.

I have here the report on Double Taxation. The foreword, which appears in the memorandum laid before you, contains this statement:

It is not sufficient in approaching a subject of this magnitude to consider it solely from the Federal or State point of view. It is more important to consider the effect of the various systems of taxation upon the taxpayer, whether individual or corporate. It makes little difference to the taxpayer to whom he pays the tax—the important matter to him is the total amount he has to pay. Double taxation will always impress him as unjust and taxation of the same subjects by the various taxing authorities will generally be deemed double taxation, whether or not legally or theoretically justified. Then too, the annoyance to the taxpayer of many of the so-called "nuisance taxes", which bring in very little revenue in proportion to the trouble involved, must not be overlooked.

If we turn to page 8 of this same report by the Government, we find this statement:

As might be expected in view of the power of the States to levy taxes, almost every kind of tax levied by the Federal Government is also levied by the States.

On page 21 of this report there appears the following:

The Federal Government enacted a tax of 3 percent on the sales price of electrical energy in 1932. About 23 States and Territories have special taxes on this subject—either sales taxes, gross receipts taxes, or franchise taxes. Probably only 18 out of the 23 have taxes which may properly be classified as sales taxes. In these latter cases the tax is measured by gross receipts or by the kilowatt-hour. The gross receipts rates vary from one-half of 1 percent to 5 percent. Therefore, the duplication of these taxes may result in rate as high as 8 percent.

Now, if you will turn to page 174 of this Government document, you will find listed there the taxes which are now in effect in the United States, listed in this report in the nature of gross earnings, taxes, franchise taxes, and sales taxes, which have been adopted in part as the result of the suggestion which has come from this Government in the application of the tax of a year and a half ago, and because of that there is an overlapping of taxes shown here of as high as 8 percent of the gross earnings of this industry.

(The table referred to is as follows:)

Tax levies affecting electrical energy sales

SPECIAL SALES TAXES

Federal Government, 3 percent on sales price..... \$32, 000, 000

FRANCHISE TAXES IN ADDITION TO PROPERTY TAX

Alabama:

Four tenths of 1 percent on gross receipts (State)..... 90, 000

Two fifths mill per kilowatt-hour (State)..... 600, 000

2 percent gross receipts, (city)..... 400, 000

Alaska: One half of 1 percent gross receipts..... Uncertain

Connecticut: 1½ percent gross receipts.....	450,000
Delaware: One tenth of 1 percent gross receipts.....	3,500
Idaho: One half mill per kilowatt-hour.....	325,000
Maryland: 1 percent gross receipts.....	200,000
Nevada: 2 percent net income.....	20,000
North Carolina: 5 percent gross receipts.....	1,600,000
Ohio: One and thirty-five hundredths percent gross receipts.....	1,550,000
Oklahoma: One half of 1 percent gross receipts.....	115,000
Oregon: \$1 to \$3,000, based on gross volume.....	Uncertain
Pennsylvania: Eight-tenths of 1 percent gross receipts.....	1,500,000
South Carolina:	
Three-tenths of 1 percent gross receipts.....	45,000
Three tenths of 1 percent property value.....	275,000
One half of 1 mill per kilowatt-hour.....	550,000
Texas: One half of 1 percent gross receipts.....	750,000
Vermont: One half of 1 mill per kilowatt-hour.....	250,000
Virginia: 1½ percent gross receipts.....	250,000

Alabama, \$1,090,000, to which this act would add \$225,000 additional tax.

Connecticut, \$450,000 raised by its own gross receipts tax, to which this act could apply another \$850,000.

Maryland, \$200,000 raised by the gross receipts tax at home, and \$400,000 additional to be raised by this act.

I might go through the entire list, but in order to save time I have shown those figures in the memorandum which is placed before you.

That, however, is not the complete story, because it appears that in the haste of compiling this document certain other taxes have been overlooked. There is nothing included in the Government report for the franchise tax in the State of Kentucky, which is costing the public utilities some three or four hundred thousand dollars a year, to which this Federal tax will add \$325,000. There is no mention of the three-tenths of 1 percent gross earnings tax of Georgia, or of the 1 percent gross earnings tax applied in Ohio, which yields \$850,000, and to which latter has been added another 1 percent of the gross earnings to meet local relief, and which would be further increased by this tax by \$1,900,000.

That is only the story to the end of 1932. There have been over 30 State Legislatures in session this year and here is what these legislatures have so far added to the already long list of gross earnings taxes, and to which there would be added this Federal tax. Gross earnings taxes and franchise taxes have recently been added in Arizona, Illinois, Indiana, Kansas, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Utah, and Washington, raising as high as \$400,000 and \$500,000 a year, and upon these tax burdens this tax now before this committee would be further superimposed.

And even that is not all; there are still several legislatures in session which have before them tax bills that would affect this industry in the form of gross earnings taxes or taxes on kilowatt-hours, which are of the same general nature. Such measures are pending in Colorado, Iowa, Maine, Michigan, Minnesota, New Mexico, Ohio, Pennsylvania, and Texas.

The annual tax burden of this industry, so the result of these conditions, has gradually risen from 8, 9 and 10 percent of gross earnings until some of the companies are paying from 15 to 18 percent of their gross earnings, and they have not yet felt the result of the measures that the current legislatures have added.

To show the burden on one western company, the load is there so great that last year 14.3 percent of its entire gross earnings was paid back in taxes.

Senator REED. What percentage of its net?

Mr. HAGENAH. That is over 30 percent of its net earnings.

So great is this tax, and it is typical of many companies which for lack of time I cannot review now but would be glad to submit to you outside of the record, that the entire gross earnings, activities and operations of that big system are absorbed for 1 day out of every 7 merely to meet its tax obligations.

It purchased last year 619,000 tons of coal to be used in operating its system. Yet its tax burden was 75 percent in excess of the total cost of coal. It is customary in rate contests or when analyses are made of the cost of electricity in competitive situations or in comparison with Government plants, for the cost of energy at the switchboard to be carried out to the fourth decimal place, dealing only with the cost of fuel and labor in the generating stations, and yet here we have an item of taxes alone which appears lower down in the operating statement, that is 75 percent more than the total amount spent for coal.

In this particular company, and again it is typical of others, varying only in the degree of the percentage, it is necessary to pay in taxes a sum that is equal to 44 percent of its entire pay roll in the operation of its properties.

Now, gentlemen, I am not saying that the electric industry is asking any favor, nor do I wish to leave with you the impression that all the electric companies are in financial distress. It is an industry fully able and perfectly willing to bear its just share of the cost of government, but there are many individual companies that cannot do so. It is an industry that is regulated by the States. Rates are fixed, and unless the tax burden, which is sweeping down on this industry like an avalanche from every direction, local, State, and Federal, is stemmed it will be impossible for these companies to continue to give the service they have given under the schedule of rates they are now collecting, and which some 40 different States have fixed for them.

Let me outline to you what the financial condition of the electric industry is at the present time. In 1931 the electric industry submitted for analysis reports from individual companies approximately 400 in number. Of them 106 paid no common dividends and did not earn any. One hundred and eighty-four companies have so far filed their report for the calendar year 1932. Of those 16 percent did not earn their fixed charges, and it is just a question of time before it will be necessary for them to go into receivership unless some relief can be obtained. Twenty-five of those companies did not earn the preferred dividend which they paid last year, and they must reduce or pass altogether preferred dividends this year. Twenty three others did not pay any common dividends, and did not earn enough on the common stock to make such a payment possible.

I have further analyzed 138 reports. These companies would have to pay under this tax \$18,765,000. Of this amount \$30,000 would come out of the bondholders' money and over \$15,000,000 would come out of the money that up to the present time has been available for payment of preferred and common dividends to the long list of small stockholders to which I will later call your attention.

Because of this financial condition a serious situation confronts the electric utilities with respect to their early maturities. I submit here for your examination a list of the maturities of the electric light and power industry for the next five years. The amount aggregates over \$552,000,000, and unless some check can be made on the ever-increasing burden of taxes on these companies it will be necessary for a great many of these companies to go before their State commissions and ask for extraordinary relief or they will be compelled to go into receivership with inevitable loss to the type of stockholders who are of small means and represent the thriftiest class of citizens whose small savings have been invested in this industry. The repercussion from a social and economic stand point from a situation of that kind would be serious, to say the least.

Electric light and power company maturities over next 5 years

[Poor's Manual]

Year	Operating companies		Holding companies		Total	
	Notes or debentures	Bonds	Notes or debentures	Bonds	Notes or debentures	Bonds
1933						
January.....	\$30,000,000	\$17,557,500	.	.	\$30,000,000	\$17,557,500
February.....		4,079,500				4,079,500
March.....		50,000		\$377,000		427,000
April.....		2,589,000		2,000,000		4,589,000
May.....	10,000,000	13,958,500			10,000,000	13,958,500
June.....	6,560,000	6,388,500		10,000,000	6,560,000	16,388,500
July.....		710,500				710,500
August.....		374,000		1,759,000		2,133,000
September.....	180,000				180,000	
October.....		1,646,000	\$3,585,300		3,585,300	1,646,000
November.....		5,415,700		996,000		6,411,700
December.....		60,000		4,450,000		4,510,000
Total.....	46,740,000	52,820,200	3,585,300	19,592,000	50,325,300	72,411,200
1934						
January.....		10,919,800				10,919,800
February.....		561,000				561,000
March.....						
April.....		19,081,200		2,000,000		21,081,200
May.....		130,000				130,000
June.....		349,000		10,000,000		10,349,000
July.....	25,000,000	23,891,600			25,000,000	23,891,600
August.....	1,500,000	45,000		1,063,000	1,500,000	1,108,000
September.....	17,700	5,000,000			17,700	5,000,000
October.....		4,805,600				4,805,600
November.....		5,010,700				5,010,700
December.....		6,773,000	7,465,809		7,465,809	6,773,000
Total.....	26,517,700	76,566,900	7,465,809	13,063,000	33,983,509	89,629,800
1935						
January.....		3,178,200				3,178,200
February.....		22,713,000				22,713,000
March.....		56,500				56,500
April.....		36,000		2,000,000		2,036,000
May.....	20,840,700	9,615,800			20,840,700	9,615,800
June.....		5,959,500	1,200,000	10,000,000	1,200,000	15,959,500
July.....		20,460,200				20,460,200
August.....				2,925,000		2,925,000
September.....		695,000				695,000
October.....	8,000,000	193,500		25,000,000	8,000,000	25,193,500
November.....		5,465,500				5,465,500
December.....						
Total.....	28,840,700	68,373,200	1,200,000	39,925,000	30,040,700	108,298,200

Electric light and power company maturities over next 5 years—Continued

[Poor's Manual]

Year	Operating companies		Holding companies		Total	
	Notes or debentures	Bonds	Notes or debentures	Bonds	Notes or debentures	Bonds
1936						
January.....		\$25,618,900				\$25,618,900
February.....		1,280,000				1,280,000
March.....		12,814,700		\$666,000		13,480,700
April.....		3,879,500		2,000,000		5,879,500
May.....		2,170,000		6,663,200		8,833,200
June.....		400,000				400,000
July.....		5,703,000				5,703,000
August.....		10,883,000				10,883,000
September.....		50,000				50,000
October.....		722,200				722,200
November.....		575,000	\$1,416,500		\$1,416,500	1,991,500
December.....		2,066,100	883,500		883,500	2,949,600
Total.....		66,162,400	2,300,000	9,329,200	2,300,000	78,491,600
1937						
January.....		993,500				993,500
February.....		13,000				13,000
March.....	\$10,000,000	1,469,000			10,000,000	11,469,000
April.....		349,000	1,388,500		1,388,500	1,737,500
May.....		2,767,500				2,767,500
June.....		20,237,300				20,237,300
July.....		26,114,990				26,114,990
August.....		215,000				215,000
September.....		1,245,000				1,245,000
October.....	3,056,200	3,305,500			3,056,200	6,361,700
November.....		17,810,000		1,229,500		18,039,500
December.....						
Total.....	13,056,200	74,519,790	1,388,500	1,229,500	14,444,700	89,998,200
Grand total.....	115,134,600	338,481,490	16,939,609	83,128,700	131,094,209	552,584,399
Total maturities of all kinds.....						552,674,399

Let me now discuss for a moment the effect of this tax on the various class of interests most directly concerned. First, as to the rate payers. The electric industry, as you gentlemen know, is subject to regulation by the State commissions. I submit for your examination—

Senator HASTINGS. Not all of them, are they?

Mr. HAGENAH. Not all of the States have such commissions, no sir. There are about seven States which have no commissions regulating electric rates. There are also a number of States that do not regulate as broadly as they should with respect to some very important subject matters of utility operation. I think all such matters should be covered by ample regulatory provisions.

Senator GORE. How do the rates in those seven States compare with the rates in other States in which they are regulated?

Mr. HAGENAH. There is very little difference, because the States which do not regulate rates are served very largely by companies that are affiliated with those which operate in States where rates are regulated. Their accounting systems are the same and their operating practices and methods are the same. Also, the same principles of rate making are followed in the States where there is no regulation as in those States where there is the most careful scrutiny, with the

result that those States which do not regulate rates are today receiving, indirectly, important benefits from those States which do regulate.

Please notice this chart which I here submit. It shows a constant and steady decline of the residential rates since 1913, compared with the violent increases in wages, the cost of living and wholesale commodities.

The statement was made on the floor of the House by a Member of Congress who said he was informed, that the electric industry had not reduced its rates consistent with the reductions in automobiles and of radios. Gentlemen, if you will take, for the purpose of experiment, a sheet of paper and lay it over this table as to the year 1929, I submit that the decline in rates subsequent to 1929 is a very creditable showing in comparison with the reduction that has taken place in the cost of living, in wholesale commodities and in wages.

Now remove that sheet and see what transpired prior to 1929.

When the statement is made, and it is repeatedly made by people who are not informed as to the facts, that the electric industry has not reduced its rates consistent with the decline in commodity prices, the fact stands out that the reason utility rates have not gone down more rapidly during the last few years is because they never went up, and never having reached the heights that wages and prices reached in other lines of industry, they have no downward course to retrace. Further, if you will consider the reports that have been made to the Internal Revenue Department of the United States, for the manufacturing industries represented in these upper groups, you will find that during the period prior to 1929 many of these, especially in those industries mentioned in the debates in the House, they were earning from 15 to as high as 30 percent on their invested capital, at a time when the electric industry was earning 7.6 per cent on its investment.

If the electric industry had been free to increase its rates, which the character of its business will not permit, and which it would never want to do, but for the sake of discussion, if it had increased its rates at that time, it too would have had a margin of surplus and profits against which it might well afford to reduce its rates now, but it comes with ill grace from those who have been unregulated in their charges and who have been making from 10 to 30 percent on their invested capital, to criticize the fact that our rates in the last 3 years have not been reduced as fast as the collapse in commodity prices, when during this entire period since 1913 our rates were constantly being reduced and did not yield any more than 7.6 percent on the average. We did not ask for increases in rates except during the war and never since 1913 have our rates been as high as they were at that time. Domestic rates have been reduced over 35 percent since 1913.

Senator CLARK. You have done better than anybody else, haven't you, if you got 7 percent?

Mr. HAGENAH. Since when?

Senator CLARK. Since 1929.

Mr. HAGENAH. We haven't earned 7 percent since 1929, but we did earn about 7 percent from 1919 to 1929, when other industries were earning two or three times that much. We are suffering the same distress now as other industries, for to the extent that our business is engaged in supplying power to the manufacturing industry, it is in exactly the same unfortunate condition as that industry is.

There can be no difference. I shall refer later to the differences with respect to the municipal services and payment of such bills and the delinquencies therein to these companies, as well as the difficulty of making collections from small customers today because of the economic distress.

Senator BARKLEY. In making that statement, do you make it with reference to the fact that there are other commodities that can be done without more easily than this?

Mr. HAGENAH. I do take that into consideration, and that is why our business is more stable than many others. That is why we are regulated by the public, and why the public puts an upper limit on the rates we can collect.

Senator BARKLEY. What has been the decline in the consumption of your service in the last 3 years?

Mr. HAGENAH. There has been a very serious decline, approximately from 50 to 60 percent in the number of kilowatt-hours sold for industrial purposes in the large cities. The decline is about 25 percent for the entire industry. There has been a substantial decline in the amount of electricity used for public purposes, due to reducing the amount of street lighting. There has been, in different companies, a reduction of 5 to 10 percent in the amount of electricity used for purely domestic consumption.

Senator BARKLEY. The reduction in the amount for domestic purposes has been smaller than the others?

Mr. HAGENAH. Yes, that is necessarily so, because it is extremely difficult for a person to get along without light in his home, and during the last few years there has been many people who have added to their domestic consumption by installing electric refrigerating machines, washing machines, and taking advantage of other electric facilities, made available for their home, instead of paying the ice man and patronizing the laundries.

Senator BARKLEY. What is the average proportion of home consumption to the total in normal times?

Mr. HAGENAH. In normal times the domestic service revenue is about one third the total; a little more than one third is devoted to industrial users, and slightly less than one third is devoted to commercial uses. That will vary with different companies.

Senator BARKLEY. How do you classify industrial and commercial uses?

Mr. HAGENAH. Industrial consumption includes those classes where power is used in the manufacturing and production; commercial consumption is the use of electricity in stores, offices and commercial establishments, where manufacturing operations are not carried on, such as wholesale houses, jobbing institutions.

Senator BARKLEY. Where do you classify public lighting?

Mr. HAGENAH. That is entirely a separate class. That is called public sales or municipal uses.

Senator BARKLEY. What proportion of the total does that represent?

Mr. HAGENAH. In some companies it is from 5 to 10 percent.

Now, again coming back to this chart. It is the business of a State to regulate our rates. There is today not one single activity of an operating electric company that is not under the supervision of the State. It determines the amount on which we may earn a reasonable return; it prescribes the classification of accounts that we are

to follow; it audits our books; it tells us what amount we may earn during the year, and then it prescribes the schedule of rates which will carry this into effect and yield that measure of return which we are entitled to earn in order to attract capital and deliver the service that is required of us.

Now, gentlemen, if there is a surplus margin of profit from operator it belongs, by all standards of reason and justice, to the customers and not to the tax gatherer. There is only a certain amount that can be saved for rate reduction from year to year, which has always been devoted to the customers in rate reductions as this curve clearly shows, but if now, when a margin of profit is available for reduction in rates, the Federal Government is to step in and take it for a Federal tax, it is going to be impossible for the electric industry to further continue its consistent reduction in electric rates for the small man's uses. There isn't enough surplus available for both. If the Government takes it, it is not available for the rate payer. When it is gone, it is gone. There is only a definite amount, and that is determined, not by us but by the States. I maintain on behalf of the small consumer that he is entitled to the benefit of the economies and the improvements which intelligent management under State supervision can bring about, and that when a State has established overvaluations and what rates we may charge and what margin of return, the Federal Government should not reduce by taxation that which the State has thought it is necessary for each company to earn, because anything less than that will mean an interference with this service.

I am satisfied, gentlemen, that in the hurry of a year ago, with the same situation that was before Congress in 1917, if Congress could have ascertained the facts and seen the economic and social results that followed from the application of the tax on the small residential consumer, this tax would never have been applied at all. There are thousands of people in the United States—dressmakers, seamstresses, milliners—who work in their own homes and who are listed as domestic consumers. There are thousands of tailors and others who do repair work in their own home, paperhangers, artisans of all classes who do home work or office work, and these people in the humblest walks of life are subjected to this tax.

On the average this has amounted to only about 7.5 cents per residence customer per month; so small that it is not an important matter to him, but unfortunately some think it is much greater. However, the transfer of that tax from millions of customers to the companies will reduce and interfere with the continuous decline in rates which the companies have made available to them.

It is impossible for the machinery of the Treasury Department to definitely draw a line of distinction between the forms of uses of electricity by over twenty million customers in the cities and villages of the United States and over seven hundred thousand farmers who use electricity for small motors—for sewing machines, refrigeration, irrigation, pumping water, taking care of their dairy supplies and washing machines on the farm. Clearly a part of this is industrial and should not be taxed. It would be extremely costly to have two meters installed to determine how much of this is industrial, and how much is pure domestic lighting.

The reaction which this tax has created is best understood when you realize that in its real application it is a tax on the housewives' attempt to preserve food, on the use of the washing machine, sewing machine, the ironing machine, the toaster and vacuum cleaner, and other appliances which have removed much of the drudgery of home life in the cities, and on the farms where it is of perhaps greatest importance that it be continued.

And our business even in those fields is highly competitive. The question was asked, "How can this be competitive?". If our rates do not continue to go down as improvements are made in the different uses of electricity, we will have to stop the development that we are making, or we will lose the business we already have. In either event there will be a serious reaction against the interests of the rate-payer. Every bill rendered for electric service for the operation of an electric washer and ironer in the home, is in competition with the charges of the laundry. Every use of the electric range, every use of the toaster, is in competition with oil, and with manufactured and natural gas. Every use of the refrigerator, and millions of these have been installed in homes throughout the United States, they having been reduced in price until a small unit can be had by the man of modest means, is in competition with the ice man and the large artificial ice distribution facilities which many cities possess.

Again, if you gentlemen could have foreseen the economic and social reactions, which followed the attempts to put this tax on the customers, it would never have been applied, and to also concentrate this amount of over \$30,000,000 on the industry, will certainly put an end to domestic rate reductions that have been going on in the United States as the chart shows.

What is the rate situation in this respect today? You can hardly pick up a newspaper in any part of the United States and not read where movements are under way looking to a reduction in electric rates. There are at the present time state-wide investigations by public-service commissions, involving electric rates in every city big and little, and on the farms and in the homes, in the States of Washington, Georgia, Illinois, Indiana, Maryland, New York, Virginia, Oklahoma, and South Carolina.

Investigations on somewhat smaller scales, but yet covering companies that serve from 50 to 200 communities in single States, are under way in Oregon, Wisconsin, California, South Dakota, Kansas, and Missouri.

Rate cases are under way in the cities of Chicago, New York, Detroit, St. Paul, Louisville, Cincinnati, Akron, and San Diego, which have come to my personal knowledge.

Senator CONNALLY. What is the nature of these investigations?

Mr. HAGENAH. Looking to an immediate reduction in present electric rates.

Senator CONNALLY. They are based on the fact that present rates are largely based on cost of reproduction new.

Mr. HAGENAH. Oh, no.

Senator CONNALLY. And it was the falling off of commodity prices so that the cost of reproduction new has very seriously diminished; isn't that true?

Mr. HAGENAH. No, sir. I think you are suffering under a misapprehension. The electric industry is not asking a return on the

reproduction cost of its property, and never did. It is merely one evidence of present value.

Senator CONNALLY. But most of the rates were fixed on that.

Mr. HAGENAH. No, sir. The people who have advocated the reproduction-cost theory must consistently have not been the electric companies, and if you will go through the decisions of the Supreme Court, beginning with Smythe versus Ames, in 1892, right through to the decisions in the Minnesota Rate case, Southwestern Bell Telephone case, Buefields Water case, the Georgia Railway & Power Co. case, Indianapolis Water Co. case, and so forth, you will find the reproduction cost advocated chiefly by the railroad companies, gas companies, or water companies, in respect to which properties the reproduction cost was far more important. Now, it is important to the electric industry, but it has been less advanced by this industry because the electric industry is more flexible. It is a newer business. The opportunities for extension have been greater. In spite of the rise in commodity prices and the great increase in wages the electric industry has so greatly extended its business, found its way continually into new fields, reduced rates, opened new avenues for development that it has been able for this long period to bring about this decline in rates to which I have called attention, and further reductions in rates can be made.

Senator CLARK. Have you been paying more for copper than you paid formerly?

Mr. HAGENAH. Copper has been as high as 28 cents a pound. It has gone from 16 to over 28 cents per pound. It averaged for the 10 years prior to the war about 16 cents per pound. In recent months it has been as low as 5 cents; low because nobody could afford to buy it or nobody had any use for it, because there has been no demand for extensions. As soon as that demand returns the price of such commodities will rise.

The electric industry is not standing on any reproduction theory or investment theory alone.

Senator CONNALLY. What basis are you for, if you do not argue for reproduction and do not argue for capitalization? What basis do you fix rates on?

Mr. HAGENAH. I am merely suggesting that the court take into consideration all the evidence available.

Senator CONNALLY. I am not talking about the courts. You say you do not ask rates on reproduction costs, and you do not ask for them on capitalization. What do you ask them on, what the traffic will bear?

Mr. HAGENAH. It is absolutely impossible to do that. There is no instance on record where that has been done.

Senator CONNALLY. Well, what is the basis? You can answer that.

Mr. HAGENAH. I contend that the courts should determine the fair value of a property by taking into consideration reproduction cost at the time of investigation, reproduction cost less existing depreciation, actual investment made in a property, the prudent investment in the particular property, and apply to that the exercise of an intelligent and judicial mind, and on that decision we will make the effort to earn a reasonable return.

Senator BARKLEY. You are speaking about the courts. What about the public utility commissions?

Mr. HAGENAH. They are following that plan.

Senator BARKLEY. Then they do have to take into consideration the cost of reproduction and the amount of investment?

Mr. HAGENAH. Oh, yes. They take it into consideration. The question is the weight to be given to it in consideration with other evidence of value available at the same time.

Senator CLARK. But the Supreme Court of the United States has repeatedly said that the cost of reproduction new was to be the dominating element. That was very satisfactory to the utility companies at the time commodity prices were up. They got the difference between what it actually cost and the cost of reproduction new. Now they are not so much in favor of that basis since commodity prices have gone down. Is that correct?

Mr. HAGENAH. No, sir; that is a statement very frequently made, but it is not borne out by the facts. There is one matter which the gentleman has overlooked, and that is while commodity prices, such as farm products, coal, oil, and copper, have suffered a drastic decline, there are very few of those items in the unfinished state appearing in the inventory and capital account of public utilities. Our capital account is made up more largely of skilled labor and of manufactured commodities, equipment, and buildings, in which many classes of skilled labor are present. If the gentlemen will consider the reports made by the United States Bureau of Labor, he will find that while commodity prices have gone down because of world conditions and lack of markets the price of those articles which enter into the construction of electric property and the skilled wage scales which enter into their construction have not gone down in anything like the same measure. But I will say, in agreement with the Senator, that since 1892, at which time the public wanted the reproduction theory because it was low and the railroads favored the investment theory because it was higher, as years have gone on, the price level has declined and crossed the actual cost level. Recently self-interest on both sides has led to a change in attitude. As prices declined the public began to look with favor on the reproduction theory and utilities are attaching greater weight to the cost theory. This subject is not of great importance today because at this particular time both theories lead to substantially the same result.

Senator CONNALLY. In other words, the representatives of the utility companies have reversed themselves.

Mr. HAGENAH. Precisely, both sides are doing so, and it is the business of the courts to see that the selfish interests of either side shall not prevail against the just claims of the other.

Senator CONNALLY. You say the cost of machinery and the stuff you use has not gone down very materially?

Mr. HAGENAH. Not nearly as much as commodity prices.

Senator CONNALLY. Isn't that largely because the same people control the manufacturing of the electrical equipment also own the utility companies?

Mr. HAGENAH. Oh, no. That is not true in any degree, sir. There is no evidence to support that statement.

Senator CONNALLY. It is not true?

Mr. HAGENAH. No, sir; that is not true.

Senator CONNALLY. The General Electric Co. and the Westinghouse Electric Co.; Stone and Webster, and all those people.

Mr. HAGENAH. Stone and Webster are not manufacturers, and the General Electric and Westinghouse do not control any operating facilities to my knowledge.

Senator CONNALLY. Don't they own a lot of stock in them?

Mr. HAGENAH. They may at some time, where they could not collect cash for machinery delivered, have taken some stock. But there is no large holdings of operating companies' stock by manufacturing corporations. The Federal Trade Commission made an exhaustive investigation of that and found the charge was not supported.

Senator CONNALLY. There is a very cordial relationship between those interests, isn't there?

Mr. HAGENAH. If there is a cordial relationship, it is not surprising that an industry that regularly purchases many hundreds of millions of dollars worth of equipment should be looked on with favor by the manufacturers who sell it.

Senator CONNALLY. I am not saying what is the reason, but that is true, isn't it?

Mr. HAGENAH. I think there is no more cordial relation there than there is between the people who take our service as customers and the utilities who supply it.

Senator BARKLEY. The relation between debtor and creditor is not always cordial, is it?

Mr. HAGENAH. I think sometimes, if they are not able to pay their bills, this cordiality might disappear.

Senator BARKLEY. Are you advocating the abolition of this tax altogether?

Mr. HAGENAH. I think the ideal situation would be to take this tax off the customers just as Congress concluded to do in 1917. I also think this tax should not be put on the companies, because we are a regulated industry with our rates fixed by the States. If we were not regulated, you might put on a general excise tax, and we would take our position along with everybody else, but if more revenue is desired, the burden should be put on net earnings and not gross earnings. The organization of the whole fiscal system, and the machinery of regulation, the administrative system that has been set up in over 40 States, would be adversely affected by this tax, which is vicious in principle, unfair to the companies, unfair to the customers which we serve and for whom I plead, and this disruption far exceeds in cost the benefits from the 26 or 27 million dollars the United States Government would get out of it, \$5,000,000 less in net income than it would get if you did not disturb the present situation. Also the States will save at least \$1,000,000 which they would lose if this measure does pass.

Senator BARKLEY. You claim it produces only twenty-five or thirty million in taxes per annum.

Mr. HAGENAH. It will produce under present conditions, as collected from the customers, around \$32,000,000, based on last year's operations. It may not produce as much in 1933, because our business is still falling off. But if the tax is shifted to the companies, from which the Government is already taking a large income tax, there will certainly be a reduction of the amount which that tax would produce because of the reduced net income after paying the 3 percent tax here considered. That reduction will be not less than \$5,000,000.

Further, the Government, both Federal and State, will suffer in another direction, because of the loss in dividends which will inevitably follow if this measure is put through. There will be a reduction of a substantial nature in the Federal and State income tax collections from that source.

Senator BARKLEY. Your position is it should be removed altogether, but if it is to remain, it should be a tax on the customer and not on the utility companies?

Mr. HAGENAH. It should be removed for the reasons I have stated, but if it should remain, it is far better to remain where it is, where it has created no burden for our customers, and where it amounts to not more than 7.5 cents a month per residence customer. This is an exceedingly small amount when compared to all the other taxes which Federal, State, and municipal governments have passed, and have had to pass, because of the economic distress of the past few years. It is one of the least burdensome of taxes, although wrong in principle—absolutely wrong. If it is all concentrated at one point the effect is crushing. The Federal Government would break faith with the States that have regulated this business, if when the States have told us what is a reasonable return, it should then tax part of that return away from us.

Senator BARKLEY. What is the difference between taxing this and taxing gasoline?

Mr. HAGENAH. I think I can see a difference. The Federal Government and the States have both spent a great amount of money on highways. It is only fair, since both have contributed heavily to the economic wealth that resulted from this, that the users thereof should contribute to those who built them. But the Federal Government has not advanced money to the light and power business. Neither have the States. Our capital has come from the common man, who can pay a reasonable tax, but he cannot pay a tax which the Government's own report of last year says may result in a duplication to the amount of 8 percent, and this has been added to in many States since then, and further additions are still going on.

Senator BARKLEY. Of course, it is impossible to tell what the Government might have done for the utility companies had they been owned by the public, like the roads. Of course, I don't advocate that.

Mr. HAGENAH. It is quite true it is impossible to say what the Government might have done for them, but it is not so difficult to say what this might have done to the Government.

Senator BARKLEY. Highways are dedicated to the Government.

Mr. HAGENAH. And the revenue collected will be dedicated to the public.

Senator BARKLEY. They are not operated for profit. It is not quite a parallel to cite public highways as an evidence of the justice or injustice of a tax on gasoline.

Mr. HAGENAH. It is a closer parallel than you seem to think. The highway is dedicated to the public and the revenue that will be collected will be given to the public. Our business is privately owned, but it is dedicated to a public service, which fact the State recognizes and for that reason regulates us. So we are largely vested with a public interest, for which we pay in regulation by the States.

Let me go one step further. I have shown you that this reduction in domestic rates which has been going on for a period of 25 years

will be interrupted if the Federal Government is to take a part or all of the money out of which further reductions can be obtained. I have shown that the negotiations that are now under way throughout the United States, involving rate reductions in thousands of communities, are being held in abeyance until the regulating authorities, be they State or local, ascertain whether the Federal Government by this tax is going to take this margin now available for rate reduction or leave that sum for rate revisions. There isn't enough for both purposes, and not until this measure is disposed of will the reduction of rates be resumed. Obviously if this tax is not put on the utilities rate reductions will be forthcoming, but if it is put on the utilities, those rate reductions will not be forthcoming by the amount that the Federal Government has taken the money which should be available for such benefits to the customers.

Senator CONNALLY. If the consumer gets the benefit of the tax, isn't he as well off as if he got it through a reduction in rates?

Mr. HAGENAH. To the extent of 7 cents a month, yes, but if our reductions in rate amounted to no more than that, it would be a small work that the public-utility commissions would accomplish for the United States. The new idea of Federal taxation would be continuing hazard not now provided for.

Senator CONNALLY. If we are going to reduce the rates more than the taxes, why worry about it?

Mr. HAGENAH. Because we can do it in a consistent, logical, orderly way, and I doubt whether, as a matter of policy, the Federal Government desires to take up the task of regulating local-utility rates by the application and removal of Federal taxes.

Senator CONNALLY. In other words, you want to do it, instead of having the Government do it?

Mr. HAGENAH. We want to do it in a logical, orderly, and technical way as fits the needs of our industry, and the different classes of customers, domestic, commercial, municipal, and manufacturing.

Senator CONNALLY. You want to leave the consumer at the mercy of the companies, and if they want to reduce rates, reduce them, and if they don't, tell them to go to?

Mr. HAGENAH. No, sir; the consumer is not at the mercy of the companies. The consumer is protected by 40 States which make rates, although in some six or seven States the State does not even consider this question of sufficient importance to pass a regulatory measure. I wish they would. I have asked them to do so.

The CHAIRMAN. Have you figures there to show how much less it would be if this tax were imposed upon the net income instead of the gross sales?

Mr. HAGENAH. No, sir; I don't know what such tax would amount to on the net from such services.

The CHAIRMAN. Using the same percent; 3 percent?

Mr. HAGENAH. I would be very glad to make that computation for you. It would be about \$14,000,000 to \$15,000,000.

The CHAIRMAN. You haven't those figures now?

Mr. HAGENAH. No, sir. But the effect of this 3 percent gross earnings tax is, from the standpoint of the total net, equivalent to raising the corporate income tax from 13.75 percent to almost 21 percent. Our net income last year was approximately \$475,000,000.

Let me proceed to the next step. What will be the effect of this tax on the workers, the employecs of this industry? I have here a series of two tables, which I submit and which are taken from the United States Bureau of Labor reports, and I want you to notice the position of the electric industry.

Employment, pay rolls, and comparative individual earnings in representative industries, year 1932, as compared with 1929

(From Bulletin of United States Bureau of Labor Statistics)

	Employment percent of 1929	Pay rolls percent of 1929	Decrease in individual earnings
			<i>Percent</i>
Electric power and light.....	83.0	79.8	3.9
Dyeing and cleaning.....	81.4	60.5	25.7
Retail trade.....	80.9	69.4	14.2
Laundries.....	80.1	67.0	16.4
Telephone and telegraph.....	79.1	81.1	13.0
Wholesale trade.....	78.2	67.0	14.3
Electric railroads and motor busses.....	75.5	68.0	10.0
Bituminous coal mining.....	67.4	35.6	47.2
Anthracite mining.....	62.5	53.7	14.1
Manufacturing (grand average).....	61.7	41.4	38.9
Canning and preserving.....	59.5	42.6	28.4
Crude petroleum production.....	55.3	44.1	20.3
Quarrying.....	49.0	29.1	40.7
Metalliferous mining.....	36.5	21.6	40.8

¹ Increase.

Average weekly earnings of employees actually engaged in representative industries, December 1932

Electric power and light.....	\$29.24
Crude-petroleum production.....	28.14
Electric railroads and motor busses.....	27.69
Wholesale trade.....	26.93
Telephone and telegraph.....	26.28
Anthracite mining.....	26.21
Building construction.....	22.79
Retail trade.....	18.92
Metalliferous mining.....	18.33
Manufacturing (grand average).....	17.04
Dyeing and cleaning.....	16.51
Laundries.....	15.36
Quarrying.....	14.17
Bituminous coal mining.....	14.15
Canning and preserving.....	12.62

Because it is a semipublic industry, closer to the city administrations than any other industry, it has been called upon to assist in the unemployment situation, to assist in relieving distress by continuing extraordinary maintenance work and putting overhead systems under ground. The electric companies have as a result of this application of their facilities, their services and their credit maintained their number of laborers at a higher percentage than any other basic industry in the United States. Not only have they employed them at a higher ratio, but these companies have maintained more nearly the wage schedules that obtained in 1929. I am speaking now of the men who climb the poles, shovel the coal, and operate the switch-board equipment.

If this tax is put on the companies, it is inevitable that many of them will be threatened with receivership. They will have to pass their preferred dividends to their large army of stock owners. It is only

natural that these companies will resort to every possible extreme to prevent the collapse of their credit, and in doing so, they will be compelled to discharge a number of their employees, will have to reduce wages, will have to stagger the time of other employees where they can't reduce all of them. This tax will not only stop the movement for reduction in rates to their customers, but it will add to the unemployment situation, and further reduce the purchasing power of every community where these people live. These employees now have their jobs and their rates of pay are closer to those of 1928 and 1929 than in any other industry in the United States. This would be most unfortunate because these companies have operated so closely in cooperation with the communities and cities they serve, and the relief agencies functioning to relieve public distress.

Senator REED. You say this will throw companies into receivership in some cases.

Mr. HAGENAH. In some cases.

Senator REED. In those cases, then, it must amount to more than 21 percent income tax.

Mr. HAGENAH. Yes. The earnings have fallen off so far in those cases that they are already in receivership because they have very little net earnings. If they must pay this further tax, it would take a much larger percentage of those net earnings than the 21 percent average rate.

Senator REED. You said it amounted to as much as 21 percent of the net income of some companies.

Mr. HAGENAH. That is the average for all companies.

Senator REED. If it is going to drive some companies into receivership, it must amount to more than 21 percent net income for those companies.

Mr. HAGENAH. Precisely, yes. The 21 percent is the average.

Senator REED. That is what I would like to find out.

Mr. HAGENAH. It will take a much larger percent of the net earnings of some companies.

Senator REED. Why did you limit it to 21 percent in answering Senator Harrison?

Mr. HAGENAH. Because I was dealing with the average for all companies. I said that 3 percent of the gross was equivalent to nearly 7 percent of the net.

Senator REED. On the average?

Mr. HAGENAH. And that the present corporation income tax is about 13.75 or 14.5 percent. Add the 7 to that, and I say it is roughly 21 percent.

Senator REED. But in some cases you say it amounts to 100 percent of the net?

Mr. HAGENAH. It might in weak companies.

Senator REED. Can you give us typical cases of that sort?

Mr. HAGENAH. I would be glad to supply off the record a list of companies in financial distress. They are western companies that I have in mind.

Senator REED. I think Congress would hesitate to impose a 100 percent income tax in any case.

Mr. HAGENAH. That might be the effect of it in certain cases.

Senator REED. Don't you think we ought to be told in what cases it would have that effect?

Mr. HAGENAH. Yes, sir; I can supply that to the committee off the record.

Senator BARKLEY. Is there any company now in receivership that has a net income on which it pays a tax to the Government?

Mr. HAGENAH. Not that I know of. Where they are in receivership they generally have insufficient net earnings, but this particular measure is not getting at the tax from the net earnings. It is getting at it on the gross. A net-earnings basis is of course more equitable. That is why I say it is a vicious tax, because it is not based on the ability to pay.

Senator BARKLEY. You were discussing a moment ago the effect of the 3 percent tax on net earnings.

Mr. HAGENAH. No, on gross earnings. This is a gross earnings tax.

Senator BARKLEY. No, when you replied to Senator Harrison you were discussing the effect of the 3 percent tax upon the net earnings, which was in addition to the income tax. You said it would amount to an additional income tax, which might run up to 21 percent.

Mr. HAGENAH. Yes.

Senator BARKLEY. Were you basing your remarks on a gross tax, instead of a net income tax?

Mr. HAGENAH. I think, Senator, we do not understand each other. I said the effect of the 3 percent gross earnings tax was about the same for the entire industry as 7 percent of the net earnings.

Senator BARKLEY. Well, I didn't understand you, then.

Mr. HAGENAH. There is one matter I wish to make clear in the minds of this committee, and that is; the companies in whose behalf I appear, are not owned by wealthy people; they are not owned by the General Electric Co. or the Westinghouse Co. or any other manufacturing company. They are owned by over 1,535,000 stockholders as of 1931. I do not have the changes that have taken place in the stock lists during the last year. Of these 1,535,000 stockholders, nearly 70,000 are employees of the company, and nearly 1,100,000 are customers of the companies.

Now, I show by this list which I am handing you the distribution of these stockholders by States.

Number of stockholders, operating electric utilities, 1931

	Customer owners		Other individuals	Total
	Employees	Customers		
United States.....	68,946	1,097,872	368,704	1,535,522
Massachusetts.....	3,631	27,697	6,711	38,039
Maine.....	496	18,567	3,299	22,362
Connecticut.....	2,000	12,000	3,000	17,000
New Hampshire.....	772	7,488	2,820	11,080
Rhode Island.....	220	4,141	2,444	6,805
Vermont.....	121	1,999	1,389	3,509
New England.....	7,240	71,892	19,663	98,795
New York.....	10,500	208,000	75,000	293,500
Pennsylvania.....	5,383	58,737	16,504	80,624
New Jersey.....	600	8,800	4,000	13,400
Middle Atlantic.....	16,483	275,537	95,504	387,524

Number of stockholders, operating electric utilities, 1931—Continued

	Customer owners		Other individuals	Total
	Employees	Customers		
Illinois.....	3,341	85,732	33,811	122,884
Michigan.....	4,181	54,226	16,668	75,075
Ohio.....	3,000	47,000	13,000	63,000
Wisconsin.....	1,635	50,490	4,075	56,200
Indiana.....	2,000	30,000	10,000	42,000
East North Central.....	14,157	267,448	77,554	359,159
Minnesota.....	2,020	54,129	1,380	57,529
Iowa.....	1,500	21,000	8,000	30,500
Missouri.....	900	12,071	4,938	17,909
Kansas.....	375	11,548	3,155	15,078
Nebraska.....	360	6,000	1,300	7,660
South Dakota.....	200	6,586	666	7,452
North Dakota.....	81	6,187	1,171	7,439
West North Central.....	5,436	117,521	20,610	143,567
Maryland.....	818	12,573	7,300	20,691
Georgia.....	699	7,977	6,867	15,543
Florida.....	1,642	5,012	4,566	11,220
Virginia.....	809	8,692	1,638	11,139
West Virginia.....	600	8,000	2,400	10,900
North Carolina.....	500	7,000	1,000	8,500
District of Columbia.....	71	4,424	374	4,869
South Carolina.....	150	2,000	850	3,000
Delaware.....	120	1,200	300	1,620
South Atlantic.....	5,309	56,878	25,295	87,482
Kentucky.....	1,300	15,400	15,200	31,900
Alabama.....		15,000	5,000	20,000
Tennessee.....	1,050	11,500	6,600	19,150
Mississippi.....	265	5,939	598	6,802
East South Central.....	2,615	47,839	27,396	77,852
Texas.....	2,459	18,106	10,821	31,286
Louisiana.....	1,200	9,400	7,500	18,100
Oklahoma.....	586	6,089	9,928	16,603
Arkansas.....	541	6,210	4,120	10,871
West South Central.....	4,786	39,715	32,369	76,870
Utah.....	900	12,323	3,855	17,084
Colorado.....	446	10,909	3,024	14,379
Idaho.....	433	4,105	1,424	5,962
Nevada.....	151	717	1,503	2,371
Arizona.....	153	1,091	475	1,719
Wyoming.....	63	867	309	1,239
Montana.....	17	600	105	722
Mountain.....	2,169	30,612	10,995	43,776
California.....	8,583	162,133	50,373	221,089
Washington.....	1,740	22,346	6,194	30,280
Oregon.....	428	5,951	2,749	9,128
Pacific.....	10,751	190,430	59,316	260,497

MR. HAGENAH. Note the uniform distribution of the stockholdings in these utilities all over the United States, thousands of them in every State. In some States the owners of electric utility stocks are as numerous as one out of every seven families in the State.

Let us go a step further and see who the class of people are who own these securities. I have another table here, giving such a list, which I submit.

Combined preferred and common stockholders of larger operating electric light and power companies

	Number of stockholders	Number of shares held	Average number per shareholder
Alabama Power Co.....	15,855	4,015,561	254
Arkansas Power & Light Co.....	8,094	135,053	17
California Oregon Power Co.....	6,586	85,989	13
Central Illinois Public Service Co.....	22,942	544,764	24
Central Hudson Gas & Electric Corporation.....	7,233	1,570,000	217
Central Maine Power Co.....	20,275	198,007	10
Central Power & Light Co.....	8,191	135,411	17
Cleveland Electric Illuminating Co.....	7,462	2,707,287	363
Commonwealth Edison Co.....	65,034	1,620,706	25
Consolidated Gas Co. of New York.....	113,217	13,575,676	120
Consolidated Gas Electric Light & Power Co., Baltimore.....	19,720	1,390,029	71
Consumers Power Co.....	42,561	706,954	17
Dallas Power & Light Co.....	5,092	337,151	66
Detroit Edison Co.....	13,715	1,272,260	93
Edison Electric Illuminating Co. of Boston.....	15,674	534,875	34
Georgia Power Co.....	12,898	3,501,849	271
Hartford Electric Light Co.....	11,234	837,822	75
Jersey Central Power & Light Co.....	10,525	220,411	21
Kansas Gas & Electric Co.....	6,217	81,903	13
Kentucky Utilities Co.....	11,504	184,104	16
Louisville Gas & Electric Co.....	13,307	213,798	16
Los Angeles Gas & Electric Corporation.....	6,278	395,141	63
Milwaukee Electric Railway & Light Co.....	15,652	197,956	13
Monongahela West Penn Public Service Co.....	5,484	876,000	160
New England Power Association.....	17,993	1,642,054	91
Northern Indiana Public Service Co.....	16,691	230,079	14
Northern States Power Co.....	71,629	700,132	11
Northwestern Public Service Co.....	5,146	45,845	9
Ohio Edison Co.....	12,336	207,776	24
Oklahoma Gas & Electric Co.....	0,462	172,125	18
Pacific Gas & Electric Co.....	84,705	10,820,335	128
Penn Central Light & Power Co.....	13,662	376,053	28
Potomac Electric Power Co.....	4,787	130,000	27
Public Service Co. of New Hampshire.....	9,090	94,550	10
Puget Sound Power & Light Co.....	24,783	1,537,413	62
Southern California Edison Co.....	123,068	7,510,000	64
Southwestern Gas & Electric Co.....	6,059	94,506	16
Tampa Electric Co.....	4,935	576,895	117
Tennessee Electric Power Co.....	14,527	240,822	17
Union Electric Light & Power Co.....	12,123	2,425,000	200
Virginia Public Service Co.....	6,680	96,277	14
Washington Water Power Co.....	6,774	2,634,346	386
Western Massachusetts Co.....	8,163	997,499	122
West Penn Power Co.....	9,500	3,072,077	323
Wisconsin Power & Light Co.....	18,575	168,367	9
Wisconsin Public Service Corporation.....	10,716	111,525	10

Senator CONNALLY. Are you speaking of the individual stockholders in the owning companies, or of the operating companies?

Mr. HAGENAH. Only the operating companies.

Senator CONNALLY. I have got a good many stock owners in my community in the holding companies, but that is all they have got. They haven't got anything at all except what they own in the holding companies.

Mr. HAGENAH. These data I am giving you are of operating companies.

The CHAIRMAN. You have 5 minutes more, Mr. Hagenah. Your hour then will have expired.

Mr. HAGENAH. Then, rather than go into details on these tables, which speak for themselves, I merely want to read to you the class of people who are holding these securities and how they are distributed.

In one of the largest companies on the Pacific coast having 95,483 stockholders, 12 percent, or 11,872 stockholders own less than 5 shares each; 12,000 own between 6 and 10 shares each, and 55,000 own

between 11 and 100 shares. The market value of that stock is \$24 a share. These investments run from \$24 to \$2,400.

That is the class of people who own these properties in California.

Let me refer to another. Here is a small company in the Pacific Northwest that has 5,881 stockholders. Of those 47 are professional nurses, 157 are small-town merchants, 38 are newspaper editors and publishers, 31 operate gasoline service stations, 146 are laborers and loggers of Oregon and Washington, 533 are skilled and unskilled mechanics, 82 are carpenters, painters, and bricklayers, 238 are office employees, 128 are post-office employees, highway employees, and employees in village and county governments, 129 are railroad locomotive engineers and conductors, and so on. I could go over the entire list, and I might add that 1,041 of these stockholders are housewives in homes of moderate circumstance.

Senator GORE. Data like that you can print in the record. Can he not, Mr. Chairman?

The CHAIRMAN. Yes.

Senator GORE. You say the average charge against the consumer is about 7 cents per month.

Mr. HAGENAH. Yes, sir.

Senator GORE. What class of consumers do you include in making up that average; which of the four?

Mr. HAGENAH. Residence customers only.

Senator GORE. Does that represent about one third of the \$32,000,000 of revenue?

Mr. HAGENAH. No; the \$32,000,000 comes from the combined tax on commercial and domestic customers.

Senator GORE. I thought you said the \$32,000,000 came from the four classes of customers.

Mr. HAGENAH. No; this tax is not applicable to industrial sales, municipal sales, nor railway sales. It is applicable only to domestic consumers and commercial consumers.

Senator GORE. And the \$32,000,000 comes from those two sources?

Mr. HAGENAH. Yes; as at present applied, and that \$32,000,000 would drop to \$27,000,000 if collected from the companies themselves.

Senator GORE. What proportion of these are residential consumers?

Mr. HAGENAH. I think the revenue from the two classes would divide about 50-50, as to number of customers about 82 percent are of the domestic class and 18 percent commercial.

Senator REED. Mr. Hagenah, you have not made that clear, when you say the \$32,000,000 will drop to \$27,000,000 when it is collected from the companies themselves. I don't believe that is a correct statement. The \$32,000,000 will still be collected from the companies just as today it is collected from the customers, but that \$32,000,000 will be a charge against gross earnings.

Mr. HAGENAH. Net earnings—

Senator REED. In calculating net earnings, for the purpose of calculating Federal income tax.

Mr. HAGENAH. Yes; therefore the collections from the Federal income tax will be reduced.

Senator REED. And the effect of it will be to reduce the net income on which the income tax is collected, and the income tax will drop five million.

Mr. HAGENAH. Right.

Senator REED. That is what you mean.

Mr. HAGENAH. Yes.

Senator McADOO. If the tax is imposed on the companies it will be applied to municipally owned companies as well as privately owned companies, will it not?

Mr. HAGENAH. I think so. I think it should. To properties owned under proprietary interest and in municipal operation I think the tax should apply.

Senator McADOO. No; but I say, the bill as drawn—you have examined the bill?

Mr. HAGENAH. As the bill is drawn it does apply to municipal plants.

Senator McADOO. In other words, you would be taxing within a political subdivision, so to speak.

Mr. HAGENAH. We would be taxing a proprietary operation of a political subdivision.

I have just one further thought to leave with you, and that is, because of the business distress in the country today, and the inability of thousands of people to pay their taxes, there are now many cities, including some of the largest cities in the United States, and many of modest size, which are unable to pay their bills for electricity used in municipal service, for street lighting, schools, police and fire departments, patrol service, fire-alarm systems, and so forth. These delinquencies on the part of the governments have become so great that in one large city and the adjoining smaller municipalities the public delinquencies exceed \$2,200,000. Four companies, operating in hundreds of communities, report an enormous increase in delinquencies of municipal accounts alone. Thus, where the billing was \$17,000,000, approximately 28 percent, is not presently collectible. Total delinquencies reported by electric utilities as of March, were nearly \$100,000,000 of which \$25,000,000 was owed by municipalities.

All over the United States there are scores of cities which are not able to pay to the utilities today the amount which they owe for the service the utilities are giving them, and those are of the most important public service character, without which no community could exist.

In one Middle Western State the State last year levied a gross earnings tax of 1 percent, and while one company was paying that tax of \$240,000, the municipalities in the district which it served received over \$700,000 of electric service for which they did not pay one single cent.

Again while one large company returned to the Federal Government \$207,000 collected from its customers under the 3 percent tax, the delinquency of the communities it served increased over \$600,000.

My time is nearly up, but gentlemen, if you are going to impair the credit of these companies and their ability to meet the needs of the community by putting on this tax, then obviously this amount of credit now being extended to cities, to counties, to villages, to school districts, to park boards, to municipal water works, sanitary pumping districts, and so forth, must come to a stop. There simply isn't enough money to go around. The electric utilities today are being asked to advance credit to thousands of people who are unable to receive their pay from municipalities. Thousands of teachers are unpaid, and policemen and firemen are unpaid. Their numbers

run into tens of thousands. Many of these are receiving credit from the companies, whose facilities for extending credit would be taken away from them by superimposing this Federal tax on top of local taxes.

Senator KING. What part of your production and consumption is used by municipalities?

Mr. HAGENAH. By municipalities for public services?

Senator KING. By political subdivisions of all character, would it be 10 percent, 20 percent of your gross output of power? That might give us some little idea of the loss you are sustaining by reason of the delinquencies of these political subdivisions.

Senator REED. He said a little while ago between 8 and 10 percent.

Senator KING. If it is not available now, you may put it in the record later, Mr. Hagenah.

Mr. HAGENAH. In 1931 municipal street lighting aggregated \$99,298,000 as reported by the Edison Electric Institute. The total revenue during this period was \$1,975,000,000 from all classes of service. That, of course, included industrial service and sales to street railways. Then there are miscellaneous municipal uses not subdivided here, amounting to \$14,746,000 more, so there is in the aggregate about \$114,000,000 to \$115,000,000 out of \$1,975,000,000, or less than 7 percent of the total for the whole United States.

Senator REED. It is a shade under 6 percent, I think.

Mr. HAGENAH. What is that?

Senator REED. You will find that is a shade under 6 percent.

The CHAIRMAN. I would suggest you give to the reporter, outside of the hearing, any information, such as this data, and so forth, as should go into the record.

Senator McADOO. In that data, may I also suggest that you give us the percentage of the municipally produced energy out of the total electric energy produced in the United States?

Mr. HAGENAH. Yes; I will be glad to supply that. The latest census information shows it to be about 5 percent of the total generated by all public utilities.

Senator CONNALLY. Did the witness state whom he represented in the beginning?

The CHAIRMAN. Yes.

Senator McADOO. Can you state that now?

Mr. HAGENAH. Yes; I appear on behalf of the Edison Electric Institute, which comprises in its membership companies producing about 75 percent of the electric service in the United States.

Senator McADOO. How much of the total electric output of the United States is municipally produced or produced by political subdivisions of any sort?

Mr. HAGENAH. I haven't the figures on that, but I will be glad to supply it later. It is about 5 percent of the total on the basis of kilowatt-hours produced. The municipally owned plants, however, because they have so little power load, supply about 8 or 9 percent of the total domestic and commercial service of the country.

Senator CONNALLY. Are you appearing as an attorney, or are you an officer of this company?

Mr. HAGENAH. I am vice president of the Edison Electric Institute, and also vice president and director of operating utility companies.

Senator CONNALLY. What is your salary as an officer of this company?

Mr. HAGENAH. Of the Electric Institution?

Senator CONNALLY. Yes.

Mr. HAGENAH. I am not a salaried employee of the institute. There are no salaries paid by the Electric Institute, except to its operating staff.

Senator CONNALLY. Very well.

Senator KING. Do you know the condition of the 25 percent of corporations that are furnishing electricity that are not included in your organization? The Edison Institute embraces about 75 percent of the producing companies?

Mr. HAGENAH. Yes, sir.

Senator KING. What is the financial condition of the 25 percent not members of your organization?

Mr. HAGENAH. I am unable to state, Senator. I do not think that their financial condition had anything to do with their not being in the membership of the institute.

Senator KING. No, no; but I had in mind a statement which you made concerning the precarious financial condition of the members of this New York organization. I was wondering if a similar condition prevailed among the 25 percent.

Mr. HAGENAH. I am sure it does.

Senator KING. If they are in the same distress?

Mr. HAGENAH. Absolutely; if this tax measure passes.

Senator KING. As a number of those in your industry.

Mr. HAGENAH. The conditions are typical.

Senator KING. Where could we get information as to their condition and the effect of this tax upon them? I suppose we might draw the deduction that this tax would affect them just the same as it would affect those with which you are identified.

Mr. HAGENAH. Yes, sir; that deduction could be drawn. I would be glad to get that information for you.

Senator BARKLEY. Is any electric company in this country eligible for membership in your institute?

Mr. HAGENAH. Any operating company is eligible for membership that will subscribe to the code of ethics and abide by the constitution.

Senator McADOO. And pay the fee.

Mr. HAGENAH. There is a modest fee, enough to employ a clerical force and pay rent in New York.

Senator BARKLEY. How did you happen to take the name of Edison?

Mr. HAGENAH. In honor of the man who contributed so much to the building up of this industry.

Senator BARKLEY. There are some corporations, holding companies, that have no connection with your institute that have the same name?

Mr. HAGENAH. No, no; those companies, operating companies, also took the name out of deference and respect to the man who invented the system of central station operation, such as the Commonwealth Edison, New York Edison, Detroit Edison. That name was more common years ago.

Senator McADOO. Just the same as the Bell Telephone Co., for instance?

Mr. HAGENAH. That is right; named in honor of Alexander Graham Bell.

Senator REED. Does the Edison Institute maintain an office here in Washington?

Mr. HAGENAH. It does not, either directly or indirectly. Its only office is in New York City.

Senator REED. Do you have a Washington representative?

Mr. HAGENAH. No, sir.

Senator CONNALLY. Just one question, the \$32,000,000 odd tax, what is the gross income you base that on, something over \$1,000,000,000?

Mr. HAGENAH. \$1,198,000,000.

Senator CONNALLY. Is that all of the companies, or only your group?

Mr. HAGENAH. That is the estimate for the entire United States.

Senator CONNALLY. Has that fallen off very materially in the past year?

Mr. HAGENAH. Yes, it has.

Senator CONNALLY. How much? That was for 1932, wasn't it, or 1931.

Mr. HAGENAH. That is the estimate for 1932. At the time the data were prepared, not all the companies had reported.

Senator CONNALLY. What was it for 1931?

Mr. HAGENAH. The gross operating revenues from all classes of consumption in the electrical industry in 1932 was estimated to be \$1,832,000,000; in 1931 was \$1,975,000,000; in 1930 it was \$1,990,000,000.

Senator CONNALLY. Those are actual figures, but this estimate of \$1,198,000,000 is not necessarily accurate, because you have not all of the reports. It may be more or it may be less.

Mr. HAGENAH. It may be slightly more or less but it does include every company included in the figure I have just read. Bear in mind, the figure I gave you of \$1,198,000,000 covers only the commercial and domestic consumers to which class of customers this tax applies, while the latter figure I gave you was for the entire industry.

Senator CONNALLY. But I wanted it for the entire industry. You are getting at the domestic consumers.

Mr. HAGENAH. I will give you the domestic consumers revenue for 1932, 1931, and 1930. In 1932 it was \$669,199,700; in 1931 the gross revenue was \$678,611,300; in 1930 it was \$664,441,200.

Senator CONNALLY. That is what I wanted. In other words, your business is increasing rather than diminishing. You are making more now than in 1930 or 1931.

Mr. HAGENAH. No, sir; that doesn't follow. Our business is increasing to the extent the population is growing and to the extent people are using more electricity in their homes, where heretofore they used the cruder methods of workmanship and drudgery. There was a drop in such revenue in 1932.

Senator CONNALLY. That makes business. The more juice they use the more money you get. You are getting a gross of \$1,198,000,000 in 1932, and you only got \$678,000,000 in 1931—nearly double the income.

Mr. HAGENAH. Oh, no, sir. Let us get those figures correct. I am answering them as you asked me to.

Senator BARKLEY. Why don't you give the total figures for the industry instead of dividing this as you have done? Give the total figures for the industry for 1931 and 1932.

Senator CLARK. I understood you to say that in 1932 the gross income from all sources was \$1,198,000,000; is that not correct?

Mr. HAGENAH. No; that is only for domestic and commercial service, to which this tax applies. I am giving no statistics as to industrial and municipal uses.

Senator CLARK. Now, give us the corresponding figures for 1931. Is that \$678,000,000?

Mr. HAGENAH. Oh, no. Let me explain these figures.

Senator CLARK. Keep them on the same basis exactly, 1932, 1931, and 1930.

Mr. HAGENAH. Well, now, gentlemen, that is going to be difficult for this reason, that the Treasury Department has excluded many customers that we call large commercial consumers and has classed them as industrial.

Senator CONNALLY. What did you mean a while ago when you said \$678,000,000?

Mr. HAGENAH. That is the domestic revenue in 1931.

Senator CONNALLY. Exactly. That is just what I thought it was.

Senator CLARK. Isn't that an approximately comparable figure with the \$1,198,000,000 for 1930?

Mr. HAGENAH. No; because that latter figure includes not only the domestic sales but also the commercial sales to which the Treasury Department applies the 3 percent.

Senator HASTINGS. Have you a figure for 1931 that is comparable to this \$1,198,000,000, with the same elements entering into it?

Mr. HAGENAH. No, sir; not unless I can deduct from 1930 and 1931 the same exclusions which the Treasury Department made.

Senator HASTINGS. Let us get at comparable figures.

Senator BYRD. Have you the total income for 1930, 1931, and 1932 from all sources?

The CHAIRMAN. Mr. Hagenah, can't you get up those figures and supply them to the committee so that they will be absolutely accurate?

Mr. HAGENAH. Yes. The questions asked me were some about commercial, some about domestic, some about combined, some about the total output. I will be glad to get those figures and submit them.

Senator GEORGE. Do you know the percentage of the \$32,000,000 that comes from the concerns who are members of your institute?

Mr. HAGENAH. I would say roughly 75 percent.

Senator BARKLEY. Why don't you put in a table showing comparisons for the three years 1930, 1931, and 1932, upon the type of revenue the Treasury collects this tax?

Mr. HAGENAH. Precisely, that is the only type of comparison that would be helpful to the committee. I will make exclusions for 1930 and 1931 on the basis the Treasury has excluded for 1932.

(The table requested is here submitted:)

TABLE E

	1932	1931	1930
Domestic service.....	\$699,199,700	\$678,611,300	\$664,441,200
Commercial service.....	528,861,300	564,523,800	575,598,100
Total.....	1,198,061,000	1,243,135,100	1,240,039,300
Less exclusion and exemptions made by Treasury Department in computing 3 percent tax (aggregating approximately 10 percent of total)	119,806,100	124,313,510	124,003,930
Amount subject to 3 percent tax.....	1,078,524,900	1,118,821,590	1,116,035,370

Senator BYRD. You should also include the total income, because that shows the relative prosperity of the companies for 1930, '31, and '32.

The CHAIRMAN. Supply the record with that afterwards. Mr. Weadock, is there someone else?

Mr. WEADOCK. There are about five more, Senator.

The CHAIRMAN. Unless the committee wants to extend the hearings—the committee has been very courteous and we have given now an hour and 15 minutes to these witnesses—as much duplication ought to be eliminated as possible.

Mr. WEADOCK. It will be, Senator. I think if we could have a maximum of 5 minutes for each of these men, they would be finished. They have come from long distances. One is here from California, another from Boston.

The CHAIRMAN. I can appreciate that, but the committee would go along here for several days, you know, if we heard everybody as long as they wanted to be heard. Is it the wish of the committee we are going to proceed along these lines?

Senator BYRD. Mr. Chairman, these gentlemen contend this tax will ruin a large industry. I think 25 minutes more will not be excessive.

The CHAIRMAN. We will hear you then 5 minutes each.

Senator BARKLEY. I suggest, also, in view of the limitation of time, that each be allowed to finish his statement before we ask questions, if at all.

Senator McADOO. Mr. Chairman, before you start, may I say that Mr. Criswell, who represents a municipally owned power plant in Los Angeles, presents a resolution for the record.

The CHAIRMAN. That may be included.

(The paper is as follows:)

**"RESOLUTION BY THE CITY COUNCIL OF LOS ANGELES, LOS ANGELES, CALIF.,
MAY 1, 1933**

"Whereas there has been introduced in, and passed April 20, 1933, by the House of Representatives, H.R. 5040, by the terms of which proposed legislation the 3 percent tax on domestic and commercial electricity would be transferred from the consumer to the producer; and

"Whereas present constitution and legislative provisions of States are heavily discriminatory against publicly owned public utilities, both with respect to provisions for financing and necessity for amortizing indebtedness, and to thus add to the burden of said publicly owned public utilities is both antidemocratic and against national policy; and such legislation would impose a burden of taxation in addition to the financing burden now carried by such utilities and would mitigate against a better regulation of services and rates and presents a degree

of discrimination which no previous Congress has attempted and which is clearly contrary to general public interest, as such publicly owned public utilities have led the way toward the lowering of costs of electric service, which is essential to the Nation's industrial readjustment and development: Now, therefore, be it

Resolved, by the City Council of the city of Los Angeles, That the inclusion of publicly owned public utilities under the provisions of said bill be and the same is hereby declared to be contrary to the best interests of all municipally owned public utilities throughout the United States and to all the residents of the municipalities so served, and the Congress of the United States is hereby respectfully petitioned to vote against any such inclusion of publicly owned public utilities within the provision of said bill; and be it further

Resolved, That the city clerk of the city of Los Angeles be, and he is hereby, instructed to forward a copy of this resolution to the Senators and Congressmen of the State of California and to the chairman of the Senate committee before whom this matter is scheduled to be heard on Tuesday, May 2, 1933."

I hereby certify that the foregoing resolution was adopted by the council of the city of Los Angeles by the unanimous vote of all members of said council present, there being not less than 12 members present, at its meeting of May 1, 1933.

ROBERT DOMINGUEZ, *City Clerk.*

STATEMENT OF RANDALL J. LeBOUEF, JR., ON BEHALF OF THE NIAGARA-HUDSON POWER CORPORATION SYSTEM

Mr. LeBOUEF. I appear on behalf of the operating utilities of the State of New York, of two different systems, the Niagara-Hudson Power Corporation system, which serves the major part of the large upstate communities from Buffalo to Albany, and which is the largest vendor of electricity in the United States; I also appear in behalf of the Consolidated Gas Co. group in New York City.

I am not going to take the committee's time to duplicate anything which has been said so persuasively by Mr. Hagenah, but I am going to try and present some figures which I think will answer questions which the gentlemen have been asking Mr. Hagenah for these two specific systems.

In the first place, let me state on behalf of this group of companies that this is not any attempt to maintain rates at some legalistic rate of return. In the last few years the earnings of these companies have fallen off very substantially. In spite of that fact, no attempt has been made to increase rates, but on the contrary, realizing the distress among the consumers, and in an attempt to meet that situation, these companies have made large and substantial rate reductions.

First, as to the amount of this tax: According to the 1932 figures, it is estimated that the gross tax which would be imposed upon the Consolidated Gas Co. system, as a result of this amendment, would be \$3,228,000; on the Niagara-Hudson system, approximately \$845,000, or a total tax of \$4,000,000, which would be imposed by virtue of this bill.

As Mr. Hagenah has pointed out here, from this should be deducted the amount of income tax on those sums, which aggregate about \$500,000, so that the net tax increase which would be imposed upon these two systems would be, by this proposed statute, slightly in excess of \$3,500,000.

Now, in the past 15 or 20 years the tax burden of these companies has been increasing by leaps and bounds, and far out of proportion to the increase of business itself. During that period, because of the progress that was made in the development of the art of generating and distributing electrical energy, because of the greater volume

of sales to the different classes of consumers it was possible for the companies to absorb these repeatedly and rapidly mounting taxes and still continue to make successive and large rate reductions to the consumers. That period, gentlemen, is ended. The figures show that that process cannot go on.

Take the Niagara-Hudson system, for example. In the year 1932 the operating revenue amounted to in excess of \$71,000,000. The taxes paid to Government, by which I mean county, city, State and the National Government, amounted to \$10,387,000. The amount of earnings available for dividends of the top company—that is, the consolidated return, which gives you a more accurate figure—were slightly less than the amount of taxes paid. In other words, it was \$9,300,000 odd. It therefore is apparent that the taxes in that year exceeded the amount of earnings available for common dividends. To express it in another form, 52 percent of the net income before provision for taxes, was represented by this one item.

Now, so far as the question of prosperity of this industry is concerned, taking this particular company as a test, and, as I say, it is the largest seller of electricity in the world, in 1931 the gross revenues from operations were \$77,000,000; in 1932, \$71,000,000. Taxes during that time increased slightly. The net figure in 1931 was \$13,000,000 and in 1932 was \$9,000,000.

If we take the first quarter of the year 1933, here the conditions are more serious. During the first quarter of 1932, the net income was \$3,500,000. During the same period in 1933 the same net income was \$1,800,000, almost a drop of half.

The CHAIRMAN. Mr. LeBouef, your 5 minutes have expired.

Mr. LeBOUEF. Then I ask leave to file this memorandum.

The CHAIRMAN. Will you please place in the record the capitalization of the Niagara Falls Power Co., together with the dividends it is credited with having paid from year to year?

Mr. LeBOUEF. The Niagara Falls Power Co.? Yes.

The CHAIRMAN. Will you please place in the record a history of the Niagara Falls Power Co., showing its capitalization and its dividends up to the present time?

Mr. LeBOUEF. I will be glad to comply with what you want. The Niagara Falls Power Co. is a pioneer in this industry. There is one edition of two large volumes, which attempts to answer that question.

The CHAIRMAN. Well, we have got it, so never mind about it. I thought it would be very easy to start with the original capitalization and the dividends year by year. It reads so beautifully, so like a romance, I thought it would be well to put it in the record. But never mind.

STATEMENT OF W. C. MULLENDORE, REPRESENTING THE SOUTHERN CALIFORNIA EDISON CO.

Mr. MULLENDORE. My name is William C. Mullendore. I am executive vice president of the Southern California Edison Co., Ltd., 601 West Fifth Street, Los Angeles, Calif. Through the agency of this company three fourths of the electricity used in the 10 counties of southern California is generated and distributed, both at wholesale and retail to some 800,000 consumers. This electric system

serves directly and indirectly 700,000 domestic consumers, 35,000 commercial power consumers, and 50,000 agricultural consumers farming approximately 1,000,000 acres of land.

This company is largely owned by those whom it serves—out of a total of 125,000 stockholders some 60 percent of the stock is owned by 84,000 individuals living in the territory served. Assuming 75,000 families represented in the 84,000 local stockholders, our stock ownership represents a population of 300,000.

My fellow officers and myself are not owners of this company. We are hired managers—employed to manage this property for the purpose of providing a supply of electricity to its 800,000 consumers at the lowest possible cost consistent with reliable service. Hence in opposing this tax shift, let me assure you positively and emphatically I am not here asking something for myself or my fellow officers. I think we will have a job of some kind whatever happens. But I am here to make a plea on behalf of these 800,000 consumers and 125,000 stockholders who are dependent on this service and whose savings are invested in this property—a plea that you should not approve this proposed measure without full recognition of the injury to these citizens whose mutual interests it is our job, yours and mine, to protect.

I understand the question before this committee is: Is it in the public interest that the 3 percent tax on certain users of electricity which is now collected directly from the user should be collected in the first instance from the treasury of the company and thus indirectly from the consumer?

In presenting this matter I also fully understand that it is the purpose of this committee and the Congress to promote the interests of the people as a whole—the public interest—and that you cannot and will not protect any merely private interest at the expense of a larger public interest. The proponents of this tax shift no doubt believe that such shift would be in the public interest. The mere statement of the proposal as a shift of a tax from the consumer to a company would seem to raise the presumption that the measure is in the larger public interest because the users of electricity are more numerous than those engaged in its production and distribution. The fact is, of course, that the interests of the consumer and producer are so interwoven that there can be no clear distinction between the two. Their interests are interdependent.

I wish further to point out that, contrary to the first impression, the user, instead of profiting, would be the big loser by a shift of this tax; that, paradoxical as it may seem, this is a tax which the consumer can much better afford to pay than not to pay if it is to be levied at all—to pay, that is, directly and at once rather than to pay later and indirectly.

We find that from 80 percent of our direct customers this 3 percent tax takes only 6 cents a month on the average, or 1½ cents per person in a family of four. Thus distributed over the several hundred thousand users, the tax is of small consequence, the monthly tax on the electric bill being the same as the tax on one package of cigarettes. When, however, that tax is concentrated upon the treasury of the company and taken in one lump sum from a treasury already depleted by declining revenues and drained by greatly increased State and Federal taxes, this additional \$500,000 annual burden (as it would

be on the company I represent) would be the last straw that breaks the camel's back. It could be paid only at the expense of the maintenance of proper service and the future credit of the company. This means that the tax would so diminish the value of the service and so add to its ultimate cost that the 6 cents monthly temporarily saved the average consumer would cause not pennies but dollars of loss in the not distant future.

For example, our gross income this year will be less than it was in 1928 by at least \$1,000,000, but our investment in plant and property is more than \$52,000,000 greater than in 1928. Taxes have risen from 9.8 percent of gross in 1928 to 12 percent in 1932, and with the increase of State taxes with which we are immediately faced the tax percentage of gross promises this year to rise to not less than 14 percent, and that even without this proposed addition of Federal taxes. Another measure of the growth of tax burden is found in the fact that in 1928 taxes took 25.7 percent of net income, whereas in 1933 they will take certainly not less than 45 percent of net—the net income, you understand, being the amount available for the payment of the 125,000 stockholders for the use of their almost \$200,000,000 of savings invested in the company's property. The menace of the tax burden is also illustrated by the fact that in 1925 the total taxes paid per kilowatt-hour sold was 1.26 mills. By 1932 this burden had grown to 1.95 mills, and in 1933 the tax will certainly go beyond 2 mills per kilowatt-hour. This is greater than the cost of fuel and labor for generating power and is considerably more than the highest price to be charged by the Government per kilowatt-hour for power from Hoover Dam, which highest price is 1.63 mills per kilowatt-hour (and that is not unusually cheap power).

The meaning of the foregoing figures is that my company, like many others, are now in fact furnishing electric service at less than cost. We have reduced our operating expenses to a minimum by enforcing economies at all possible points. Not only are we paying increased State taxes and increased Federal income tax, not only is our income falling rapidly, but of still greater importance, is the fact that during the big boom period our earnings were restricted by regulations so that the owners of this property were not permitted to share in the profits of prosperity nor to store up a large surplus for the great strains and stresses of this unprecedented depression. These owners were compelled to meet a rapidly expanding demand as is illustrated by the fact that the investment in plant and property grew in the 10 years from 1923 to 1933 from \$163,000,000 to \$347,000,000. They had to secure millions of dollars for the construction of additional power houses, lines and service extensions. Those were permanent investments which, as a utility required by law to serve the demands of customers, the managers of the company were compelled to make. Under the promise of fair treatment by the Government which controlled and regulated their property, the people used their savings to buy this equipment and took securities issued under State regulatory supervision in exchange for those savings.

These hundreds of thousands of people whose savings were pooled for the purchase of equipment with which to serve themselves and their neighbors with necessary electricity, in effect were told by governmental regulating agencies that while they would not be

permitted to share in the profits of prosperity, they would, with proper management, be permitted to earn a minimum rate in times of depression when other industries were earning less. Hence rates were constantly reduced during the period of prosperity so that the curve of the cost of electric service at all times ran far below the cost of living during that period and even today continues below the average cost of living as is shown by exhibit A.

Now another governmental agency proposes to say to these hundreds of thousands of people: "Your electric utilities are still able to pay operating expenses and have something left over to pay bondholders and stockholders. True, your earnings are not good, but they look like better pickings and easier pickings than other possible sources of revenue." In that situation these owners find themselves denied, first, the opportunity to share in prosperity, and then singled out for especially severe taxation in times of adversity.

What has that situation to do with the consumer? Only this: The consumer may for the present and during the period of a few months obtain the use of this electric equipment bought with the savings of his neighbors, for his continued service so long as that equipment holds up and is operating. But, when this equipment wears out and Mr. Consumer asks for more money from the once trusting public utility investor, he finds a sadder but wiser public which refuses to part with savings at the old rate of promised return to provide the capital necessary either for the maintenance or extension of this service.

As you are no doubt aware, we recently experienced an earthquake in Southern California. That earthquake struck in the very heart of the territory served by the company which I represent, and although the damage to some business sections of some cities was severe, the electric service continued. It continued because it had been built to withstand earthquake shocks, and so built because the builders and managers of that system realized that electric service must continue at all hazards—must continue because when the flow of electric energy stops, three fourths of human activities must stop—activities ranging from the industrial operations of the factory to the transportation of thousands of workers to and from their work; from the maintenance of refrigerating temperature in the household to the heating and lighting apparatus in the operating room of the hospital.

No one doubts that it is of the utmost importance to the community that this electric service which supplies the energy for carrying on the daily tasks in the home, in the factory, in the store and on the farm be maintained, and that nothing be allowed to jeopardize it. The public has long recognized the importance of this utility service and have by law imposed upon the operator of the service the duty of continuing it and of extending it to those who need the service. Other businesses may operate or not as they choose. If they lose money, their managers may close their doors. But here is a business which is required to continue to operate in good times as in bad. The service must be furnished to all within the territory served on equal terms, regardless of the times and the difficulties. Service cannot be discontinued merely because the investment is no longer profitable, nor can the plant and equipment be moved away. Hence, here is a business clothed with a public interest, whose earnings are regulated by public authority in good times and which is obliged to

continue to function in hard times. This business is forced to operate on such a narrow margin of earnings that any slight falling off in earnings means that they are forced to operate at a loss.

True, the utility cannot quit serving, but the private investor can and will quit providing the funds at past rates of interest on those funds; and the consumer will pay for present less than cost service with increased future charges and an unsatisfactory interrupted electric service in the meantime. Which will be the most costly? The continuance on the part of the consumer to pay this small monthly tax charge now or to suffer the loss of an impaired and more costly service in the future?

If anyone thinks there is going to be such an abundance of capital seeking investment that the rates will continue low even with greatly increased risks, let him think again after considering the governmental demands upon the savings capital of the United States during the months and years which lie ahead.

INTERESTS OF CONSUMER AND COMPANY INTERDEPENDENT

This proposed tax shift, as I have said, is based upon the fundamental misconception that there are involved here two opposed interests—that of the company on the one side and that of the consumer on the other—and that the penalizing of one side will benefit the other. For the reasons stated, the truth is that there is only one interest here, because you cannot impair the power of the company to render service without jeopardizing the interests of the consumer who is dependent on that service for the carrying on of his daily life in the factory, workshop, on the farm, and in the home.

One question before you therefore is, whether or not this tax will in fact impair electric service and jeopardize the future interests of the consumer whom the proponents say they are trying to benefit. I again emphasize that I am not here appealing to you for any personal advantage or protection. I am here in the performance of my duty as a trustee for the interests of these hundreds of thousands of consumers and owners, most of whom are unaware of the peril of this measure and who are unable to present their case personally. If this tax should be shifted from the consumer to the treasury of the company, speaking for my company only, I can assure you that my fellow officers and myself cannot accept the responsibility for the results, but we must and will at once communicate with our stockholders and consumers, advising them of the dangers involved and disclaiming our responsibility for an action which we did our best to prevent.

If there were any public advantages to be gained by thrusting into insolvency the few remaining solvent business institutions of America, then we might argue that the mere fact that a business is still operating in the black is sufficient reason to use the taxing power to thrust it into the red. But I submit that if America is to recover, if we are to emerge from the clutches of this most desperate depression in modern history, we will do it not by further discriminatory burdens imposed upon the few remaining solvent institutions, but rather by assisting those who have already fallen.

Senator CONNALLY. Did your company pay a dividend this year?

Mr. MULLENDORE. Yes, sir.

Senator GEORGE. Did it pay one in 1931?

Mr. MULLENDORE. Yes, sir.

Senator CONNALLY. In 1930?

Mr. MULLENDORE. Yes, sir.

Senator CONNALLY. What was the rate of the dividend in 1930 and 1931?

Mr. MULLENDORE. Ranging from 5 to 8 percent on the common, and that dividend was not increased during the time of prosperity.

Senator CONNALLY. You are doing as well now as in 1930, then?

Mr. MULLENDORE. Not by far.

STATEMENT OF H. M. HAVENER, DES MOINES, IOWA

Mr. HAVENER. Gentlemen of the committee, I appear here not in behalf of any power company, but I appear here as a representative of certain individual investors in the securities of the power companies operating in the State of Iowa.

I will give the committee the names of some of the people we represent, not all of them. These people have banded themselves together for the purpose of what they feel is resisting an unjust tax upon an industry in which they have made an investment, without any thought of being singled out by any governmental or State taxing power.

One lady that we represent, Mrs. Lola G. Landis, who lives at Brooklyn, Iowa, invested practically the bulk of her fortune in utility securities; and I might say this, that we come from a section of the country that has undergone in the last few days a demonstration of what it means for people to be put to an extremity—I am not saying this in any defense of what was done—when one of the district judges of Iowa was dragged from his bench and dragged out into the streets of the city and threatened to be hanged, because of the action of the mob that waited on him.

I only mention that fact in order that this committee may realize what extremity the people of the State from which I come have been put to by reason of this depression through which we have been passing.

This lady had an income of \$350 from the investment, and in the last year, 1932, every dollar of the dividend which she had been receiving has been discontinued, and her investment was in the preferred stocks of the various companies in which she was an investor.

Prominent among these is what is known as the Iowa Southern Utility. In the span of my lifetime I have seen every company in Iowa, and they are not holding companies; they are all operating companies—I have seen them come from the beginning to where they are at the present time. The company at Cedar Rapids in which these people are investors was built by the local men, the local people of that community, and as they spread out and took in the smaller towns, the people who were the stockholders in the individual companies of those smaller towns took their stock or converted it into the stock of the operating company, solely from the view of a more economical management of the company.

One of the clients that we represent is a life insurance company that invested \$43,000 of its money in the bonds of one of the utility companies, and I might say this: that we have gone through a banking experience in Iowa which has probably not been equaled by any other

State in the Union, in which the confidence of the people of the State was completely or almost completely destroyed in the banks, and they look to the utilities as being the one thing in which they might with reasonable certainty, by confining their investment to the bonds and the preferred stock, invest their money, and yet now they find themselves confronted with the threat of the taxing power of the Government, which will mean the complete wiping out of some of these companies.

With the permission of the committee I want to read a paragraph from a letter which was written by one of the managers of one of the utility companies in Iowa, in response to a request from Mrs. Landis, one of the clients we represent at this hearing.

Owing to the general conditions, revenues have decreased rapidly, so that on the first of the year they were 16 percent less than the year previous.

That is an operating company, Senator, and from that time to this they have decreased at a rapid rate, until it is now 25 percent less, as compared with the year previous, in the actual amount of current that is being sold by this company, and when we think that this company itself was compelled to discontinue the payment of its preferred dividends in 1932, and think that there are 50,000 people in Iowa, who are the holders of the stocks and bonds of these companies, in an amount not in excess of \$1,000, we realize these are the people who will be compelled to lose their investment in these companies if this tax is imposed upon the companies that are now operating in the State of Iowa, and we are here, as I said a moment ago, not asking in behalf of any holding company, we are here not asking in behalf of any electric company itself, but we are here making our protest to this committee, as it has been made to the individual Senators from our own State, against the imposition of a tax which will mean the wiping out, the destruction, if you please, of the investment of these people who have spent a lifetime among them.

Mr. Frank Payne, of Centerville, Iowa, has been one of the most successful men in the building up of the local companies in the State of Iowa, and his entire fortune, by reason of the depression through which these companies have been compelled to pass out there, the same as every other line of industry, has been practically wiped out, along with the men who own the real estate in Iowa and the mortgages on the Iowa farms.

The CHAIRMAN. The committee thanks you, Mr. Havener.

Senator KING. Are the stocks and bonds of the companies to which you refer, that have been born in Iowa and developed in Iowa, owned largely by the people of Iowa?

Mr. HAVENER. The preferred stocks are owned practically and entirely by Iowans.

Senator KING. And the bonds?

Mr. HAVENER. The bonds, Senator, are owned not so largely by Iowans. The bonds of the companies at Cedar Rapids are owned very largely in four of the Eastern States, although there is quite a substantial amount of the bonds of these companies owned in Iowa.

Senator KING. How many of the Iowa companies are you speaking for?

Mr. HAVENER. I am speaking for no Iowa companies.

Senator KING. I mean how many of the stockholders?

Mr. HAVENER. About 52, sir.

Senator KING. \$52,000?

Mr. HAVENER. No, sir; \$500,000, in amount, but 52 different stockholders.

The CHAIRMAN. Thank you, very much.

STATEMENT OF B. LORING YOUNG, REPRESENTING THE MASSACHUSETTS UTILITY ASSOCIATES

Mr. YOUNG. Mr. Chairman, and members of this honorable committee, I have just been told that I have to cut my remarks to 3 minutes, in order to let in somebody else, so I, at the outset, would ask leave to file at least the annual report of the company I represent, and, if possible, a brief.

The CHAIRMAN. That may be done.

Mr. YOUNG. I represent a small holding company, the Massachusetts Utility Associates, which was organized a few years ago for the purpose of preventing outside interests acquiring control, that is, the bid holding companies of the country, and it is entirely dominated and maintained in Boston, and it has 25,000 holders of its various securities.

I want to point out when I pleaded guilty to representing a holding company, that under the laws of the Commonwealth of Massachusetts, with which I am entirely familiar, because I served for 9 years in the legislature of that State and helped to draught some of them.

Senator WALSH. And was speaker of the house.

Mr. YOUNG. Senator Walsh, I was. Thank you.

Senator BARKLEY. We won't hold that against him.

Mr. YOUNG. You give me the senatorial courtesy of not holding that against me. Thank you.

Under the laws of the Commonwealth of Massachusetts the dividends paid by holding companies, as a matter of law, are excluded from any rate hearing. In the main they would not be material, but they are, as a matter of law, excluded, so the earnings paid by local companies cannot be affected in any way by holding company management or control. And, as you know, the Massachusetts theory of honest and prudent investment, less depreciation, has been upheld by Mr. Justice Holmes and Mr. Justice Brandeis and many others. That is the system we operate under.

Now, it seems to me in this short time I have got that I ought to give you these figures. We are a small company, it is a combination of 30 or 40 small companies to escape being gobbled up by big outside interests. Our net income before dividends in 1932 was \$1,840,000. This is pretty small compared to some of the gentlemen you have been listening to this morning. Preferred dividends totaled \$1,447,000, and there is no water in that. There aren't any common dividends paid. That left only \$393,000 as a margin of safety, a pretty small margin you will admit, in these times.

At the present time our net earnings are declining at an alarming rate, and for the first quarter they have dropped 30 percent. If this tax is passed, it will absolutely make it impossible for this company to pay any preferred dividends this coming year, and it will endanger paying of interest on its bonded debt.

Now, gentlemen, that shows the picture of this holding company or "Massachusetts trust," if you wish to call it so, entirely controlled by people in Boston, and having its meetings and officers in Boston.

Now, gentlemen, why not face this issue frankly and fairly. "The power to tax is the power to destroy," was as said more than a century ago by one of our greatest jurists. It seems to me this is a use of the taxing power to destroy an industry and to visit upon a vast number of innocent people a destruction for the sins of a few. It is not handing on the sins of the fathers to the sons and descendants to the third and fourth generation; it is transferring the burdens of the sins of a few on to millions of holders of securities. I would like to see every bit of water squeezed out of every company there is.

Senator CONNALLY. We would all be drowned if you did.

Mr. YOUNG. I guess you are right, Senator, but when it comes to paying a gross tax, by a company that is not making any money, it seems to me it is using the taxing power to destroy, and I don't see how it can be justified, because—I haven't all the figures, and I was not able to get here on time—but will cause innumerable receiverships, it will cause a lot of individual bankruptcies. That ought to make me glad, because I am a referee in bankruptcy in the city of Boston. I wouldn't mind that at all from my professional standpoint, but I dread the social effect upon this country of the passage of a measure which in my honest belief will cause tremendous unrest and lack of confidence.

It seems to me you are absolutely running counter to the theory of President Roosevelt of creating confidence and stability in this country and of making the people feel that the future is going to be safe and money and property at least are going to have some protection—no unjust privilege, but at least they are going to have a fair chance, when honestly invested, to earn an honest dollar of return.

The CHAIRMAN. Thank you very much.

Senator BARKLEY. Do you advocate the removal of the tax or leaving it where it is?

Mr. YOUNG. I do not think it was at all fair to put it on the consumers. I don't think the tax is fair. I don't think it is a fair tax either way. I think last year's tax was unfair. It singled out the consumers of one commodity for a special excise tax. This year it seems to be unfair because it singles out one particular type of corporation as against all others, and I consider any tax on gross income an unfair tax.

STATEMENT OF SAMUEL FERGUSON, REPRESENTING THE HARTFORD ELECTRIC LIGHT CO. AND CONNECTICUT POWER CO.

Mr. FERGUSON. I represent the Hartford Electric Light Co. and the Connecticut Power Co. I came here knowing that the committee would hear such large figures given for the industry as a whole that they might like to hear the effect of this tax on one small company not connected in any way with any of the large organizations of the country.

My company is a small local company. We have an ownership distributed amongst 19,000 stockholders, largely in the State of Connecticut, with no one stockholder or group owning any control.

I don't believe that the House, in passing the amendment, realized that this apparently trivial tax imposed a tremendous burden on the electric companies, but, as has been shown in our case, it increased the total of our taxes by over \$100,000. That is an increase of 15 percent and if applied to last year's business would entirely wipe out the small balance carried to surplus, and this year our business is much reduced.

As has been stated, the weight of this tax to us will be reduced by the 13.75 percent resultant income tax decrease, and thereby the Federal Treasury will be the loser. Unless this legislation is admittedly an effort to cripple the power companies, it would seem most discriminatory as compared with the similar tax on the services rendered by the telegraph and telephone companies, on which I understand there is no question of similar action being taken.

This we estimate next year will require in addition to the others that we pay 14 cents out of every dollar collected to State, municipal, and Federal authorities as taxation. It will have the same effect as raising our income tax to 19 percent, and the great damage done will be in our inability to lower rates in the future.

In the past 12 years our domestic rates have been reduced 51 percent, as compared with decreases in clothing, fuel, and rental of 24 to 38 percent. Fifty one percent reduction is our record, and last year and the year before there were reductions, and unless we are stopped there will be further reductions, but there is no surer way to stop them than to make a sudden additional tax on us of \$100,000.

The CHAIRMAN. Thank you very much.

**STATEMENT OF THE HONORABLE WILLIAM M. WHITTINGTON,
A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI**

Mr. WHITTINGTON. Mr. Chairman, I am obliged to you for the 5 minutes, and I shall undertake to say just a word in behalf of the consumers in answer to the argument made for an hour and a half on the other side. The purpose of the amendment, which I happened to propose in the House, which was overwhelmingly approved, is to do one thing, and one thing alone, and that is to transfer the tax from the consumers to the manufacturers, the producers, or the distributors.

I hold no brief for the tax. I share all the execrations that have been heaped upon this and similar taxes by those who have preceded me. I confine myself to one point, and the only point at issue.

The amendment adopted by the House to the Revenue Act of 1932, section 616, does one thing and one thing alone; it transfers this tax from the consumer to the vendor.

The argument, with all deference, that municipalities and Government institutions may be in arrears for electricity consumed, is beside the point. Under section 616 of the revenue act there is no tax of 3 percent upon that power. Section 616 levies a tax of 3 percent upon electric energy for domestic and for commercial purposes.

Substantially 95 percent of the electrical energy in the United States is produced by the utility companies. The Senator from California asked about municipally owned plants. Substantially 5 percent, and I am reading from the statistical abstract of 1930, is produced in the municipal plants of the country.

There have been representatives here from New York. There is approximately 1 to 2 percent, as I recall, in round figures, produced by municipalities in New York, substantially 98 to 99 percent produced by the utility companies.

Now, then, there isn't any purpose at all to transfer any tax now, or to put any tax on any energy except that which is being taxed at the present time. I would like to abolish the tax. But that is not the purpose of it.

Now, Mr. Chairman, I may also say this, that it has been estimated that this tax will yield approximately thirty-one or thirty-two million dollars, this tax upon the washerwoman, this tax upon those who own stock and have never received any dividends, a tax placed upon the householders of the Nation, and so forth, and I respectfully submit, and I want to give the utility companies a square deal, that whatever else may be said, surely the utility companies are as able to pay this tax as the householders of the Nation.

I want to say this also, that it has been suggested that if this tax is transferred from the consumers to the manufacturers, that there may be some decrease in the income tax. Let me say this, if the utility companies get credit for the tax they pay, they are getting nothing more than the consumers are getting at the present time, and moreover, Mr. Chairman, it does strike me that if we are to have a better day in the United States the utility companies will probably sell a little more electricity and that the difference in the taxes for which the consumers now get credit and for which the utility companies would then get credit, would be more than overbalanced by the better times and the better day that is coming.

I want to say this, Mr. Chairman, you have been very kind. This is neither the time nor the place to discuss the question of double taxation, overburdened taxpayers, small incomes, largely distributed stockholdings of utility companies in general. Whenever an application is made for a decrease in a rate, substantially the same arguments are repeated before utility commissions that are made here, to wit, that there are large numbers of individual stockholders. As I say, we are not discussing the substance of the law. The purpose was not to unbalance the budget in any wise. The purpose, Mr. Chairman, was to do this, and I have before me a copy of the Revenue Act of 1932: This tax occurs under "Manufacturers' Excise Taxes," and as we read that tax we commence with this first tax levied, and it is said, "There is hereby proposed, upon the manufacturer or the producer." That occurs with respect to automobiles, inner tubes, a tax on furs, a tax on jewelry, and all through the list, and at the conclusion this manufacturers sales tax, a tax that was to be levied upon the seller, that was to be levied at the source, there was a discrimination. I agree with the gentleman who spoke first, and who spoke at length last year, but that discrimination was a bold discrimination in favor of utility companies and against the consumers of the Nation, for when we reach the latter half of this manufacturers tax the language, "to be paid by the person paying for such electrical energy and to be collected by the vendor" was stipulated in the first and only instance upon consumers of electrical energy, and it is for the purpose of correcting that discrimination that, on the floor of the House, this amendment was approved and overwhelmingly adopted.

In all fairness, Mr. Chairman, I desire to say, in conclusion, and I will be glad to answer any questions I can. I am simply an humble Member of Congress and not experienced; I have not been representing the utility companies or consumers, and, by the way, I happen to live in a city that owns its own plant. There is no change now with respect to the substance of the matter. I just want to say this, that it has been brought to my attention that this amendment which expressly, in my judgment, transfers the tax—I happen to be a lawyer, and have a speaking acquaintance with the Constitution—that it might be well to amend it, so as not to apply it to contracts prior to May 1, 1932; that it might be well to insert a clarifying amendment, which would apply it to the wholesaler at the retail price; that those who have their little plant can generate electricity for their own use and be exempted, and I have taken the opportunity of conferring with the legislative counsel, and have here an amendment which, with your permission, I will insert in the record.

The CHAIRMAN. That may be done.

(The amendment is as follows:)

Page 5, strike out lines 4 to 13, both inclusive, and insert in lieu thereof, the following:

SEC. 5. Effective on the 15th day after the date of the enactment of this act—

(a) Section 616 (a) of the Revenue Act of 1932 is amended to read as follows:

“(a) There is hereby imposed upon electrical energy sold for domestic or commercial consumption, and not for resale a tax equivalent to 3 percent of the price for which so sold, to be paid by the vendor under such rules and regulations as the Commissioner, with the approval of the Secretary, shall prescribe.”

(b) Section 616 (b) of the Revenue Act of 1932 is amended as follows:

“(b) The provisions of sections 619, 622, and 625 shall not be applicable with respect to the tax imposed by this section.”

(c) Section 616 (c) of the Revenue Act of 1932 is amended by striking out “any payment received for.”

Senator BARKLEY. Was this brought before the Ways and Means Committee of the House?

Mr. WHITTINGTON. I understand it was defeated by the Ways and Means Committee when it was brought before them.

Senator BARKLEY. It was not brought before them at this session?

The CHAIRMAN. There was a hearing before the Ways and Means Committee on the 1932 act.

Mr. WHITTINGTON. I understand that 2 days after the resolution was adopted, an amendment was introduced by Mr. Vinson, of Kentucky, and the committee declined to amend it at the time.

Senator BARKLEY. These other taxes, the automobile taxes, and the other taxes you spoke of, are they passed on to the consumer?

Mr. WHITTINGTON. I think probably they are.

Senator BARKLEY. As a matter of fact, they are added on to the price and passed on to the consumer, are they not?

Mr. WHITTINGTON. Somebody said something about automobiles. The sort I buy has been decreasing in price since 1932, and that is the time this tax was approved, and it is admitted there has been practically no decrease in electrical energy.

The CHAIRMAN. The committee thanks you, and the committee will now go into executive session.

Mr. LEAVITT. I request, as one of the persons representing the public, wanting to be heard, that you do not go into executive session yet. I understood I was to be given 20 minutes to present the other side of the question.

The CHAIRMAN. I would say the gentleman is exactly right. We gave to the people representing the power part of it until 11:30. I had overlooked the fact that you wanted to be heard.

(There ensued discussion off the record as to whether the committee would hear further witnesses to-day, at the conclusion of which the following occurred:)

The CHAIRMAN. We will give you 15 minutes in the morning at 10 o'clock.

MEMORANDUM ON BEHALF OF THE PACIFIC GAS & ELECTRIC Co.

The Pacific Gas & Electric Co., and its affiliated companies, serves all northern and central California with gas and electric service. At the close of 1932 it had 1,251,217 customers of which 731,506 were electric. It is entirely an intrastate company, with no service beyond State boundaries.

The 3-percent tax on electric energy collected by the company (and its affiliates) from June 23, 1932, to March 31, 1933, totaled \$749,991.65. This is a period of 9 months and 8 days; for a full year the amount would have been \$980,000.

In 1932 the Pacific Gas & Electric Co. (and its affiliates) earned only \$630,000 over dividends. To do this it was necessary to defer until 1933, or later, the year's proportion of the expenses of installing natural gas, which amounted to \$694,000. It was also necessary to reduce reserves for casualties and other accounts by \$276,000.

Therefore, if \$980,000 had been chargeable against the company's revenue in 1932, the surplus of \$630,000 would have been converted into a deficit of \$350,000, and this after the adjustments above referred to.

The Federal income tax of the company (and its affiliates) for the years was:

Pacific Gas & Electric Co.....	\$1, 711, 452. 24	
Sierra & San Francisco Power Co.....	2, 870. 73	
Great Western Power Co.....	237, 400. 65	
		\$1, 970, 723. 62
Mount Shasta Power Corporation.....		4, 699. 74
San Joaquin Light & Power Corporation.....		131, 312. 67
Midland Counties Public Service Corporation.....		3, 677. 31
		<hr/>
Total.....		2, 110, 413. 34

If the 3 percent tax had been added (viz, \$980,000) the total Federal tax for 1932 would have been \$3,090,413.34. That is the Pacific Gas & Electric Co. (including its two largest affiliates, the Sierra & San Francisco Power Co. and the Great Western Power Co.), instead of paying \$1,970,723.62, or 13 3/4 percent of its taxable net, would have paid \$2,834,623.02, or 19.78 percent of net. The Mount Shasta Power Corporation would have paid 15.87 percent of net; the San Joaquin Light & Power Corporation 23.62 percent of net, and the Midland Counties Public Service Corporation 92.71 percent of net.

The Legislature of California now has before it a proposal to increase State taxes upon this company and its affiliates from 7.5 to 11.3 percent of its gross gas and electric revenue. A compromise figure of 9 percent has been proposed and the indications are that the compromise will be adopted. The State tax rate will then become 9 percent of gross, effective July 1, 1933. On the company's 1932 gas and electric gross of \$83,582,000 the increase will amount to \$1,253,730 a year.

In addition to the gross tax of 9 percent to be paid by the company, the State Legislature is considering a 2-percent tax on gas and electric sales, domestic and commercial. This tax will follow the present Federal tax on electric energy, but will go further in that it will be collectible from gas as well as electric consumers.

The State's 2-percent tax on electric consumers, domestic and commercial, will take from such consumers of the Pacific Gas & Electric Co. (and its affiliates), approximately \$652,000 a year and from the domestic and commercial gas consumers approximately \$350,000 a year, a total of \$1,002,000 annually.

All this will lead to the following tax burden on the company and its electric consumers, domestic and commercial:

	Percent of gross
State tax.....	9
Federal tax.....	3
Federal income tax and incidental local taxes (estimated).....	2½
State sales tax.....	2
Total taxes.....	16½

The effort of the Congress should be to repeal the 3-percent tax entirely. In any form it is a duplication of State taxes and taps a source of revenue that should be left to the States.

However, if the tax must be continued, it should be continued in its present form—that is as a tax upon and collected from consumers. In this form it can and does apply to consumers of municipally owned enterprises in competition with private companies. As a tax upon producers it may not apply to publicly owned enterprises, in which event it would become a means of extending publicly owned enterprises, and eventually a means of drying up an important source of taxation.

As a consumers tax the Pacific Gas & Electric Co. has had no difficulties with collections. There has been a surprisingly small amount of complaint. A check shows less than 500 complaints against the tax—that is against the tax itself. There have, of course, been thousands of complaints against the application of the tax and thousands of questions as to its application to particular consumers. But most of these complaints and questions have been promptly adjusted by having recourse to the rules and regulations issued by the Government.

But there have been and will continue to be many protests against electric and gas rates in California. Reductions in rates are being demanded every day by individuals and organized groups, and even by the legislature itself, before which there is now pending a bill to reduce gas and electric rates a flat 20 percent.

This is so despite the fact that both gas and electric rates have been frequently reduced in California the last 10 years and are today among the lowest in the United States.

Electric light and power company maturities over next 5 years (Poor's Manual)

Year	Operating companies		Holding companies		Total	
	Notes or debentures	Bonds	Notes or debentures	Bonds	Notes or debentures	Bonds
1933:						
January.....	\$30,000,000	\$17,557,500			\$30,000,000	\$17,557,500
February.....		4,079,500				4,079,500
March.....		50,000		\$377,000		427,000
April.....		2,589,000		2,000,000		4,589,000
May.....	10,000,000	13,958,500			10,000,000	13,958,500
June.....	6,560,000	6,388,500		10,000,000	6,560,000	16,388,500
July.....		710,500				710,500
August.....		374,000		1,750,000		2,124,000
September.....	180,000				180,000	
October.....		1,646,000	\$3,585,300		3,585,300	1,646,000
November.....		5,415,700		995,000		6,411,700
December.....		60,000		4,450,000		4,510,000
Total.....	46,740,000	52,829,200	3,585,300	19,582,000	50,325,300	72,411,200
1934:						
January.....		10,919,800				10,919,800
February.....		561,000				561,000
March.....						
April.....		19,081,200		2,000,000		21,081,200
May.....		130,000				130,000
June.....		349,000		10,000,000		10,349,000
July.....	25,000,000	23,891,600			25,000,000	23,891,600
August.....	1,500,000	45,000		1,063,000	1,500,000	1,108,000
September.....	17,700	5,000,000			17,700	5,000,000
October.....		4,805,600				4,805,600
November.....		5,010,700				5,010,700
December.....		6,773,000	7,465,809		7,465,809	6,773,000
Total.....	26,517,700	76,566,900	7,465,809	13,063,000	33,983,509	89,629,900

*Electric light and power company maturities over next 5 years (Poor's Manual)—
Continued*

Year	Operating companies		Holding companies		Total	
	Notes or debentures	Bonds	Notes or debentures	Bonds	Notes or debentures	Bonds
1935:						
January.....		\$3, 178, 200				\$3, 178, 200
February.....		22, 713, 000				22, 713, 000
March.....		56, 500				56, 500
April.....		36, 000		\$2, 000, 000		2, 036, 000
May.....	\$20, 840, 700	9, 615, 800			\$20, 840, 700	9, 615, 800
June.....		5, 959, 500	\$1, 200, 000	10, 000, 000	1, 200, 000	15, 959, 500
July.....		20, 460, 200				20, 460, 200
August.....				2, 925, 000		2, 925, 000
September.....		695, 000				695, 000
October.....	8, 000, 000	193, 500		25, 000, 000	8, 000, 000	25, 193, 500
November.....		5, 465, 500				5, 465, 500
December.....						
Total.....	28, 840, 700	68, 373, 200	1, 200, 000	39, 925, 000	30, 040, 700	108, 298, 200
1936:						
January.....		25, 618, 900				25, 618, 900
February.....		1, 280, 000				1, 280, 000
March.....		12, 814, 700		666, 000		13, 480, 700
April.....		3, 879, 500		2, 000, 000		5, 879, 500
May.....		2, 170, 000		6, 663, 200		8, 833, 200
June.....		400, 000				400, 000
July.....		5, 703, 000				5, 703, 000
August.....		10, 883, 000				10, 883, 000
September.....		50, 000				50, 000
October.....		722, 200				722, 200
November.....		575, 000	1, 416, 500		1, 416, 500	575, 000
December.....		2, 066, 100	883, 500		883, 500	2, 066, 100
Total.....		66, 162, 400	2, 300, 000	9, 329, 200	2, 300, 000	75, 491, 600
1937:						
January.....		993, 500				993, 500
February.....		13, 000				13, 000
March.....	10, 000, 000	1, 469, 000			10, 000, 000	1, 469, 000
April.....		349, 000	1, 388, 500		1, 388, 500	349, 000
May.....		2, 767, 500				2, 767, 500
June.....		20, 237, 300				20, 237, 300
July.....		26, 114, 990				26, 114, 990
August.....		215, 000				215, 000
September.....		1, 245, 000				1, 245, 000
October.....	3, 056, 200	3, 305, 500			3, 056, 200	3, 305, 500
November.....		17, 810, 000		1, 229, 500		19, 039, 500
December.....						
Total.....	13, 056, 200	74, 519, 790	1, 388, 500	1, 229, 500	14, 444, 700	75, 749, 290
Grand total.....	115, 154, 600	338, 451, 490	15, 939, 609	83, 128, 700	131, 094, 209	421, 580, 190
Total maturities of all kinds.....						552, 674, 399

Number of stockholders operating electric utilities, 1931

	Customer owners		Other individuals	Total
	Employees	Customers		
United States.....	68, 946	1, 097, 872	368, 704	1, 535, 522
Massachusetts.....	3, 631	27, 697	6, 711	38, 039
Maine.....	496	18, 567	3, 299	22, 362
Connecticut.....	2, 000	12, 000	3, 000	17, 000
New Hampshire.....	772	7, 458	2, 820	11, 050
Rhode Island.....	220	4, 141	2, 444	6, 805
Vermont.....	121	1, 999	1, 389	3, 509
New England.....	7, 240	71, 892	19, 663	98, 795

Number of stockholders operating electric utilities, 1931—Continued

	Customer owners		Other individuals	Total
	Employees	Customers		
New York.....	10,500	208,000	75,000	293,500
Pennsylvania.....	5,353	59,737	16,504	80,624
New Jersey.....	600	8,800	4,000	13,400
Middle Atlantic.....	16,483	275,537	95,504	397,524
Illinois.....	3,341	85,732	33,811	122,884
Michigan.....	4,181	54,226	16,668	75,075
Ohio.....	3,000	47,000	13,000	63,000
Wisconsin.....	1,635	50,490	4,075	56,200
Indiana.....	2,000	30,000	10,000	42,000
East North Central.....	14,157	267,448	77,554	359,159
Minnesota.....	2,020	54,129	1,380	57,529
Iowa.....	1,500	21,000	8,000	30,500
Missouri.....	900	12,071	4,938	17,909
Kansas.....	375	11,548	3,155	15,078
Nebraska.....	360	6,000	1,300	7,660
South Dakota.....	200	6,586	666	7,452
North Dakota.....	81	6,187	1,171	7,439
West North Central.....	5,436	117,521	20,610	143,567
Maryland.....	818	12,573	7,300	20,691
Georgia.....	699	7,977	6,867	15,543
Florida.....	1,642	5,012	4,566	11,220
Virginia.....	809	8,692	1,638	11,139
West Virginia.....	500	8,000	2,400	10,900
North Carolina.....	500	7,000	1,000	8,500
District of Columbia.....	71	4,424	374	4,869
South Carolina.....	150	2,000	850	3,000
Delaware.....	120	1,200	300	1,620
South Atlantic.....	5,309	56,878	25,295	87,482
Kentucky.....	1,300	15,400	15,200	31,900
Alabama.....		15,000	5,000	20,000
Tennessee.....	1,050	11,500	6,600	19,150
Mississippi.....	265	5,939	598	6,802
East South Central.....	2,615	47,839	27,398	77,852
Texas.....	2,459	18,016	10,821	31,296
Louisiana.....	1,200	9,400	7,500	18,100
Oklahoma.....	596	6,069	9,928	16,693
Arkansas.....	541	6,210	4,120	10,871
West South Central.....	4,796	39,715	32,369	76,870
Utah.....	906	12,323	3,855	17,084
Colorado.....	446	10,909	3,024	14,379
Idaho.....	433	4,105	1,424	5,962
Nevada.....	151	717	1,803	2,671
Arizona.....	153	1,091	475	1,719
Wyoming.....	63	867	309	1,239
Montana.....	17	600	105	722
Mountain.....	2,169	30,612	10,995	43,776
California.....	8,583	162,133	50,373	221,089
Washington.....	1,740	22,346	6,194	30,280
Oregon.....	428	5,951	2,749	9,128
Pacific.....	10,751	190,430	59,316	260,497

Employment, pay rolls, and comparative individual earnings in representative industries, year 1932, as compared with 1929

[From Bulletin of United States Bureau of Labor Statistics]

	Employment (percent of 1929)	Pay rolls (percent of 1929)	Decrease in indi- vidual earnings
			<i>Percent</i>
Electric power and light.....	83.0	79.8	3.9
Dyeing and cleaning.....	81.4	60.6	25.7
Retail trade.....	80.9	60.4	14.2
Laundries.....	80.1	67.0	16.4
Telephone and telegraph.....	79.1	81.1	3.0
Wholesale trade.....	78.2	67.0	14.3
Electric railroads and motor busses.....	75.5	68.0	10.0
Bituminous coal mining.....	67.4	35.6	47.2
Anthracite mining.....	62.5	53.7	14.1
Manufacturing (grand average).....	61.7	41.4	38.9
Canning and preserving.....	59.5	42.0	28.4
Crude petroleum production.....	55.3	44.1	20.3
Quarrying.....	49.0	29.1	40.7
Metalliferous mining.....	36.5	21.6	40.8

↑ Increase.

Average weekly earnings of employees actually engaged in representative industries, December 1932

Electric power and light.....	\$29.24
Crude petroleum production.....	28.14
Electric railroads and motor busses.....	27.69
Wholesale trade.....	26.93
Telephone and telegraph.....	26.28
Anthracite mining.....	26.21
Building construction.....	22.79
Retail trade.....	18.92
Metalliferous mining.....	18.33
Manufacturing (grand average).....	17.04
Dyeing and cleaning.....	16.51
Laundries.....	15.36
Quarrying.....	14.17
Bituminous coal mining.....	14.15
Canning and preserving.....	12.62

BRIEF OF RUSSELL B. BROWN, COUNSEL FOR THE INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, WHOSE HEADQUARTERS ARE AT TULSA, OKLA., AND WHOSE WASHINGTON OFFICE IS AT 640 SHOREHAM BUILDING

As secretary of the general conference of the petroleum industry convened by the Independent Petroleum Association of America on March 26, at the Mayflower Hotel, in this city, representing practically every phase of the petroleum industry, I would report that this conference recommended the elimination of the Federal tax on domestic refined products of gasoline as part of its program for the recovery of this basic industry. This recommendation was concurred in by the conference of governors of the oil States and by the conference of the major oil and gas producing and importing companies.

The Independent Petroleum Association of America at its annual meeting held at Tulsa, Okla., November 14, 1932, adopted resolutions urging reduction of gasoline taxes, the correction of the tax evasion evil, and the exclusive use of gasoline tax funds for the construction and maintenance of highways.

The products of the petroleum industry bear the heaviest taxes levied by local communities, States, and the Nation. While this industry has been practically prostrated, new tax burdens have been laid upon it, delaying its recovery upon which depend the purchasing power of over 22,000,000 persons in the oil States alone. Since restoration of latent consuming power is the imperative need of the day, if the recovery of this basic industry should be hastened by elimination of some of the pyramided tax burdens now heaped upon it, the general stimulation of trade and the consequent renewed employment should have a greater value than could be realized from continuance of this duplicate tax.

Until such time as Congress shall restore to the American petroleum industry the American market for petroleum products by imposing an adequate tax on imported oil, it seems hardly equitable or sound economics to continue this sales tax upon one single industry.

The record is full of facts showing the extreme burden of taxation now borne by the oil industry and the motorist. In times such as these we recognize that it ill becomes any of us to complain of the necessity of extreme measures to meet an unusual situation but it would be even more unbecoming if we fail to point out to you gentlemen what we think may be ill-advised legislation.

We are conscious of the pressing necessity that you face in finding sufficient revenue to meet the demands of government, but we are also conscious of your concern for the necessity of preserving sources of revenue and prosperity so vital to the continuance of our government. The law of diminishing returns has already been put in motion by the excessive petroleum taxes. While the old axiom runs, "The power to tax is the power to destroy", I am quite sure that no member of Congress is supporting these heavy gasoline and petroleum taxes with any intent to impair a basic industry which makes an unparalleled contribution to our public revenue. Tax collectors do not visit graveyards and a prostrated petroleum industry or an overburdened motorist is not a fertile source of revenue.

Furthermore, the disproportionate taxing program of the various governmental agencies of America have brought about a situation in the oil industry where the temptation to evade the various tax laws is so great as to cause a considerable number of people to feel little embarrassment in failing to pay the taxes placed upon them. As a result there has sprung up what practically amounts to a "racket" as a result of which the honest business men, ever conscious of the serious embarrassment created by this tax pyramid on the business which he has so long cherished and fostered, is forced into competition with men who are less conscientious about this embarrassment, the result being that a large portion of the gasoline that reaches the consumers does not bear its proper burden of taxation, and there has sprung up a great number of distributors who have no pride of organization and who evade the various tax laws, enabling them to take from the honest business man the profits and eventually the capital of an industry that he has been buliding for years. When the tax amounts to 200 or 300 percent of the commodity cost, the hopelessness of the honest man competing with the dishonest tax evader is self-evident. Inevitably many branches of the petroleum industry are yearly becoming less able to continue to contribute very largely to the income of the government

This Nation is fortunate in having abundant supplies of petroleum. It is unfortunate, however, in being practically shut away from our own home market through the importation of foreign oil produced at lower cost. It is still further hampered by the great load of local, State, and Federal taxation from most of which the foreign oil is exempt. The American petroleum industry is fighting for its life. It is asking Congress merely to give it a fair opportunity in that fight and not to compel it to meet competition with unequal weapons. If we are in an economic war, as we are being repeatedly told today, we believe that our swords should be as long as our adversary's sword by the imposition of the same burdens on foreign petroleum as are laid upon the home product.

Since the intent of Congress is to obtain revenue, it may be permissible to suggest that instead of penalizing an industry which, because of the common use of its products, would be in an excellent position to lead the way back to prosperity, that industry might be encouraged, and the desired amount of taxes obtained in some other manner. By levying a tax upon the imported foreign petroleum so that it would carry the same load as American products, the Federal Government would receive large sums. It would do more, however. Through income taxes, through the stimulation of business throughout the oil States of the Union, and through renewal of the lost purchasing power of approximately 22,000,000 people related to the oil industry, it would revive vanished sources of public revenue, ultimately receiving much larger returns than could be hoped for from this gasoline tax.

The natural products of this country are not only one of our greatest assets but are intimately connected with all public revenue. All these natural products carry a heavy burden of taxation. All of them compete with foreign products which are free from that same burden. A slight recognition of the inequity of overloading these natural products industries was made by the previous Congress which imposed small excise taxes upon imported oil, coal, lumber, and copper. While direct revenue was received through customs payments on these excise taxes, larger values were realized through the stimulation of other tax sources

related to these industries. Other natural products might be included in a similar program with the tax on their foreign competitors based upon a reasonable approximation of the amount of taxation carried by these materials produced in the United States. Such legislation would effect the double purpose of providing immediate revenue and preserving future sources of taxation while it stimulated employment in the industrial sections of the country, as well as in the regions where these natural products industries are situated. Even in a horse race, not popularly supposed to be a school of ethics, loads carried by the various horses are supposed to be equitably distributed. No horse is asked to run in a handicap race against hopeless odds. The natural products industries of the Nation might suggest that Congress arrange these handicaps more fairly.

I might sum up the outstanding points of our argument as follows:

1. The petroleum industry carries the heaviest burden of taxation laid upon any business in the nation.
2. The Federal gasoline tax invades a field already occupied by State taxation and constitutes heavy double taxation.
3. The increasing tax burdens placed on petroleum products is responsible for a steady decrease in their use.
4. The revenues obtained by the Federal gasoline tax might be as easily obtained from taxation of foreign products, free from most of the tax burden carried by the American products.
5. Elimination of part of this heavy tax burden would revive other sources of taxation.
6. The natural product industries of the country are being rapidly prostrated because of their inability to pay increasing tax levies while they compete with foreign products exempt from these.
7. Heavy taxation defeats its purpose by encouraging tax evasion, practically subsidizing the tax evader to the damage of the honest tax payer.

(Whereupon, at 12:15 p.m., the committee went into executive session, to resume the hearing on the above bill tomorrow, Wednesday, May 3, 1933, at 10 a.m.)

AMENDMENT TO REVENUE ACT OF 1932

WEDNESDAY, MAY 3, 1933

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

The committee met, pursuant to adjournment, in room 312 Senate Office Building, at 10:00 o'clock, a.m., Senator Pat Harrison presiding.

Present: Senators Harrison (chairman), King, George, Barkley, Connally, Gore, Reed, Couzens, Keyes, Hastings, Walcott, McAdoo, Lonergan, and Metcalf.

The CHAIRMAN. The committee will come to order. Mr. Levitt asked to be heard for 15 minutes. Is Mr. Levitt here?

STATEMENT OF ALBERT LEVITT, READING, CONN.

Mr. LEVITT. Mr. Chairman and gentlemen of the committee, in order that you may have some notion of the reason why I am here, may I state first that I have been interested for the last nearly twenty years in the light and power problem from its beginning, and from 1920 until now I have been teaching public utility law in various universities in the country, and this problem is not new to me. I have been working very hard from what we call the consumers' standpoint, in order to bring about a reduction in the light and power rates throughout the country.

I hold no brief against public-utility companies of any sort. I do not believe they should be oppressed. I think they are entitled to every dollar that they are legally supposed to get. I take the position in regard to that that for every dollar they have honestly invested in public service they should get a fair and reasonable return. What that reasonable return is I leave to them to say, under the guidance of the Supreme Court of the United States. If a company says it has put a million dollars' worth of cold cash into a particular company, it is my insistence that they are entitled, if they are actually using that million dollars, to a fair return upon that million dollars. I don't care what the theory of valuation may be, whether it is the valuation of reproductive costs, or historic costs, or the book value or prudent investment theory. I leave that to the ones that are managing it. Whatever theory they may justify their valuation under, if they will tell me what the honest valuation is, then I say they are entitled to a reasonable return. That reasonable return I believe should be somewhere, under the Supreme Court decisions, between 6 and 8 percent, but in order to be free from any possibility of misunderstanding, and in order to be free from any possibility of it being said that I have been opposing the light and power companies, I will take the upper maxi-

num, which is the 8 percent, and insist upon it that the reasonable return upon the fair valuation should be 8 percent to the companies that are now engaged actually in furnishing light and power to the people of the United States.

Of course, it is impossible in the limited time which has been allowed me to take up the country as a whole and deal with all the detailed figures as was done in part by the company representatives yesterday. But it happens that in Connecticut we have subsidiaries of practically all the leading light and power groups in the country, and by taking my own State, where the situation is comparable to the situation throughout the United States, I can deal within the limited time there is with the problems that are presented in the main here today.

It seems to me that at the beginning I ought to say that I was somewhat surprised at the very wonderful consideration that was given to the poor stockholders and to the poor consumers throughout the country in the statements yesterday. I did not know that they had such a tender feeling for those whom they have been consistently—shall I say exploiting in the course of the last 10 years. It is rather curious to me for the light and power companies, every time they appear before some investigating committee or some public-utility commission, to insist upon it that they love the stockholders, and love the consumers.

If that is the case, I raise one question, and that is, why wasn't there a case instituted in the last year which would indicate the unconstitutionality of the statute which imposes this tax upon the consumer?

Just as long as they are able to pass the tax on to the shoulders of the consumers, their love for the consumer disappears. It is only when you take the tax from the consumer and put it back again upon the shoulders of the corporations themselves, or attempt to do that, that they suddenly develop this wonderful affection for those from whom they are getting their returns.

The second thing I wish to point out is that, after all is said and done, there were just two really important problems which were presented before this committee yesterday. The first was in regard to the question as to whether or not it would be possible to transfer this tax from the consumers to the companies without breaking the companies. You were told that there would be possibility of receivership; you were told that it would not be possible to have earnings for the stockholders; you were told that it would not be at all possible to transfer this tax without it being a great burden upon the people of the United States who are using this particular type of commodity.

Now, it happens that in Connecticut we can test this particular thing out in detail, and my opinion is, from the facts which I will give you, that it is not only possible to transfer this tax, but that it should be transferred, and that the transfer can be made without hurting the legitimate returns to any company whatsoever, and without increasing the rate. Indeed, it is possible to decrease the rate by millions of dollars throughout the United States.

In the first place, let me make this particular thing clear. Please remember in this thing I am allowing an 8-percent net return upon the reasonable fair valuation as given by the figures of companies, in their sworn statements to public utility commissions. If these

figures are inaccurate, if these figures are not correct, then it is the fault of the officials of the companies that these figures are inaccurate. They are sworn statements. You can verify them by going to the I.C.C. reports, or public utility commissions reports of the State of Connecticut. Not a single figure is false, unless the officials of those companies themselves have falsified the records to which they have sworn, and put their oath before the Public Utility Commission of the State of Connecticut.

The first company we have there in Connecticut is a subsidiary of the International Hydro Electric System. You will remember Senator Norris' spider-web chart, and how it showed the interlocking directorates. We have the Mystic Light & Power Co. I take that, because it happens to be a small group. Mr. Ferguson talked about the small groups, and so did Mr. Young, and how it was going to affect them.

That company, the Mystic Power Co. had a net return of over 11 percent in the year ending 1930. Those are the last sworn statements we have for that company. Its fixed capital, used and usable in the public service returned over 11 percent. It paid dividends on its stock of 12 percent. If this tax was placed upon them, its gross revenues, being \$73,577, 3 percent of that would be \$2,207, so that they took in illegal rates from the people of Connecticut, just this one small company, over \$20,000, so that if you put this tax upon them, with the present rate of return they are getting, on the present rate set up, they would still be getting over \$18,000 illegally.

The Associated Gas & Electric Co. is the company which operates in Ridgefield, Conn. It overcharges the people, again on the basis of 8 percent as reasonable, \$14,000 in that one year. If you place the tax upon them, it would amount to something like \$989. They would still be making over \$13,000 a year.

The Utilities Power & Light Corporation has a subsidiary operating in Derby, Conn. It is called the Derby Gas & Electric Co. It received a net return of over 15 percent in the year 1930. Not 8, but 15. Please, gentlemen, not 5, 6, 7, or 8, but 15 percent net return upon their sworn statement. They too overcharged their patrons to the amount of \$242,000. Their tax will be something like \$15,000. That would still be taking illegally over \$200,000 by that company.

The Cities Service Corporation, which is now being investigated by the Federal Trade Commission, has a subsidiary in Danbury. Its net return was 11 percent. It overcharges the patrons of the company \$76,000. Its 3 percent tax would be \$8,000. It still would be getting more than \$69,000 over and above what it is entitled to get.

The United Illuminating Co., which is an independent company, overcharged its patrons, upon the basis that I am taking, \$1,191,000. Its gross revenues would amount to \$3,000,000. Three percent is \$94,000. If it paid that tax, they could still reduce the rates to the consumers over \$1,000,000.

The Hartford Electric Light Co., about which Mr. Ferguson testified yesterday—I don't know whether he is here today or not. I hope he is, because I always like to make my statements in the presence of those about whom I am talking, if I can. The Hartford Electric Light Co. gave its stockholders 10 percent in dividends. It had a net return of over 10 percent. On this basis it overcharged

its patrons, in that one little system, \$748,000. If it paid the tax, it would amount to \$205,000. It could pay the tax and still have \$500,000 which it would have to account for as illegal rates.

The system with which the Hartford Electric Co. is connected is the Connecticut Power Co. system, 4 or 5 groups together. They have overcharged their customers over and above the 8 percent return, over \$1,554,000. If the system paid this tax upon that, it would amount to about \$200,000. It would still be getting over \$1,000,000 more than it is entitled to get under their own sworn figures, at the 8 percent net return.

My time is going. I could go down through several more. It seems to me that where you have got a situation in one small State, although you can go through the Union and take State by State and get the same results, where you have a situation where they are overcharging the patrons something like five or six million dollars a year, and where the total tax would amount to barely a million dollars in that State, that it ill becomes the persons who are standing for these companies to complain about taking that tax now.

If I had the opportunity to go through the period of the preceding 5 years, or take the 1931 returns, which are very little different from the ones I have given, you would then see the same situation. The companies throughout the country, as I see them, judging them by their reports to the Interstate Commerce Commission and to the public utility commissions of the various States, can very well bear the tax which was placed upon them, or would be placed upon them by a shifting of the 3 percent tax, and still reduce the rates somewhere from 1 to 2 percent of what they are getting at the present time.

It seems to me with a situation like that we ought to consider, certainly, the effect of this particular statute upon the transfer of the tax. It was the purpose, according to Mr. Whittington, who was here yesterday, of this particular statute to transfer the paying of this tax, 3 percent, from the shoulders of the consumer to the manufacturer.

Now, my first question is, does this particular statute do it? My answer is no. Does this statute fulfill its functions? I think it does not.

Senator KING. You mean the bill before us?

Mr. LEVITT. The bill before us. Section 5 in this particular bill. Does this transfer the tax? My answer is no. I am surprised that the light and power companies should be here opposing the bill. It gives them exactly what they want—namely, freedom from the tax, in my opinion. For this reason it has taken the teeth out of the preexisting statute.

Senator CONNALLY. Mr. Whittington submitted an amendment yesterday. You are not addressing your remarks to his proposed amendment, but the bill as adopted in the House.

Mr. LEVITT. The only thing I have in writing is this. You are quite right. The point I make here is on this particular statute, and it is, as we have it in the language, what will be the result? My answer is the result will not be a transfer of this tax. I raise the question, Who pays where you have a statute as ambiguous as this? The preceding statute was that it should be the one who pays for the electricity should pay. We knew definitely who should pay it. Here there is no way of knowing who should pay it. The consumer

does not pay it, because under the interpretation, it is not there; the manufacturer would not pay it, because of the fact that it is not so said. So, with this particular statute, we haven't got any opportunity here of knowing who pays, or will pay, and you cannot say this will transfer from the consumer to the producer this particular tax.

My second question is this: How do you tie this in with the preceding section of the bill before the committee—namely, paragraph 4, section 620? Here is an amendment to the Revenue Act of 1932. How do you tie it in with section 623 of the Revenue Act of 1932, which is not being amended in any way whatsoever?

This is my problem; is electrical energy an article of commerce? If it is, then it should be stated here. In section 1111 of the Revenue Act of 1932 there was no such definition in the definitions as given on this tax-free sales. It is included, if included at all, in that, because it would be called "an article of commerce." Have you here an article of commerce? The answer is "no", because it has not been said to be so. Question 3, Are you putting this upon the gross or upon the net? If the gross, can you transfer that tax by fiat of legislation away from the consumer onto the particular person who is manufacturing a particular commodity? My answer is, for all three reasons stated, that this statute is an empty statute as it stands now. Whatever modifications might be made, whatever amendments might be made, of course I don't know, but this statute, reading as it does, is not worth the paper it is printed upon, because not a single person will have to pay a single penny of tax, and in any case, it seems to me, that if brought to the Supreme Court, will the result be different, under the decisions as they are now.

Senator BARKLEY. That would satisfy everybody by the Government, which would lose the \$32,000,000 that Mr. Hagenah told us about.

Mr. LEVITT. By the way, in regard to that, if you are afraid of losing \$32,000,000, which means a loss of \$5,000,000 to the Federal Government and 1 million to the States-government, I will say to you from my intimate knowledge of some of the States, if you will impose this tax on some of the manufacturers in the groups of the New England States alone, you will get more than the \$5,000,000 under a fair valuation, which will make up for the loss which Mr. Hagenah talked about.

I have ventured to prepare what I call a "rephrasing" of this particular statute, which I would like to read.

Instead of section 5 (a) as found on page 5 of this particular pamphlet, it seems to me the phrasing should be to this effect, in order to produce the result which is wanted:

Effective of the fifteenth day after the enactment of this act, section 616 (a) of the Revenue Act of 1932 is amended to read as follows:

There is hereby imposed on gas and on electric energy sold—

I include gas because as a matter of law, as a matter of principle, as a matter of ethics of business, there is no reason why you should not put gas in the same category as with the electric-light people. The gas company and the electric-light company are interlocked. Most of the electric-light companies are also buying and selling gas. It is an interlocking system. I don't see how you are going to avoid

setting up peculiarly false differentiations between the gas company and the electric-light company.

So, I say:

There is hereby imposed on gas and electric energy sold for domestic, commercial, and power consumption—

There is a distinction being made by the people in the industry between commercial consumption and power consumption. If the Hartford Electric Light Co. sells to the Manchester Electric Co., which sells to its consumers, is the sale by the Hartford to the Manchester a sale of commercial or is that a sale of power? They make a distinction in their bills between those two particular kinds of things.

We do not want double taxation. If the Hartford Electric Light is paying that tax as the original producer, then we don't want the same amount of electric energy to have another tax imposed on it through the Manchester Co. So you ought to make it quite clear that you are talking about all three groups.

Let me repeat:

There is hereby imposed on gas and on electric energy sold for the domestic, commercial, and power consumption a tax equivalent to 3 percent of the price for which the gas and electrical energy is sold.

This tax—

And here are the teeth—

shall be paid by the vender and it shall in no way, direct or indirect, be passed on to the vendee for payment.

Every cubic foot of gas and every kilowatt-hour or electrical energy shall be deemed to be an "article" within the provisions of sections 620 and 623 of the Revenue Act of 1932.

(The amendment proposed by the witness was printed below in its entirety, for the sake of continuity.)

SEC. 5. (a) Effective on the fifteenth day after the date of the enactment of this Act, section 616 (a) of the Revenue Act of 1932 is amended to read as follows:

(a) There is hereby imposed on gas and on electrical energy sold for domestic, commercial and power consumption a tax equivalent to 3 per centum of the price for which the gas and electrical energy is sold.

This tax shall be paid by the vendor and it shall in no way direct or indirect, be passed on to the vendee for payment.

Every cubic foot of gas and every kilowatt-hour of electric energy shall be deemed to be an "article" within the provisions of sections 620 and 623 of the Revenue Act of 1932.

Mr. LEVITT. This ties the whole thing in together and puts teeth into the statute. The manufacturers cannot avoid this and it is up to them if they wish to challenge the constitutionality of this statute.

That brings me to the final point which I think I can make in 30 seconds.

The CHAIRMAN. Your time is up.

Mr. LEVITT. May I have 30 seconds in order to finish the sentence?

The CHAIRMAN. Go ahead for 30 seconds.

Mr. LEVITT. Very well.

Senator CONNALLY. You had better go ahead.

Mr. LEVITT. What, Senator?

Senator CONNALLY. I said, if you have only a minute, you had better get going.

Mr. LEVITT. Very well, then, I think I will take those 30 seconds to voice a protest. It seems to me, sir, that when a citizen is here

representing the consumers from his point of view, and the companies have had a sufficient length of time, it ought not be the function of any committee to shut him off.

The CHAIRMAN. Mr. Levitt, your time has expired.

Mr. LEVITT. It has, sir; but I protest against the exclusion, in this particular way.

The CHAIRMAN. You have been very courteously treated by this committee.

Senator CONNALLY. Mr. Chairman, I am in sympathy with the attitude of this gentleman, but I want to say I regard it as very discourteous on his part, after he has got the time he asked for, and is through, to then undertake to insult the committee.

The CHAIRMAN. The committee is trying to be courteous to the witnesses here, and trying to expedite consideration of these matters. We have given you 22 minutes this morning. Instead of voicing criticism of the committee, there ought to be some commendation of it.

That closes the hearing with reference to the power companies. The Treasury will be heard later.

I understand that Mr. Hagenah wanted to make one correction. I think he stated yesterday that the Edison Institute did not have an office here. I understand he wants to correct that in the record.

Mr. HAGENAH. That is right. I stated in answer to a question from Senator Reed that the Edison Electric Institute did not maintain an office in Washington. I am advised by the New York office that I was in error. I did not know the conditions. There is an engineer in Washington who maintains an office at 730 Fifteenth Street, who is compensated for sending to the New York office copies of bills that are introduced in Congress dealing with public utilities, and he receives regularly from the Federal Power Commission, from the Federal Trade Commission, the Department of Commerce, and other bureaus in Washington, bulletins and reports dealing with the public-utility industry, which bulletins he sends to the New York office without comments. That is the extent of his service.

The CHAIRMAN. We thank you.

Senator REED. Is he supposed to do any lobbying here?

Mr. HAGENAH. Absolutely not, sir. We have no agency of any kind for the purpose of lobbying, and make a scrupulous effort not to do it or anything of that kind.

Senator CONNALLY. Did you get that information about the yields to the companies in 1930, 1931, and 1932 for the whole industry?

Mr. HAGENAH. I am having that compiled and will attach it to the transcript of my testimony. I will have it ready today.

Senator BARKLEY. Is there any association or corporation or individual connected with the public-utility business that maintains a so-called "lobby" in Washington that you know about?

Mr. HAGENAH. I have no knowledge that there is any such agency, and I might say that if there were any agency representing the utilities in any lobbying capacity, I would know of it, because I spend much time in Washington on behalf of the Edison Electric Institute.

Senator CONNALLY. Doesn't the General Electric Co. keep a man here all the time?

Mr. HAGENAH. I don't know. I have no knowledge of what the manufacturing companies do.

Senator CONNALLY. There is supposed to be an office here. I know a man who is supposed to represent all the utility companies here in a lobbying capacity.

Mr. HAGENAH. Not the utilities. They may represent some manufacturing concerns, but not the Edison Institute.

Senator CONNALLY. I am not talking about your institute. I understand the utilities have a man around. I see a man around here functioning all the time.

Mr. HAGENAH. The Electric Institute is not contributing to that, and I know nothing of it.

The CHAIRMAN. I have a communication from Mr. Samuel Ferguson, who appeared before us yesterday, which he asks to have made part of the record. Without objection it will be done.

(The communication is as follows:)

THE HARTFORD ELECTRIC LIGHT CO.,
Washington, D.C., May 3, 1933.

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

GENTLEMEN: At the request of Senator Lonergan, I would ask to supplement my statement of yesterday with the information that we are carrying more than 15 percent of our customers, who are unable to pay anything or only a very little.

Also, that we have for years made a practice of declaring a customer's dividend, whereby is returned annually all earnings in excess of a moderate addition to surplus.

To now treat us differently and more harshly with respect to electric services, than the gas, telegraph, and telephone companies are treated with respect to their services, will make it impossible for us to continue such and other cooperative actions, to which both we and our customers have become accustomed.

Respectfully submitted.

SAMUEL FERGUSON, *President.*

The CHAIRMAN. Senator McAdoo has handed me a number of telegrams which he wishes me to incorporate in the record. Without objection it will be done.

(The telegrams are as follows:)

OAKLAND, CALIF., May 2, 1933.

Senator WILLIAM G. McADOO,
Senate Office Building:

Los Angeles, San Francisco, East Bay Municipal Utility District League, California municipalities, including 183 cities firmly opposed Senate 5040 Whittington amendment unless States and State agencies exempted from production tax on electric energy. Regard as clear invasion of State rights. United request you make utmost endeavor secure exemption States and political subdivisions thereof from this tax.

JOHN H. KIMBALL,
State Tax Committee, California Municipalities.

PASADENA, CALIF., May 2, 1933.

Hon. WILLIAM GIBBS McADOO,
Senate Office Building, Washington, D.C.

Whittington House bill 5040 shifts present 3 percent tax on electrical energy from consumer to producer. City of Pasadena which produces its own electrical energy for consumption by its citizens requests this measure be amended to exempt municipally owned utilities.

EDWARD O. NAY,
Chairman Board of Directors.

LOS ANGELES, CALIF., April 27, 1933.

Senator Wm. GIBBS McADOO,
United States Senate, Washington, D.C.:

Congressman Thomas F. Ford, of Los Angeles, wires "House bill 54 amended to change 3-percent tax on electric-power bills from consumers to producers." This would mean direct taxation of publicly owned electric utilities by Federal Government if concurred in by Senate and the President unless provision is inserted having the effect of exempting publicly owned electric utilities. This would do violence to our National Democratic principle of nontaxation of States and political subdivisions by Federal Government and would add to the already heavy discrimination against publicly owned electric utilities because of constitutional and legislative provisions handicapping them respecting financing and respecting necessity to amortize indebtedness. Republican administration Congresses have not thought it expedient to attempt this and surely present administration would be inconsistent to father such a plan. Would greatly appreciate your assistance in preventing Senate concurrence in change from consumer to producer unless publicly owned electric utilities are by phraseology exempted there are thousands of publicly owned utilities throughout the United States affected by establishment of such precedent for if electric utilities are taxable water and gas are also both as to direct tax and any other form of tax including income.

E. F. SCATTERGOOD.

BEVERLY HILLS, CALIF., April 28, 1933.

Hon. W. G. McADOO,
United States Senate, Washington, D.C.:

The Beverly Hills municipal water department begs that you defeat Whittington House bill no. 5040 unless States and State agencies are exempt from Federal taxation. We do not believe it fair for the Federal Government to impose any tax on municipally owned utilities.

CITY OF BEVERLY HILLS WATER DEPARTMENT,
A. TAYLOR, Manager.

The CHAIRMAN. Senator Keyes has handed me a few telegrams which he wishes me to incorporate in the record. Without objection it will be done.

(The telegrams are as follows:)

NASHUA, N.H., May 2, 1933.

Hon. HENRY W. KEYES,
United States Senate, Washington, D.C.:

Respectfully request you oppose passage of 3 percent tax on producers of electricity. We believe passage of such legislation would impose serious burden on public-utility companies concerned and would seriously affect earnings of companies whose bonds are held by local banks to extent of \$3,500,000.

INDIAN HEAD NATIONAL BANK.

CONCORD, N.H., May 1, 1933.

Hon. HENRY W. KEYES,
United States Senate, Washington, D.C.:

In this city of 25,000 inhabitants will be found the New Hampshire Savings Bank, Merrimack County Savings Bank, Loan & Trust Savings Bank, Union Trust Co., Mechanics National Bank, National State Capital Bank, and the First National Bank, all being members of the Concord Clearing House Association. We hold in our portfolios and the portfolios of our trust departments in excess of \$10,000,000 of public utility securities besides this we represent the interest of customers owning several million more, each bank is unalterably opposed to taxing electric companies 3 percent of the gross revenue received from the sale of electricity for domestic and commercial use because we believe it will so lower the earnings of the companies as to endanger the earning power behind the securities which we hold and therefore have a marked effect on the market value of such securities. We urge your influence in opposing this legislation.

CONCORD CLEARING HOUSE ASSOCIATION.

FRANKLIN, N.H., May 2, 1933.

Hon. HENRY W. KEYES,
Washington, D.C.:

We have in this bank \$1,260,000 par value of bonds of power and light companies. We also represent clients holding many thousands more of such securities. We strongly protest proposed taxing 3 percent of the gross revenues received from the sale of electricity for domestic and commercial use because we believe such tax will so impair earning power of such companies as to adversely affect their market price and our investment. We urge you to use your influence in opposing such a tax.

FRANKLIN SAVINGS BANK,
A. L. SMYTHE, Treasurer.

The comparisons requested by Senator Connally of Mr. Hagenah are as follows:

	1932	1931	1930
Domestic service.....	\$669,199,700	\$678,611,300	\$664,441,200
Commercial service.....	523,861,300	564,523,800	575,598,100
Total.....	1,193,061,000	1,243,135,100	1,240,039,300
Less exclusion and exemptions made by Treasury Department in computing 3 percent tax, (aggregating approximately 10 percent of total)	119,806,100	124,313,510	124,003,930
Amount subject to 3 percent tax.....	1,073,254,900	1,118,821,590	1,116,035,370

The CHAIRMAN. Mr. Shealey is not here, and the Post Office Department will have a representative here at 11 o'clock. The farm group have asked to be heard briefly with reference to an amendment that they desire with reference to blending alcohol with gasoline. Is Chester Davis here?

Senator CONNALLY. In order to avoid a row, don't you think you ought to allocate the time between those for and against? I think it would be well to give each side so much time.

The CHAIRMAN. I think we ought to settle that proposition. If it is agreeable, we will give them 15 minutes on a side?

Mr. DAVIS. Senator, we can condense this to suit the committee's time, I am sure. We will not be able to make use of the witnesses who are here, but I think we can get the matter before the attention of the committee in 15 minutes.

The CHAIRMAN. There was some discussion, Mr. Davis, on the part of the committee in executive session, and I think it is the sentiment pretty generally that they would not like to put this bill, but might like to start a committee to investigate this question which we think is very important from every angle.

Senator COUZENS. Mr. Chairman, may I make a statement?

The CHAIRMAN. Yes.

Senator COUZENS. I think it is useless to start this morning on the plan you have in mind, because the industries who are very much interested in it want to be heard if it is to be attached to this bill, and no opportunity will be given them here, if it is attached.

The CHAIRMAN. Mr. Davis, may I ask you if we can work out some plan, or a joint committee of this committee and the Ways and Means Committee, to investigate this whole subject matter, which is in some respects new, and it has many angles, and which affects a great many industries, and on which, if they can harmonize their

views, and it could be transmuted into law, it would be very beneficial, I am sure, to the farmers; don't you feel you would be pretty well satisfied with that arrangement?

Mr. DAVIS. Senator, I have discussed that with members of our group who are in Washington, and while we would like speedy action, if it is possible, I recognize the fact this has not been discussed with either the Members of the Senate or the House to any great extent, and the consensus in our circles is that we would be very happy to have that action taken.

The CHAIRMAN. Well, that would be much better, because if you present this matter, of course the other group wants to present it and get their answers in, and I am sure the committee would be very much pleased if you would agree to something like that.

Mr. DAVIS. I would like, Senator, to have the 15 minutes just to get the matter before the committee and let them be thinking about it.

The CHAIRMAN. Is there any objection to that?

Senator COUZENS. I have no objection, but I think it is a waste of time, because we will have no need of it.

Senator CONNALLY. I don't think we ought to do that if we are still holding out this other promise, because they either ought to come in with that or stay out.

The CHAIRMAN. I am inclined to the view it would be better not to hear them if we are going to take the other procedure, because no doubt the other interests will no doubt want a like time, and we must speed up this bill if it is to pass at this Congress in some form or another, and the sooner we can get it out of the committee and on the floor of the Senate the better.

Senator REED. If we hear these people on this bill now for 15 minutes and take no action on it, it would look as though we had decided against their proposition, which would not be the situation at all.

Senator BARKLEY. If we are not going to put it in this bill, it seems to me it is an irregular performance to go through a hearing.

The CHAIRMAN. Is that satisfactory, Mr. Davis?

Mr. DAVIS. Yes, Senator. We feel we are in the hands of friends, and we want to go about it in your way.

The CHAIRMAN. It seems to be the concensus of the committee that we not take this matter up now in view of the contemplated procedure.

Mr. DAVIS. Thank you.

Senator REED. Is the representative of the Treasury here, Mr. Chairman?

The CHAIRMAN. He will be here at 11 o'clock.

Congresswoman Jenckes, of Indiana, desires to put a communication in the record, which, if there is no objection, will be done:

(The communication is as follows:)

HON. PAT HARRISON,
Chairman Senate Finance Committee,
Washington, D.C.

MY DEAR SENATOR HARRISON: I represent a very large farming district in the State of Indiana and we are greatly interested in all legislation which will give the American farmer a greater financial return for his farm products.

Your committee is now considering the subject of motor fuel from farm products, which is before your committee in legislative form.

I will greatly appreciate it if I be recorded as an observer of the proceedings and also I desire permission to have a representative of my office, Mr. Forrest E. Livengood, recorded as an observer. We do not wish to testify, merely to observe the proceedings.

Also may I suggest that it will be very helpful, in as much as this legislation involves technical problems, that your committee request Dr. Lyman Briggs, Director of the Bureau of Standards, to designate one of his technical staff now studying this subject to also observe the proceedings, in order that competent technical advice might be given to this office or other Representatives or Senators when the bill is finally shaped up.

Thanking you for this cooperation, very truly yours,

VIRGINIA E. JENCKES
(Mrs. Virginia E. Jenckes, M.C.).

The CHAIRMAN. Mr. Crane desires to submit a statement on section 4, with reference to gasoline. Without objection that can be done.

(The statement is as follows:)

MEMORANDUM FILED BY WILLIS CRANE, NATIONAL PETROLEUM ASSOCIATION,
IN EXPLANATION OF THE PROVISIONS OF SECTION 4, H.R. 5040

The purpose of the amendments to the Revenue Act of 1932 which are contemplated by section 4 of the bill is, generally speaking, to remove some inequalities in the existing law, particularly in relationship to sales through dealers, or from one manufacturer of lubricating oil to another. The amendments were discussed with officials in the Treasury Department and as we are informed, the Department approved them.

The report of the Committee on Ways and Means of the House of Representatives contains a concise explanation of the application of section 4. For convenience this explanation follows:

"Section 4 (a) amends section 620 of the Revenue Act of 1932. Under existing law a manufacturer may sell tax free to a State or political subdivision, but sales to a dealer are subject to tax, even though the dealer purchases the articles for resale to a State or political subdivision. This discrimination results in a loss of business to the dealers, who are unable to compete with manufacturers for State business, and does not add any substantial gain in revenue to the Federal Government. The amendment gives a tax exemption in the case of sales to a dealer when it is known that the articles are to be resold to a State or political subdivision. To safeguard the revenue, the exemption is conditioned upon subsequent proof that the articles are actually so resold.

"Dealers in articles for further manufacture are placed at a similar disadvantage. Under existing laws, manufacturers may sell articles for further manufacture when the sale is direct to another manufacturer and not when the articles pass through the hands of a dealer. The amendment rectifies this situation in the same manner as in the case of articles to be resold to a State or political subdivision.

"Section 4 (b) amends section 601 (c) (1) of the Revenue Act of 1932. Under existing laws, a lubricating oil manufacturer who sells oil to another manufacturer must pay the tax unless the oil is intended for further manufacture, in which case the vendee assumes the responsibility for the tax. Under the amendment, one manufacturer may sell tax free to another for resale and the vendee will pay the tax on his resale. Thus lubricating oil manufacturers are placed upon the same basis as producers of gasoline, who have this privilege under existing law. Since mere blenders are not regarded as manufacturers or producers of lubricating oil, the tax-free sales are, under the amendment, confined to responsible concerns without any apparent danger to the revenue.

Section 4 (c) amends section 621 (a) of the Revenue Act of 1932. The effect of the amendment is to provide relief (by way of credit or refund) for dealers who sell to State or political subdivisions thereof taxable articles which they have not purchased tax free under section 620 as amended by section 4 (a) of the bill.

Mr. CRANE. Mr. Chairman, I would like to add one word of explanation with respect to this memorandum. I appear only in connection with section 4, on behalf of the National Petroleum Association. The amendments, under section 4, generally speaking, desired a way to correct certain inequalities in the Revenue Act of

1932. These amendments have been approved by the Ways and Means Committee, and by the Treasury Department, and I think there is no objection to them.

The CHAIRMAN. Mr. Dow desires to submit for the record a statement on the gasoline matter.

Mr. Dow. May I file, Mr. Chairman, this statement? This has no reference to alcohol but has reference to a continuation of the gasoline tax. In order to keep our records straight, I would like to file this statement in behalf of the corporations and associations named in the statement.

The CHAIRMAN. That may be done.
(The statement is as follows:)

STATEMENT OF FAYETTE B. DOW

This statement is filed on behalf of the following associations and their members: The American Petroleum Institute, the National Petroleum Association, the Western Petroleum Refiners Association, the Pennsylvania Grade Crude Oil Association, the Independent Petroleum Association of America, and the Mid-Continent Oil and Gas Association.

Section 629 of the Revenue Act of 1932 provides that no sale or importation "after June 30, 1933, in the case of articles taxable under section 617 relating to the tax on gasoline, shall be taxable under this title." By H.R. 5040, now under consideration by the Finance Committee of the Senate, it is proposed that section 629 be amended by striking out the language quoted above. This would have the effect of continuing the Federal gasoline tax until July 1, 1934.

The fact that the Federal gasoline tax was originally enacted for only one year, while the other excise taxes imposed by the Revenue Act of 1932 were enacted for two years or more is significant. The current revenue act in the form in which it originally passed the House of Representatives did not contain a tax on gasoline. Such a tax had been considered and rejected by the Ways and Means Committee. During the consideration which was given to the House bill by the Senate Finance Committee, a proposal was made to include in the bill a tax on gasoline, but the Committee rejected it and the bill, as reported with amendments to the Senate, contained no provision for such a tax. While the bill was being debated on the floor of the Senate, the Treasury Department made a further revision of its estimates of revenues for the fiscal year 1933. It appeared that additional revenues would be required over and above those which would be raised by the revenue act as reported by the Finance Committee to the Senate. Under these circumstances, the Finance Committee reconsidered the matter and reported out an additional amendment providing for a gasoline tax limited to 1 year.

From the actions taken by the Ways and Means Committee, by the House of Representatives, and by the Finance Committee of the Senate, it clearly appears that the Federal gasoline tax was adopted reluctantly and only as an emergency measure considered necessary because of the revenue emergency which confronted the Government. At that time there had been no such drastic reduction in Government expense as has been provided for by the present Congress and the Executive orders of the President. Nor at that time did the Federal Government have available another commodity upon the sale of which it might impose new or additional taxes.

No hearing has been held on the subject of the continuation of the Federal gasoline tax by the Ways and Means Committee as now constituted in the Seventy-third Congress. A hearing was held on January 27, 1933, before the Ways and Means Committee of the House in the Seventy-second Congress at which the following organizations appeared in opposition to an extension of this tax; the American Automobile Association, the American Motorists Association, the American Farm Bureau Federation, the National Farmers Union, the National Grange, the National Automobile Chamber of Commerce, and the American Petroleum Institute.

The Ways and Means Committee of this Congress has reported in favor of extending the gasoline tax for another year, and the House has passed H.R. 5040, which, if enacted into law, would make this extension effective. In the course of the discussion of this bill in the House, Representative Ragon, a member of the Ways and Means Committee, said:

"The facts are, we are forced to continue this gasoline tax for another year. It brings in about \$138,000,000. I am one who would like to see this tax removed as soon as we can. In the first place, I think it invades a field of taxation that has been preempted by the States, and, in the second place, I think we should, as soon as we can, make a sharp line of demarcation between the two fields of taxation, the one in which the Federal Government should have priority and the one in which the States should have priority; but it is necessary to continue this tax." (Cong. Rec., Apr. 20, 1933, p. 2032.)

We have quoted Mr. Ragon's statement because it indicates clearly the emergency character of the Federal gasoline tax.

We turn now to consider the statement of Mr. Ragon that the Federal gasoline tax invades a field of taxation which has been exhaustively exploited by the States.

At the close of the first session of the Seventy-second Congress, the Committee on Ways and Means authorized and directed the appointment of a special subcommittee for the purpose of making a study of Federal and State taxation with reference to the duplications which occur through overlapping authority. Mr. Vinson, chairman of the Subcommittee on Double Taxation, under date of December 29, 1932, transmitted to the chairman of the Ways and Means Committee a report which had been prepared by the staff of the Joint Committee on Internal Revenue Taxation. In transmitting this report, the subcommittee recommended that it be printed "in order that it may form a basis for an effort in the direction of eliminating double taxation, duplications, and overlapping," and added the hope "that it may form a basis for a revision of our taxation system as a whole in order that the tax burden may be more equitably distributed." Mr. Vinson also stated that the members of the subcommittee "are in substantial agreement with the statements contained therein."

In paragraph IV of the report, which deals with specific instances of double taxation, under the heading "(D) Special sales taxes on specific items" (p. 167), the report deals first with gasoline. By way of introduction, it says:

"Prior to 1932 every State in the Union, the Territory of Hawaii, and the District of Columbia imposed a tax upon gasoline. On June 21, 1932, the Federal Government entered the field with a 1-cent tax upon gasoline sold by producers or importers during the period June 21, 1932, to June 30, 1933. While the Federal tax is a temporary measure, there is a possibility that it may be extended into 1934 or later years."

The report then sets up a table showing the gasoline taxes in cents per gallon then imposed by the 48 States and the District of Columbia. It showed that the rates ranged from 2 to 7 cents per gallon. Two States imposed a 7 cent rate; 5, a 6-cent rate; 9, a 5-cent rate; 17, a 4-cent rate; 12 and Hawaii, a 3-cent rate; there and the District of Columbia, a 2-cent rate. With the Federal tax added, the rates ranged from 3 to 8 cents per gallon. (Since that report was made, the following changes have been made in rates by States: 10 States impose a 5-cent rate; 16, a 4-cent rate.) The report then states: "But even this does not represent the entire burden. Many of the counties and cities also impose additional gasoline taxes. While the information on county and city gasoline taxes is not complete, it appears that county gasoline taxes are levied in Alabama, Louisiana, and Mississippi as follows:

"In Alabama, Mobile County levies a tax of 1.5 cents per gallon, and Montgomery County, 1 cent. No information is available as to the other counties.

"In Louisiana, 47 of the 64 parishes levy a gasoline tax of 1 cent per gallon.

"In Mississippi, Hancock and Jackson Counties impose a 2-cent gasoline tax and Harrison County a 2 cent gasoline tax.

"The cities of five States, namely, Alabama, Florida, Louisiana, Missouri, and New Mexico, also impose gasoline taxes.

"In Alabama, the cities of Mobile and Montgomery impose a gasoline tax of 1 cent per gallon. In addition, 20 towns and cities levy a tax of 2 cents per gallon; 2 towns and cities, 1½ cents; 109 towns and cities, 1 cent; 1 town, one fourth cent, and 1 town, one eighth cent.

"In Florida, a 1-cent gasoline tax is imposed by 14 cities, namely, Bay Harbor, Bronson, Chipley, De Funisk Springs, Lynn Haven, Marianna, Milledgeville, Palatka, Panama City, Pensacola, St. Augustine, Wewahitchka, and Williston.

"In Louisiana, New Orleans levies a city gasoline tax of 1 cent per gallon.

"In Missouri, 53 cities levy gasoline taxes ranging in rates from one fourth cent per gallon to 1 cent per gallon. Twenty-nine of these cities levy a tax of 1 cent a gallon, including Kansas City and St. Joseph. Twenty-three levy a tax

at the rate of one half cent a gallon, including St. Louis. One, Caruthersville, taxes gasoline at one fourth cent a gallon.

"In New Mexico there are six cities levying a gasoline tax. These cities are Belen, Clovis, Gallup, Magdalena, Santa Fe, and Socorro. The tax rate in all the cities is 1 cent per gallon, except in Clovis, which imposes a tax of one fourth cent per gallon.

"The combined burden of the gasoline tax upon the automobile user, assuming the tax is passed on, is shown in the following examples:

(1) If a resident of Mobile, Ala., uses 623 gallons of gasoline a year his gasoline tax will be as follows:

Federal tax (1 cent).....	\$6. 23
State tax (6 cents).....	37. 38
County tax (1½ cents).....	9. 35
City tax (1 cent).....	6. 23
Total tax.....	59. 19

"(2) A resident of Palatka, Fla., using 623 gallons of gasoline per year would pay the following tax:

Federal tax (1 cent).....	\$6. 23
State tax (7 cents).....	43. 61
City tax (1 cent).....	6. 23
Total tax.....	56. 07

"(3) In Mississippi, a resident of Harrison County using 623 gallons of gasoline per year will pay the following tax:

Federal tax (1 cent).....	\$6. 23
State tax (6 cents).....	37. 38
County tax (3 cents).....	18. 69
Total tax.....	62. 30

"In addition to this total tax burden in Mississippi, it should also be pointed out that that State levies a general sales tax upon producers, manufacturers, and wholesalers. Under this general sales tax, a deduction is allowed in computing the gross sales for the taxes collected upon gasoline. However, as the gasoline tax is allowed only as a deduction in computing gross sales and not as a credit against the tax, it appears that another burden on gasoline is also added by the general sales tax.

"Other States imposing general sales taxes which may add to the tax burden of gasoline are Connecticut, Missouri, North Carolina, Pennsylvania, and West Virginia. These taxes are generally in addition to the special State and county taxes levied upon gasoline."

The report comments upon the increase in the sales price to the consumer which results from the various taxes imposed on gasoline as follows:

"It appears that the combined Federal, State, and local levies upon gasoline increase the sales price to the consumer from 30 percent to more than 100 percent, depending upon the State involved. This is a large percentage, and while the tax is productive and easy to collect, it is evident that the rates are approaching the point of diminishing returns."

We may appropriately make at this point a quotation from the report in confirmation of our statements as to the emergency character of the Federal gasoline tax. On this subject the report says:

"When the gasoline tax was first discussed in the House of Representatives of the United States, it was felt by many that this field of taxation was fully occupied by the States and should be left to them. The House did not include this tax in the revenue bill as transmitted to the Senate. The Senate, however, in the light of later figures as to the deficit and as to the probable tax yield, was obliged to amend the bill by including a tax upon gasoline."

State gasoline taxes that are reasonable in amount and whose proceeds are entirely devoted to the building and maintenance of roads have not been resisted by the public, and the oil industry has favored such taxes so imposed and so applied. Gasoline taxes, contrary to the fact, as will be explained later, have seemed easy to collect and in consequence during an era of great governmental expenditures for many purposes, have been increased until they constitute an unjust burden upon the public. It is difficult to express with sufficiently striking emphasis the amount and burden of these taxes. One of the most comprehensive studies is in the form of a table which appears at pages 17 and 18 of the January 27, 1933, hearings before the Committee on Ways and Means of the House. Reference is made to that table for its complete details and copy is attached.

Some of the pertinent facts are as follows: It is shown that for 1930 the motor vehicle paid in gasoline taxes, license fees, and property taxes \$1,000,388,000. This was substantially the annual amount being paid prior to the imposition of the Federal gasoline tax which, as Mr. Ragon stated, is producing revenue at the rate of \$138,000,000 per year. In the same year, 1930, the total State revenue receipts were \$2,243,110,000. In other words, the motor vehicle was paying 37.9 percent of the total State revenue receipts. The lowest was 13.7 percent of Delaware's total State tax revenues and the highest, 70.2 percent in the case of Florida. In no State other than Delaware did the percentage fall below 22 percent. Typical instances of States distributed geographically over the country are as follows: Maine, 34 percent; Connecticut, 32.9 percent; New York, 23.4 percent; Pennsylvania, 39.5 percent; Ohio, 60.5 percent; Michigan, 39 percent; Illinois, 50.9 percent; North Carolina, 41.5 percent; Mississippi, 58.4 percent; Arkansas, 43.3 percent; Texas, 39 percent; Nebraska, 56.2 percent; North Dakota, 22.2 percent; Montana, 34.5 percent; Colorado, 39.3 percent; and California, 38.9 percent.

It would seem clear that, when the States are collecting 37.9 percent of their entire revenues from taxes on motor vehicles, this field is seriously overexploited by the States and there can be no justification for a Federal tax on gasoline.

Of the total of more than \$1,000,000,000 paid in 1930 by the motor vehicle, the State gasoline taxes alone amounted to \$494,683,000, according to a compilation of the United States Bureau of Public Roads. This was nearly one half of total yearly motor vehicle tax revenues.

In 1931 the State gasoline taxes alone amounted to \$536,397,458. This was more than one half of total yearly motor vehicle tax revenues.

But in 1932 the State gasoline taxes alone amounted to \$514,138,900. This was the first decline in the history of gasoline taxation and is ample proof that the point of diminishing returns has been reached. Where heretofore gasoline tax rates have been raised without an adverse effect upon revenues, henceforth consideration must be given to the probable effect of further declines resulting from any increase in rates. Both from the standpoint of effect upon gasoline consumption and upon revenues, the situation clearly calls not only for the abandonment by the Federal Government of this field of taxation but for reduction by the States in the gasoline taxes which they now impose.

The burden of the enormous taxes collected on gasoline is not only expressed in terms of dollars collected but in the relation of these taxes to the price of the commodity on the sale of which the taxes are imposed. We have quoted above the statement from the report of the Committee on Double Taxation to the effect that the combined Federal, State, and local levies upon gasoline increase the sales price to the consumer from 30 percent to more than 100 percent, depending on the State involved.

Since that report was issued there have been substantial reductions in the price of gasoline and in consequence the ratio of the tax to the sales prices is proportionately higher. The average State tax on gasoline in 50 representative cities on April 1, 1933, was approximately 4.15 cents per gallon. With a Federal tax of 1 cent added, the average tax is 5.15 cents. The present wholesale price in tank cars of United States motor gasoline in Oklahoma and east Texas as quoted in the trade press is 2.125 cents per gallon. On this basis, the average State tax is 196 percent of the wholesale price. With the Federal tax added, the total average tax is 240 percent of the wholesale price.

The wholesale price of United States motor gasoline at Gulf coast ports is 3.25 cents per gallon and at New York Harbor, 4.5 cents per gallon. The average of the Gulf coast and New York Harbor prices is 3.85 cents per gallon. The average State tax is 109 percent of this price and the combined State and Federal tax is 135 percent.

Even on a retail basis this sales tax is far higher than any other sales taxes so far contemplated. It is shown in its true light by comparing gasoline retail prices and taxes in 50 representative cities, at least one in each State. They follow:

	Tank-wagon price per gallon, excluding tax	Service-station price per gallon, excluding tax	State and Federal tax per gallon	Cost to consumer per gallon
	Cents	Cents	Cents	Cents
Averages of 1932.....	12.95	13.30	5.13	18.43
Averages on Apr. 1, 1933.....	10.19	10.92	5.15	16.07

On the basis of these averages, the gasoline sales tax was 40 percent of the retail price in 1932 and by April 1, 1933, increased by an average of 48 percent the cost of gasoline to the consumer.

Taxes imposed on gasoline are sales taxes. It is recognized as a sound principle of taxation that sales taxes, if imposed, should be based upon a comparatively small percentage of sales prices. In this connection we call attention to the fact that when the current revenue act was under consideration the Ways and Means Committee of the House reported a bill embodying a general manufacturer's excise tax which, if enacted, would have included gasoline, and the rate fixed was $2\frac{1}{4}$ percent.

A mere statement of such a relation of taxation to prices as it now exists at once raises the question as to the effect of such excessive taxation upon the industries most immediately affected and we turn now to this phase of the matter.

The committee on double taxation refers to the receipt of information that "There were declines in consumption in 1931 in all States having a gasoline tax rate of more than 2 cents per gallon. Where the tax rate was 3 cents, the decline was 1 percent; 4 cents, 3 percent; 5 cents, 8 percent; 6 cents, nearly 14 percent."

Statistics for 1932 reveal even more serious declines, not only in gasoline consumption, but also in motor-vehicle registrations and in sales of new vehicles. Declines in registrations and sales are interesting because they indicate the extent to which the States, obtaining a large, and sometimes the largest proportion of total tax revenue, from motor-vehicle operation, may look for reduction in such revenues.

The average decline in gasoline consumption in 1932 was 7 percent. Where the State tax rate was 7 cents, the decline was 12.7 percent; 6 cents, 11.3 percent; 5 cents, 8.9 percent; 4 cents, 9.1 percent; 3 cents, 5.2 percent; 2 cents, 4 percent.

Motor-vehicle registrations declined 12.9 percent in States with a 7-cent gasoline tax and 12.6 in the 6-cent-tax States. The decline was only 3.6 percent in States with a 2-cent tax rate. The average decline was 6.6 percent.

New-car sales fell off 46.3 percent in the 7-cent-tax States, 43.9 percent in the 6-cent-tax States. The decline was only 41.8 percent in the 3-cent-tax States, and 39.5 percent in the 2-cent-tax States. The average decline was 42.6 percent.

As quoted above, the committee on double taxation says: "It is evident that the rates are approaching a point of diminishing returns." That is an understatement. The rates have approached and passed the point of diminishing returns. While the decline in the consumption of gasoline has been undoubtedly caused in part by the business depression, the significance of the fact that the greatest declines have been in those States which impose the highest taxes is apparent. As gasoline prices have fallen since their peak in 1922, State gasoline taxes have steadily risen. The public has been deprived of large measure of the advantage of lower gasoline prices and the effect has been to reduce consumption.

This effect is particularly adverse in the oil-producing States, not only because reduced consumption reduces tax incomes, but because evasion of high taxes tends to force prices to uneconomic levels. The effect goes back to the raw materials, upon which States impose ad valorem taxes, and to cause price reduction here is to curtail State tax revenues.

Several State legislatures, realizing these facts, have memorialized Congress to discontinue the Federal gasoline tax.

Not only have the excessive gasoline taxes reduced consumption but they have become a very great burden to the oil industry by reason of tax evasion. On this point the report of the committee on double taxation says:

"A very high rate of tax creates an incentive to evade by bootlegging or otherwise, with a resulting loss of revenue to the States and competitive hardships to reputable distributors and dealers."

Where the State taxes have exceeded a moderate level of from 2 to 3 cents per gallon, the temptation to evade these taxes in one way or another has proven too great for many dealers to resist. In the effort to gain a greater gallonage, part of the taxes thus evaded have been reflected in price cuts which in turn have resulted in a demoralization of prices generally. That this phase of excessive gasoline taxation has become a serious menace to the welfare of the oil industry was evidenced by the fact that the industry has set up its own organizations and is spending hundreds of thousands of dollars in many areas to assist the States in the full collection of these taxes.

Kindred to the evil of evasion, is the evil of diversion, or use for other purposes of the income from a tax levied to finance roads. The Federal gasoline tax is diverted. It has the effect of taxing a special class of citizens, through general taxes as citizens, and again through this levy on gasoline. It is estimated that

some \$200,000,000 of gasoline tax income was diverted from roads in 1932, and road work thereby curtailed. Unfortunately much of this diverted money goes into channels which do not offer the numerous opportunities for employment assured by road work.

The oil industry is the third largest industry in the United States having an investment of more than \$12,000,000,000. It is operating at a serious financial loss, and in consequence the Federal Government is deprived of substantial income taxes which it would receive if the industry were operating at a profit. While the present losses of the industry are due, as in other industries, in large measure to overproduction, it is the informed opinion of all company executives that excessive gasoline taxes with their consequent evasion constitute an important factor in causing these losses. An industry which collects and turns over to various governments, local, State, and national, upwards of \$650,000,000 in gasoline taxes alone and yet incurs a loss in its own operations, has become merely a source of tax revenue. This is a condition which cannot continue if the oil industry is to contribute its share to a national prosperity.

The gasoline tax, furthermore, is only one of more than 116 taxes imposed upon the operations or products of the petroleum industry. The Federal Government has indicated its desire to aid business in restoring operations to a normal basis. But this cannot be done by imposing excessive taxation upon any one industry or the products of that industry.

It may be repeated that the petroleum industry has never opposed but, on the contrary, favors State gasoline taxes which are moderate in amount and are devoted exclusively to the building and maintenance of highways. The industry, however, is justified in its belief that gasoline taxation by the States has already exceeded all reasonable limits before this field of taxation was invaded by the Federal Government. It has consistently opposed Federal gasoline taxation. The Federal gasoline tax was enacted as an emergency measure before the large reductions in Government expenditures had been made. It is self-evident that, with proper governmental cooperation, the petroleum industry could make a substantial contribution to national prosperity and could pay from its net earnings a fair proportion in Federal income taxes. Such cooperation is, in fact, necessary, and one of the most important ways in which the Federal Government can extend it is in reducing taxation that has been clearly shown to be excessive. This means the prompt withdrawal of the Federal Government from the field of gasoline taxation.

The CHAIRMAN. I am asked by Mr. Davis to make the statement to the committee that the Secretary of Agriculture is very much interested in this proposal that the farm group has presented, and was very anxious to appear before the committee if the committee desired, but in view of the action we have taken, it is all right with him.

The CHAIRMAN. Mr. Eilenberger, will you discuss with us this feature of this tax bill with reference to the postal changes and so forth.

Mr. EILENBERGER. I would state that we have made a survey of what we think will be the outcome in revenue from the proposed bill, but I thought that Mr. Graves and Mr. Watts can answer your questions perhaps better than I can.

The CHAIRMAN. You want Mr. Graves to present the matter for you?

Mr. EILENBERGER. Yes, Mr. Chairman.

STATEMENT OF HAROLD N. GRAVES, REPRESENTING THE POST OFFICE DEPARTMENT

Mr. GRAVES. Mr. Chairman, the legislation which is before the committee would reduce the rate of first-class postage, on local mail, from 3 cents to 2 cents, and would authorize the President to make such other changes in postage rates, as in his judgment, after a survey, might be deemed proper.

Senator COUZENS. You mean to raise the rate or reduce the rate, or both.

Mr. GRAVES. Of course, nothing but a reduction would be contemplated, so far as the first-class postage is concerned, although an increase would be possible under the terms of the legislation.

Senator REED. What is meant by the language on page 2, lines 6 to 12?

Senator GORE. Did you state the total amount it would reduce the receipts?

Mr. GRAVES. Senator Reed, at the time the first-class postage rate was increased to 3 cents, the revenue act provided, as to postmasters and supervisory employees whose salaries are based on the receipts of their offices, that only 85 percent of the revenues would be counted in arriving at their salary rates. This language contemplates that, if there is a reduction in the rate on first-class mail, the President shall alter that 85 percent provision as may be proper.

Senator REED. That seems to be just. That language does not give him any authority over the mail of other classes other than first class?

Mr. GRAVES. Not that particular language.

Senator REED. Is there anything in this bill that authorizes him to change the rate on second class?

Mr. GRAVES. That is at the beginning of section 2.

Senator Gore asked a question a moment ago, as I understood him, as to the effect of this change in the first-class rate upon the revenue. Am I correct as to that?

Senator GORE. Yes. I would be glad if you would state the change that followed the raising of the rates, and what I would like also to get would be your estimate as to the change following this. I got a statement from the Department, and their conclusion was the increase in the rate had increased the revenues.

Mr. GRAVES. That is correct. At the time the increase in postage to 3 cents was first proposed the Department estimated that it would produce additional revenues amounting to \$135,000,000 if applied to all first-class mail and \$105,000,000, as I recall it, if applied only to nonlocal mail. Those estimates were based upon the volume of business as in the fiscal year 1931. Of course, the Postal Service, in common with all business enterprises, has since lost a substantial part of its volume.

Senator HASTINGS. Did that figure assume they would do just as much business with the 3-cent rate as with the 2-cent rate?

Mr. GRAVES. It did not, Senator Hastings. It assumed that a certain amount of matter would be diverted to cheaper classification, and that a certain amount of matter would be lost to the mails altogether. These assumptions were based upon what happened during the World War, when, as you know, the rate was raised to 3 cents.

Senator GORE. What has been the percentage of decline in the volume of business?

Mr. GRAVES. The revenues in the fiscal year 1930 were \$705,000,000; in 1931, \$656,000,000; in 1932, \$588,000,000. This year under the 3-cent first-class rate, and under the higher rates adopted by Congress on certain other classes of mail, we estimate that we will have about the same revenues as we had last year. In other words, we feel that

the rate increases have compensated for the loss in volume which we have suffered as a result of the business depression.

The CHAIRMAN. In other words, if you had not increased it, you would have lost considerably more in revenue.

Mr. GRAVES. Yes. If we had not increased the rates our revenues this year would have been less than \$500,000,000.

Senator GORE. So you lost about \$88,000,000.

Mr. GRAVES. That is right.

Senator GORE. Did we apply it to local mail?

Mr. GRAVES. Yes, sir.

Senator GORE. That was a mistake.

Mr. GRAVES. I think so.

Senator BARKLEY. What proportion of this fall-off would you be willing to estimate was due to the increase in rate, and what proportion to the general condition in the country? Would you be able to give an estimate of that?

Mr. GRAVES. We can give you some figures as to what our rate of loss was prior to the change in the rates. During the quarter ending June 30, 1932, the revenues of the service were 15.13 percent less than in the corresponding quarter of the previous fiscal year.

Senator BARKLEY. This rate increase did not go on until July 1.

Mr. GRAVES. I am trying to say that the normal rate of loss, without any reference to the rate change, would have been about 15 percent as compared to the preceding year. We have no loss this year, no appreciable loss.

Senator BARKLEY. Have you got any figures as to volume of mail, or do you make up figures on that?

Mr. GRAVES. We do. We make up figures for the entire service, based upon a count of mail at selected offices at particular periods during the year.

Senator REED. Do your canceling machines have a cyclometer on them?

Mr. GRAVES. Yes; they do. We count the first-class mail in that way.

The CHAIRMAN. This bill, so far as local offices are concerned, reduces it from 3 cents to 2.

Mr. GRAVES. That is correct.

The CHAIRMAN. It lodges with the President the authority to reduce it from 3 cents to 2 cents all over the country, in his discretion.

Mr. GRAVES. That is correct.

The CHAIRMAN. It also gives him the authority, if the facts warrant, to increase rates on second-class mail.

Mr. GRAVES. That is right.

The CHAIRMAN. So there are three things it does.

Mr. GRAVES. Yes.

The CHAIRMAN. Does it do anything else?

Mr. GRAVES. There is no limitation in respect to the classes of mail to which the President could apply rate increases, should he see fit.

The CHAIRMAN. He could increase it on all mail.

Mr. GRAVES. Yes; he could increase it on third or fourth-class mail, if he sees fit, under the bill.

The CHAIRMAN. And your proposition here is to reduce it from 3 cents to 2 cents on local stuff.

Mr. GRAVES. Yes, sir.

The CHAIRMAN. Do you believe we will get as much revenue by virtue of that?

Mr. GRAVES. A survey which we have recently made indicates indicates that of the \$80,000,000 roughly that we think we have gained due to the rate increase on first-class mail, not less than than \$17,000,000 is due to the 3-cent rate as applied to local mail. In other words, we would undoubtedly get more revenue by a 3-cent rate applied to local mail than if the rate were reduced to 2 cents.

Senator GORE. You would get more?

Mr. GRAVES. We would get more revenue.

The CHAIRMAN. How much more?

Mr. GRAVES. Well, not less than \$17,000,000 this year. Or, rather, I should say it this way: We are this year getting \$17,000,000 on local mail more than we would have gotten if the rate had been left at 2 cents on that class of mail.

Senator REED. Then the effect of this proposal is a reduction in the revenue?

Mr. GRAVES. That is it.

Senator CONNALLY. Does that take into account the probability that you would have had a larger volume if you has left it at 2 cents.

Mr. GRAVES. It does.

Senator GORE. What is the point in reducing it? I have heard so much complaint about people sending their bills by messengers, and other action taken, to get at this high rate of postage.

Mr. GRAVES. The view of the Postmaster General is that quite apart from the question of the revenues that might be lost by a restoration of the 2-cent rate on local mail, it would have a stimulating effect on business, and there is no doubt that that would be so.

Senator BARKLEY. How would that stimulation be reflected in more money to the Post Office Department?

Mr. GRAVES. We would get, of course, a certain additional volume of business.

Senator BARKLEY. What type of business will be stimulated by the difference between 2 and 3 cents in sending a letter?

Mr. GRAVES. A great many utility companies, Senator, are now delivering their bills to their customers by their own messengers.

Senator GORE. That is the \$32,000,000 we are trying to raise.

Senator BARKLEY. They have been doing that in Washington for a great many years.

Mr. GRAVES. But the practice has been extended in many communities, where such companies heretofore have used the mail.

Senator HASTINGS. From the point of fairness and expense to the Government, it doesn't cost the Government, by at least 1 cent, as much to deliver locally as it does to go through all the business of sending it out to the particular town to which it is mailed.

Mr. GRAVES. That is true, generally. Your figure is not exactly in accord with ours.

Senator HASTINGS. Not as much as 1 cent?

Mr. GRAVES. The cost of handling a local letter, in normal times, is about 1½ cents. In 1932, when, of course, conditions were abnormal, the cost was about 1.57 cents. The department believes that it cannot justify a 3-cent rate on local mail in view of the fact that the cost of handling is very substantially less than the cost of handling letters for out of town delivery.

Senator COUZENS. Will you give us the out-of-town figures right at this point.

Mr. GRAVES. The figures for nonlocal mail alone was 2.03 cents in 1932.

The CHAIRMAN. Is it possible, Mr. Graves, that this \$17,000,000 lost by virtue of the reduction from 3 cents to 2 cents on local letters would be absorbed because of the increased volume of mail that would come?

Mr. GRAVES. Not by the increased volume that would result directly from this rate change, Senator, if you mean that.

Senator GORE. What is the total from that source?

Mr. GRAVES. The total from all first-class mail?

Senator GORE. Local.

Senator BARKLEY. Drop letters.

Mr. GRAVES. The total, as I recall it, is about \$85,000,000.

Senator GORE. And what is the total for all first class?

Mr. GRAVES. In 1932 the revenue from local mail was \$86,529,000, and from all first class, including local, \$316,341,000, so you see about one quarter of the total first-class mail is made up of local mailings.

Coming back to your question, Senator Harrison, the Department does not feel that there will be such a restoration of volume as a direct result of this lower rate to compensate for the loss in revenue, but we do feel that business is coming back. The reports that we are getting currently from our various offices indicate some increase in mailings. The hope of the Postmaster General is that so far as the finances of the Postal Service are concerned we can produce satisfactory results if we take off this 1 cent on local mail. Obviously, we will add a great deal to the convenience of the public, and we will bring back a certain amount of mail that we have lost. Our financial situation is much better than it was when we first asked for the 3-cent rate, and we think that by all means we should now go back to the 2-cent rate on local mail.

Senator CONNALLY. According to that, we will not only lose \$17,000,000, but we will lose a lot of prospective business, prospective revenue, in addition to the \$17,000,000.

Senator COUZENS. Yes, that is the point.

Mr. GRAVES. I see what you mean.

Senator CONNALLY. If business is coming back, you will have more business on 3 cents than you have now, and instead of losing \$17,000,000, you will lose more.

Senator HASTINGS. Your argument tends to prove that the change from 2 to 3 cents is not the controlling factor, that the depression was the cause, and we are now coming back, in spite of the 3 cents.

Mr. GRAVES. That is true.

The CHAIRMAN. What part of the \$17,000,000 do you think will be absorbed by the reduction from 3 cents to 2 cents?

Mr. GRAVES. None of it. That is the net figure, after we allow for the diversions and losses of mail matter. We are getting \$17,000,000 of revenue this year which we would not have had if the 2-cent rate had been continued on local mail.

Senator BARKLEY. As offsetting this loss, or any other loss, what economics have been brought about to reduce the expenditures in the department, so as to absorb part or all of it?

Mr. GRAVES. I will give you those figures, Senator. The 1930 expenditures in the Post Office Department were \$803,000,000. I give that figure, because that was the peak of postal expenditures. In 1931 they were \$802,000,000; in the fiscal year 1932, they were \$793,000,000. This year, due to economies of administration and due of course partly to the economy legislation, which provided for reductions in the compensation of employees, our expenditures will be \$706,000,000, or almost 100 million less than in 1931.

Senator KING. But more than \$2,000,000 more than last year?

Mr. GRAVES. Oh, no. Our expenditures last year were \$793,000,000.

Senator KING. I see. I was called out and didn't hear the continuity.

Mr. GRAVES. And this year \$706,000,000. Now, under this 15 percent salary reduction, together with a policy of making economies all along the line, and without, by the way, any reference to the furlough provision which was brought out yesterday in the House, we estimate that our expenditures for next year will not in any event exceed \$654,000,000.

Senator CONNALLY. Those are economies made by Congress and not by the Department.

Mr. GRAVES. That is only partly so. For instance, of the reduction of \$87,000,000 made during this current year, only about \$40,000,000 is directly attributable to the economy legislation.

Senator KING. What economies have you actually introduced that have not been compelled by Congress?

Mr. GRAVES. Well, for example, I suppose that the lease contracts, Senator King, that have been made in the last two or three years by the department have shown on the average a reduction of as much as a quarter in the rental cost.

Senator GORE. That is depreciation in rent?

Mr. GRAVES. Yes.

Senator COUZENS. Haven't you effected reductions due to fact you are not filling vacancies in rural carriers?

Mr. GRAVES. Yes; and in a great many other classes of employees. The policy of not filling vacancies has been in vogue ever since the depression began, and under that policy the number of our regular permanent employees has been reduced about 11,000.

Senator BARKLEY. Of course, where a rural carrier dies, and they have to have mail—

Mr. GRAVES. We consolidate the routes in a case of that kind.

Senator WALCOTT. Can you give me offhand the cost of the rural-free delivery?

Mr. GRAVES. The appropriation for the rural free delivery service before the economy provision was introduced was about \$106,000,000. It is not costing that now. During the current year, under the economy legislation I would estimate the expenditures will be about \$94,000,000.

Senator BARKLEY. When I came to Congress 20 years ago it cost \$365,000,000 to operate the Post Office Department.

Senator GORE. \$1,000,000 a day.

Senator BARKLEY. The cost to me since then has been appalling. What has been the cause of that increase from \$365,000,000 up to \$803,000,000.

Senator GORE. From \$1,000,000 a day up to \$2,000,000 a day.

Mr. GRAVES. The largest single item of increased cost is the Postal Reclassification Act which was adopted by Congress in February, 1925, which added, as I recall, something like \$100,000,000 a year to our pay roll by increasing compensation rates.

Senator WALCOTT. That is under civil service?

Mr. GRAVES. That is right.

Senator COUZENS. When you give the cost of rural service, can you advise what are the revenues from rural service?

Mr. GRAVES. We have no way of determining that. We do not make any apportionment of our revenues in that way.

Senator GORE. A minute ago you said the total receipts from first class were \$316,000,000. I don't understand what time that covers.

Mr. GRAVES. The fiscal year 1932, Senator Gore.

Senator GORE. Have you made an estimate for the receipts for the current fiscal year?

Mr. GRAVES. We haven't made any estimate dividing our revenues by classes of mail. We have estimated our total revenues for the year at \$581,000,000.

Senator GORE. But you haven't apportioned that in any way.

Mr. GRAVES. We haven't apportioned it, nor will we be able to do that until after all our reports are in for the entire year.

Mr. Chairman, I was attempting to make the point that the 3-cent rate on local mail can be justified only in the event that such a rate is necessary to maintain our service. As we anticipate the situation for 1934, we feel that this rate will not be necessary, or in other words, that we could give up this \$17,000,000 of revenue as not necessary to balancing the postal budget.

Senator REED. Will you balance the postal budget?

Mr. GRAVES. We will, Senator, we think, if we make allowance for the items which are nonpostal in character, that is, the payments under the Jones-White contracts, and the proportion of the air mail payments which we regard as subsidies, and if we allow also for the revenue equivalent for the mail that we handle free of cost for Congress and for the other departments of the Government.

Senator KING. How much does what you are claiming credit for aggregate?

Mr. GRAVES. About \$52,000,000.

Senator GORE. What is your estimated deficit for the current year?

Mr. GRAVES. We estimate that the gross deficit for the current year will be \$125,000,000. That includes the items I have spoken of which cannot be fairly charged against the cost of postal operations.

Senator COUZENS. Can you elaborate on that \$52,000,000 as between cost for Government services? What does that include?

Mr. GRAVES. It includes about \$39,000,000 almost evenly divided between the so-called "subsidy payments" to ocean mail carriers and subsidies to air mail operators, and then \$13,000,000 which is our estimate of the revenue which we would earn from congressional mailings and from the mailings of the executive departments of the Government, if they carried postage at the regular rate.

Senator REED. We hear a good deal about congressional mailings. How do they compare in volume with the mailings of the executive department?

Mr. GRAVES. They are very much less.

Senator COUZENS. You say the congressional mailings are less?

Mr. GRAVES. The congressional mailings amount to about \$750,000 a year, and the departmental mailings to about \$9,000,000.

Senator COUZENS. Then, the departments use the frank—let us get this straight—13 or 14 times as much as Congress does?

Mr. GRAVES. That is true.

Senator HASTINGS. That franking privilege includes the Department of Justice and the courts through the land, referees in bankruptcy and all things that are purely governmental.

Mr. GRAVES. That is true.

Senator REED. Including the Post Office Department itself.

Mr. GRAVES. We do not include the Post Office Department in that figure, because the cost of Post Office Department mailings is properly a charge to our operating expenses. We cannot, however, properly charge our operating account for what it costs to handle the mail for the other departments of the Government.

Senator GORE. What is the Post Office's expense?

Mr. GRAVES. Do we have any allocation of that, Mr. Watts?

Mr. WATTS. Only in terms of cost.

Mr. GRAVES. But not in revenue. What is the cost?

Mr. WATTS. \$5,000,000.

Senator KING. That is \$5,000,000 for the cost of carrying the mail of your department?

Mr. GRAVES. Official mail.

The CHAIRMAN. What department of the executive branch is the greatest offender with reference to the use of the frank?

Senator KING. The greatest beneficiaries, you mean?

Mr. GRAVES. I have no information as to that.

Senator GORE. Could you give us a statement of the amount charged to each department?

Mr. GRAVES. No, Senator. We make no effort to keep track of free mailings by departments. The post office simply counts at intervals, during the year, the total franked and penalty mailings.

Senator CONNALLY. You do check up on Congress, though, because you segregate that \$750,000.

Mr. GRAVES. Yes, the law requires us to do that. The act of June 9, 1930, requires us to segregate the franked mail, so-called, that is, the congressional mail, from the penalty or departmental mail.

Senator COUZENS. You said there were \$13,000,000 for the congressional and governmental departments. Now you say it is \$9,000,000 for the departments and \$750,000 for congressional. That does not seem to check.

Mr. GRAVES. I did not complete that category, Senator Couzens. We have in that category also certain free mail which has nothing to do with the Government. For instance, newspapers are distributed in the county of publication without postage charge, and that would add another half million or so probably; and certain classes of publications, publications of fraternal organizations and scientific and religious societies—

Senator KING. Go free?

Mr. GRAVES. No; but they are handled at rates which are much lower than the regular rates of postage for periodicals, and we take credit in the item which Senator Couzens is speaking about for the

difference between what we actually get and what we would get if the full postage was charged.

Senator REED. How much do you lose on second-class mail, according to your system of figuring?

Mr. GRAVES. According to our system of figuring, which is nothing but a direct apportionment, Senator Reed, the cost of handling second-class matter is about five times the revenue we collect from it.

Senator REED. And how much revenue do you collect from it?

Mr. GRAVES. In 1932 our expenditures apportioned to second-class matter were \$125,000,000 and our revenues were \$23,000,000.

Senator REED. That is where the squeak is, isn't it?

Senator CONNALLY. That is where the squawk would be, if you tried to put it on.

Senator COUZENS. I have always contended that is not a clear allocation of the second-class matter.

Mr. GRAVES. Senator, we do not pretend it is anything more than what I have just described it to be; that is, a direct apportionment of cost on the basis of count, volume, weight, time of employees in handling, and so on.

Senator CONNALLY. Doesn't it cost the Government more to send a Saturday Evening Post than it does to send the entire congressional mail of both Houses of Congress?

Mr. GRAVES. I expect so; but my impression is that we do not lose money in handling the Saturday Evening Post and other similar publications.

Senator CONNALLY. Why don't you? What is there about the Saturday Evening Post that changes its character?

Mr. GRAVES. Am I right about that, Mr. Watts?

Mr. WATTS. I don't believe that would be justified; but we certainly lose less money handling a heavy publication, such as the Saturday Evening Post, than we do in handling the smaller publications, because the rate of postage is entirely by the pound. With a Saturday Evening Post, in normal times, weighing 2 pounds, you have but one publication to carry, while in the case of a great many publications, weighing only half an ounce, you would have 64 publications to carry, 64 individual pieces to carry and deliver throughout the country.

Senator CONNALLY. You pay on the pound basis for carrying the mail?

Mr. WATTS. We pay for transportation on a space basis.

Senator CONNALLY. I am trying to distinguish between the handling and the size. But still isn't it true you lose more on those figures on a Saturday Evening Post than you do on all the mail of the House and Senate?

Mr. GRAVES. We haven't any figures on that.

Mr. CONNALLY. And as I recall, the Saturday Evening Post is always bellyaching about the Congress using the frank.

Mr. GRAVES. Certainly the cost of handling the mail for Congress is a very trivial part of our budget.

Senator CONNALLY. Most of it is trivial anyway.

Senator COUZENS. Is there any way you can make an accurate allocation of costs to the second-class matter, a more accurate allocation than you do now?

Mr. GRAVES. We think the only thing we can do is to make a direct apportionment of our expenditures on the basis of volume and weight, and other similar factors, Senator, and then make it plain to everybody that this is the basis of our apportionment. We know of no other way to arrive at any result that would not be criticized. The minute we do anything arbitrary, introduce anything that is guesswork, people will certainly be tempted to criticize what we are doing.

Senator COUZENS. Didn't you get an expert, or one of your Assistant Postmaster Generals, by the name of Mr. Tilton to set up a better system of accounting?

Mr. GRAVES. Mr. Tilton, who was formerly the Third Assistant Postmaster General, has said to me that that was his purpose in coming to the department, but that as time went on, he reached the conclusion that the principles being followed by the department were absolutely correct and should not be modified.

Senator COUZENS. He did not change them?

Mr. GRAVES. He made no changes.

Senator COUZENS. Is he still there?

Mr. GRAVES. No.

Senator REED. I want to ask you some questions about this Presidential power. Under section 1 of this bill we delegate to the President power to do practically anything he pleases between now and July 1, 1934, with the postal rates, and all classes of mail matter and the only limitation is that first class shall not go below 2 cents an ounce?

Mr. GRAVES. That is right.

Mr. REED. Can you give us any indication of the lines along which that power will be exercised if we grant it? Are there any increases in contemplation, and if so, what?

Mr. GRAVES. I think it was in mind at the time this provision was drafted, that in addition to the possibility of a reduction in the first-class postage rate there was also the possibility of an increase in the rate on second class matter. As to whether the authority would be exercised in that particular, that is, as to second class matter, of course, I do not know, but the Department's opinion heretofore has been that any further increase in the rate of postage on second class matter will simply operate to drive business out of the mails and leave us worse off for revenues than we are now.

Senator HASTINGS. Is that still the position of the Department?

Mr. GRAVES. I wouldn't be authorized to say whether that is the present position of the Department or not.

Senator HASTINGS. Is that your judgment?

Mr. GRAVES. That is my judgment.

Senator REED. That is, your judgment and that of the Department hitherto has been opposed to the increase in second-class rates, is that correct?

Mr. GRAVES. Well, not necessarily, Senator Reed, because the Department did make some suggestions for increasing second-class rates at the time the rate was increased on first-class mail.

The CHAIRMAN. They walked up the hill and then down the hill.

Senator COUZENS. We had to raise the rates.

Mr. GRAVES. We suggested some increase in the rates of second-class mail, but when it raised the rates a year ago Congress went further than the Department's recommendation.

Senator GORE. What has been the result of that; can you estimate at all?

Mr. GRAVES. We are getting about 15 percent less revenue from second-class mail this year, under the higher rates, than we got last year.

Senator REED. Well, the size of the publications has fallen off?

Mr. GRAVES. We do not attribute the loss entirely to the rate, of course.

Senator GORE. Is that greater than the total increase?

Mr. GRAVES. Yes, it is; because our revenues in the main are about the same this year.

Senator GORE. This Presidential power to raise the rate on second-class matter, is that limited to 1 year or is it indefinite?

The CHAIRMAN. All this is limited to 1 year.

Senator COUZENS. I would be willing to vote for that if I was sure the Presidential would raise the rate on second-class mail.

Senator REED. He may reduce it.

Senator WALCOTT. Does he have the power to reduce the second-class rate?

Senator COUZENS. Anything he wants.

Senator WALCOTT. I don't think he should have it.

Senator REED. Have you any reason to believe he contemplates reducing it?

Mr. GRAVES. No. That is not contemplated by the Department.

The CHAIRMAN. Mr. Graves, is there anything else you want to supply for the record?

Mr. GRAVES. I don't think of anything else.

The CHAIRMAN. If there is, you may send it up here to us. We would like the record to be pretty full on this.

Mr. GRAVES. I don't know whether I have made my point clear.

The CHAIRMAN. What was your point?

Mr. GRAVES. That our expenditures are being very substantially reduced, and that we now anticipate that even with a loss of \$17,000,000 from reducing the rate on local mail, if it should prove to be that, we will be in a balanced position in 1934. Under these conditions we do not think it is fair to charge the mail users an excessive rate; that is, a rate almost twice what it costs to give the service.

Senator COUZENS. When you arrived at that conclusion, did you contemplate any increase in second-class matter?

Mr. GRAVES. No, sir. The second-class revenues are a very small part of the Department's total revenues. They amount, as I said a moment ago, to slightly more than \$20,000,000 out of almost \$600,000,000, so you can see that whatever might be done to second-class rates, the effect of the total revenues would not be substantial.

Senator REED. Anybody can balance a budget by leaving out inconvenient expenses. You figure out the inconvenient expenses which you propose leaving out of consideration aggregate, I think you said, \$52,000,000.

Mr. GRAVES. I ought to say, Senator Reed, that what we are doing in that respect is pursuant to the act of Congress of June 9, 1930, which authorizes and directs the Postmaster General to segregate the nonpostal items.

Senator REED. But that is true of all the other expenses of the Government. They are all being expended under an act of Congress.

Mr. GRAVES. That is not my point. The act directs that we segregate these nonpostal items apart from the regular cost of postal operations, so that it will be perfectly patent that they are not related to our service.

Senator CONNALLY. Mr. Graves, isn't it a fact that you folks in the Post Office Department figure that the public gets service rendered for the money expended than from any other Government operation?

Senator REED. Except the Army and Navy.

Senator CONNALLY. Except the Army and Navy, maybe. I said in his department. I am not talking about what Senator Reed may think. I am talking about you folks. Don't you figure you give the public more service for less money than any other department?

Mr. GRAVES. As to that, we are about the only department that attempts to make a direct charge against the public for what we do supply.

Senator CONNALLY. And you want to cut off about \$20,000,000 from that.

Mr. GRAVES. That is right. We feel the public is entitled to that.

Senator CONNALLY. Why is the public entitled to it, when the public has to pay it back in some other tax.

Mr. GRAVES. That is a question of policy that would not involve the Post Office Department.

Senator CONNALLY. Your service ought to carry its own load, if it can. It ought to pay its own way. You are figuring on it paying its way in 1934. In the meantime, who is going to pay it?

Senator WALCOTT. No; it doesn't pay its way then.

Senator COUZENS. There is no justification for charging 50 percent profit on drop mail and carrying newspapers at less than cost.

Senator CONNALLY. But you are not going to raise the newspapers.

Senator COUZENS. I am not talking about that, but that that doesn't justify a 50 percent profit on drop mail.

Senator CONNALLY. They are getting more for their money in the 3-cent drop letter than anything else the Government does.

The CHAIRMAN. Mr. Graves, we thank you for your appearance.

I have received a letter from the National Credit Association, of St. Louis, by R. Preston Shealey, which, without objection, will be made a part of the record.

(The letter is as follows:)

NATIONAL RETAIL CREDIT ASSOCIATION,
St. Louis, May 3, 1933.

HON. PAT HARRISON,
Chairman Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR HARRISON: You have before your Committee for consideration, H. R. 5040, and I am writing to you in regard thereto, on behalf of the National Retail Credit Association; one of the largest users of first-class mail in the United States.

We believe that the decrease of 3 to 2 cents on first-class mail matter, provided for in the bill as it passed the House, should be a general decrease and not limited to local delivery alone. The bill, however, as we read it, gives the President authority until June 30, 1934, to make the reduction on first-class mail matter a general decrease instead of a local-delivery decrease. It is our belief that limiting the decrease to local delivery alone may not restore to the Post Office Department revenue lost by the increase from 2 to 3 cents on first-class mail but experience alone can demonstrate that fact and as the bill gives the President the

necessary authority to take advantage of that experience, it is a step in the right direction. We, therefore, trust that if the committee cannot see its way clear to make the decrease general rather than limited, the authority to the President to modify the same may be preserved in the bill as reported to the Senate.

Very truly yours,

R. PRESTON SHEALEY.

(Whereupon, at 12:30 o'clock p.m., the committee adjourned.)