EXCISE TAX REDUCTION ACT OF 1954

HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

EIGHTY-THIRD CONGRESS

SECOND SESSION

ON

H. R. 8224

AN ACT TO REDUCE EXCISE TAXES, AND FOR OTHER PURPOSES

MARCH 15, 1954

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1954

44537

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EXCISE TAX REDUCTION ACT OF 1954

MONDAY, MARCH 15, 1954

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

The committee met, pursuant to call, at 10:05 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman), presiding.

Present: Senators Millikin, Carlson, Bennett, George, Byrd, Johnson, and Frear.

The CHAIRMAN. Come to order, please. The hearing today is on the Excise Tax Reduction Act of 1954, H. R. 8224. A copy of the bill and House committee report is hereby placed in the record.

(The material referred to follows:)

[H. R. 8224, 83d Cong., 2d sess.]

AN ACT To reduce excise taxes, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) SHORT TITLE.—This Act may be cited as the "Excise Tax Reduction Act of 1954".

(b) ACT AMENDATORY OF INTERNAL REVENUE CODE.—Except as otherwise expressly provided, wherever in this Act an amendment or repeal is expressed in terms of an amendment to or repeal of a section, subsection, paragraph, or subparagraph, the reference shall be considered to be made to a provision of the Internal Revenue Code.

TITLE I—RETAILERS' EXCISE TAXES

SEC. 101. RETAILERS' EXCISE TAX ON LUGGAGE, ETC.

Section 1651 (a) (relating to retailers' excise tax on luggage, etc.) is hereby amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum".

SEC. 102. RETAILERS' EXCISE TAXES ON JEWELRY, FURS, AND TOILET PREPARATIONS.

For reduction in rate of retailers' excise taxes on jewelry, furs, and toilet preparations, see section 504 (a).

SEC. 103. EFFECTIVE DATE OF TITLE I.

For effective date of this title, see section 505 (a).

TITLE II—TAXES ON ADMISSIONS AND DUES

SEC. 201. TAX ON ADMISSIONS.

(a) PERMANENT USE OR LEASE OF BOXES OR SEATS.—Section 1700 (b) (1) (relating to tax on permanent use or lease of boxes or seats) is hereby amended by striking out "11 per centum" and inserting in lieu thereof "10 per centum".

(b) SALES OUTSIDE BOX OFFICE.—Section 1700 (c) (1) (relating to tax on sales outside box office) is hereby amended by striking out "11 per centum" and inserting in lieu thereof "10 per centum".

(c) CABARETS, ROOF GARDENS, ETC.—The first sentence of section 1700 (e) (1) (relating to tax on cabarets, roof gardens, etc.) is hereby amended to read as follows: "A tax equivalent to 10 per centum of all amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar

place furnishing a public performance for profit, by or for any patron or guest who is entitled to be present during any portion of such performance."

(d) SINGLE OR SEASON TICKETS AND SUBSCRIPTIONS.—For reduction in rate of tax on admission by single or season ticket or subscription, see section 504 (a).

SEC. 202. TAX ON DUES.

(a) DUES OR MEMBERSHIP FEES.—Section 1710 (a) (1) (relating to tax on dues or membership fees) is hereby amended by striking out "11 per centum" and inserting in lieu thereof "10 per centum".

(b) INITIATION FEES.—Section 1710 (a) (2) (relating to tax on initiation fees) is hereby amended by striking out "11 per centum" and inserting in lieu thereof "10 per centum".

SEC. 203. EFFECTIVE DATE OF TITLE II.

The amendments made by subsections (a) and (b) of section 201 shall apply with respect to amounts paid on or after April 1, 1954, for admissions on or after such date. The amendment made by subsection (c) of section 201 shall apply only with respect to periods after 10 antemeridian on April 1, 1954. The amendments made by section 202 shall apply only with respect to amounts paid on or after April 1, 1954.

TITLE III—MANUFACTURERS' EXCISE TAXES

SEC. 301. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941.

(a) TAX ON SPORTING GOODS.—Section 3406 (a) (1) (relating to manufacturers' excise tax on sporting goods) is hereby amended by striking out "15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum;".

(b) TAX ON PHOTOGRAPHIC APPARATUS.—Section 3406 (a) (4) (relating to manufacturers' excise tax on photographic apparatus) is hereby amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum".

(c) TAX ON ELECTRIC LIGHT BULBS AND TUBES.—Section 3406 (a) (10) (relating to manufacturers' excise tax on electric light bulbs and tubes) is hereby amended to read as follows:

"(10) ELECTRIC LIGHT BULBS AND TUBES.—Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, 10 per centum."

SEC. 302. TAX ON FIREARMS, SHELLS, AND CARTRIDGES.

Section 3407 (relating to tax on firearms, shells, and cartridges) is hereby amended by striking out "11 per centum" and inserting in lieu thereof "10 per 10 per centum".

SEC. 303. TAX ON MECHANICAL PENCILS, FOUNTAIN AND BALL-POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES.

Section 3408 (a) (relating to tax on mechanical pencils, fountain and ball-point pens, and mechanical lighters for cigarettes, cigars, and pipes) is hereby amended by striking out "15 per centum" and inserting in lieu thereof "10 per centum".

SEC. 304. EFFECTIVE DATE OF TITLE III.

For effective date of this title, see section 505 (a).

TITLE IV—TAX ON COMMUNICATIONS

SEC. 401. TAX ON TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES.

(a) TELEPHONE MESSAGES, ETC.—Section 3465 (a) (1) (A) (relating to tax on telephone messages, etc.) is hereby amended by striking out "20 per centum" and inserting lieu thereof "10 per centum".

(b) TELEGRAPH, CABLE, AND RADIO DISPATCHES.—Section 3465 (a) (1) (B) (relating to tax on telegraph, cable, and radio dispatches or messages) is hereby amended by striking out "15 per centum of the amount so paid, except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 per centum" and inserting in lieu thereof the following: "10 per centum of the amount so paid".

(c) LEASED WIRE SERVICE.—Section 3465 (a) (2) (A) (relating to tax on leased wire service, etc.) is hereby amended by striking our "15 per centum" and inserting in lieu thereof "10 per centum".

(d) WIRE AND EQUIPMENT SERVICE.—Section 3465 (a) (2) (B) (relating to tax on wire and equipment service) is hereby amended to read as follows:

"(B) A tax equivalent to 8 per centum of the amount paid for any wire and equipment service (including stock quotation and information services,

burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A))."

(e) LOCAL TELEPHONE SERVICE.—For reduction in rate of tax on local telephone service, see section 504 (a).

SEC. 402. EFFECTIVE DATE OF TITLE IV.

(a) IN GENERAL.—Subject to the provisions of subsection (b), the amendments made by section 401 shall apply with respect to amounts paid on or after April 1, 1954, for services rendered on or after such date.

(b) AMOUNTS PAID PURSUANT TO BILLS RENDERED.—The amendments made by section 401 shall not apply with respect to amounts paid pursuant to bills rendered before April 1, 1954. In the case of amounts paid pursuant to bills rendered on or after such date for services for which no previous bill was rendered, such amendments shall apply except with respect to such services as were rendered more than 2 months before such date. In the case of services rendered more than 2 months before such date the provisions of sections 1650 and 3465 of the Internal Revenue Code in effect at the time such services were rendered shall apply to the amounts paid for such services.

(c) TECHNICAL AMENDMENT.—Section 1658 is hereby repealed.

TITLE V—MISCELLANEOUS TAXES

SEC. 501. TAX ON SAFE DEPOSIT BOXES.

Section 1850 (a) (relating to tax on the use of safe deposit boxes) is hereby amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum".

SEC. 502. TAX ON PISTOLS AND REVOLVERS.

Section 2700 (a) (relating to tax on pistols and revolvers) is hereby amended by striking out "11%" and inserting in lieu thereof "10 per centum".

SEC. 503. TAX ON TRANSPORTATION OF PERSONS, ETC.

For reduction in rate of taxes on the transportation of persons and on seats, berths, etc., see section 504 (a).

SEC. 504. TECHNICAL AMENDMENTS.

(a) TERMINATION OF TAX RATES UNDER SECTION 1650.—Section 1650 (relating to war tax rates of certain miscellaneous taxes) is hereby amended by inserting after "beginning with the effective date of title III of the Revenue Act of 1943" the following: "and ending March 31, 1954,".

(b) RATE REDUCTION DATE.—Section 1659 (relating to definition of "rate reduction date") is hereby amended to read as follows:

"SEC. 1659. DEFINITION OF 'RATE REDUCTION DATE'.

"For the purposes of this chapter the term 'rate reduction date' means April 1, 1954."

(c) FLOOR STOCKS REFUNDS ON ELECTRIC LIGHT BULBS.—Section 1657 (a) (relating to floor stocks refunds on electric light bulbs) is hereby amended by striking out "the tax that would have been paid if section 1650 had not been applicable" and inserting in lieu thereof the following: "the tax that would have been paid if the applicable rate had been 10 per centum".

(d) BOWLING ALLEYS AND BILLIARD AND POOL TABLES.—The first sentence of section 3268 (a) (relating to tax on bowling alleys, and billiard and pool tables) is hereby amended to read as follows: "Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of $20 per year for each bowling alley, billiard table, or pool table."

SEC. 505. EFFECTIVE DATES.

(a) The amendments made by title I, title III, and section 502, and the amendment made by section 504 (a) insofar as it affects the rates of the retailers' excise taxes imposed by sections 2400, 2401, and 2402 of the Internal Revenue Code and the rate of the manufacturers' excise tax imposed by section 3406 (a) (10) of such Code, shall apply only with respect to articles sold on or after April 1, 1954. In the case of—

(1) a lease,

(2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments

(3) a conditional sale, or

(4) a chattel mortgage arrangement wherein it is provided that the sales price shall be paid in installments,

entered into before April 1, 1954, payments made on or after April 1, 1954, shall, for purposes of the preceding sentence, be considered as payments made with respect to articles sold on or after April 1, 1954.

(b) The amendment made by section 501 shall apply only with respect to amounts paid on or after April 1, 1954.

(c) The amendment made by section 504 (a) shall apply—

(1) insofar as it affects the rate of the tax imposed by section 1700 (a) of the Internal Revenue Code, with respect to amounts paid on or after April 1, 1954, for admissions on or after such date;

(2) insofar as it affects the rates of the taxes imposed by subsections (b), (c), and (e) of section 1700 of the Internal Revenue Code, and by section 1710 of such Code, as though the rates listed under the heading "Old Rate" in the table in section 1650 of such Code were the rates established by the amendments made by title II of this Act;

(3) insofar as it affects the rates of the taxes imposed by subsections (a) (1) (A), (a) (2) (A), and (a) (2) (B) of section 3465 of the Internal Revenue Code, as though the rates listed under the heading "Old Rate" in the table in section 1650 of such Code were the rates established by the amendments made by section 401 of this Act;

(4) insofar as it affects the rate of the tax imposed by section 3465 (a) (3) of the Internal Revenue Code, as though such amendment were an amendment made by section 401 of this Act; and

(5) insofar as it affects the rates of the taxes imposed by section 3469 of the Internal Revenue Code, with respect to amounts paid on and after April 1, 1954, for or in connection with transportation which begins on or after such date.

TITLE VI—ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES

SEC. 601. ONE-YEAR EXTENSION OF CERTAIN EXCISE TAX RATES.

(a) EXTENSION OF RATES.—The following provisions are hereby amended by striking out "April 1, 1954" each place it appears and inserting in lieu thereof "April 1, 1955":

(1) The last sentence of section 2450 (relating to tax on diesel fuel).

(2) The second sentence of section 2800 (a) (1) (relating to distilled spirits generally).

(3) The last sentence of section 2800 (a) (3) (relating to imported perfumes containing distilled spirits).

(4) Section 3030 (a) (1) (A) (relating to tax on still wines).

(5) Section 3030 (a) (2) (relating to tax on sparkling wines, liqueurs, and cordials).

(6) The second sentence of section 3150 (a) (relating to tax on fermented malt liquors).

(7) The second sentence of section 3412 (a) (relating to tax on gasoline).

(8) Section 2000 (c) (2) (relating to tax on cigarettes).

(9) Section 3403 (relating to tax on automobiles, etc.).

(b) TECHNICAL AMENDMENTS.—

(1) Section 1656 (relating to floor stocks refunds on distilled spirits, wines wines and cordials, and fermented malt liquors) is hereby amended by striking out "April 1, 1954" each place it appears and inserting in lieu thereof "April 1, 1955", and by striking out "May 1, 1954" and inserting in lieu thereof "May 1, 1955".

(2) Section 3412 (g) (relating to floor stocks refunds on gasoline) is hereby amended by striking out "April 1, 1954" each place it appears and inserting in lieu thereof "April 1, 1955", and by striking out "July 1, 1954" and inserting in lieu thereof "July 1, 1955".

(3) Section 2000 (g) (relating to floor stocks refunds on cigarettes) is hereby amended by striking out "April 1, 1954" each place it appears and inserting in lieu thereof "April 1, 1955", and by striking out "July 1, 1954" and inserting in lieu thereof "July 1, 1955".

(4) Section 3250 (l) (5) (relating to drawback in the case of distilled spirits used in the manufacture of certain nonbeverage products) is hereby amended by striking out "March 31, 1954" and inserting in lieu thereof "March 31, 1955".

(5) Section 497 of the Revenue Act of 1951 (relating to refunds on articles from foreign trade zones) is hereby amended by striking out "April 1, 1954" each place it appears and inserting in lieu thereof "April 1, 1955".

(c) FLOOR STOCKS REFUNDS ON AUTOMOBILES, ETC.—Section 3403 (relating to tax on automobiles, etc.) is hereby amended by adding at the end thereof the following new subsection:

"(f) FLOOR STOCKS REFUNDS.—

"(1) Where before April 1, 1955, any article subject to the tax imposed by subsection (a) or (b) has been sold by the manufacturer, producer, or importer, and is on such date held by a dealer and has not been used and is intended for sale, there shall be credited or refunded (without interest) to the manufacturer, producer, or importer an amount equal to the difference between the tax paid by such manufacturer, producer, or importer on his sale of the article and the amount of tax made applicable to such article on and after April 1, 1955.

"(2) As used in this subsection, the term 'dealer' includes a wholesaler, jobber, distributor, or retailer. For the purposes of this subsection, an article shall be considered as 'held by a dealer' if title thereto has passed to such dealer (whether or not delivery to him has been made), and if for purposes of consumption title to such article or possession thereof has not at any time been transferred to any person other than a dealer.

"(3) Under regulations prescribed by the Secretary, the refund provided by this subsection may be made to the dealer instead of the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

"(4) When the credit or refund provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the credit or refund was allowed so much of that amount of the tax corresponding to the credit or refund as was included in or added to the price paid or agreed to be paid by the dealer.

"(5) No person shall be entitled to credit or refund under this subsection unless (A) he has in his possession such evidence of the inventories with respect to which the credit or refund is claimed as may be required by regulations prescribed under this subsection, and (B) claim for such credit or refund is filed with the Secretary before July 1, 1955.

"(6) All provisions of law, including penalties, applicable in respect of the tax imposed under subsections (a) and (b) shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection."

Passed the House of Representatives March 10, 1954.

Attest:

LYLE O. SNADER, *Clerk.*

[H. Rept. No. 1307, 83d Cong., 2d sess.]

EXCISE TAX REDUCTION ACT OF 1954

The Committee on Ways and Means, to whom was referred the bill (H. R. 8224) to reduce excise taxes, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

GENERAL STATEMENT

Those excise tax rates which are now above 10 percent are reduced to 10 percent under this bill. The committee believes that this reduction will stimulate business and employment, not only in those industries directly affected by these taxes, but also in other industries, since consumers will pay less for many of these taxed items and have more money available for other purchases. Some of these taxes enter directly into business costs and a reduction of such costs is desirable. Furthermore, this change provides a more equitable tax system by leveling down those rates which are now excessively high and thus removes discrimination.

The following table lists the taxes which are reduced under this bill, showing the rates under present law, and the estimated reductions in excise tax collections:

	Rates under present law	Rates under this bill	Reduction in excise-tax collections (full year effect)
Retailers' excises:	*Percent*	*Percent*	*Mil. dol.*
Furs	20	10	20
Jewelry	20	10	100
Luggage	20	10	40
Toilet preparations	20	10	55
Total			215
Manufacturers' excises:			
Sporting goods	[1] 15	10	3
Mechanical pens, pencils, lighters	15	10	4
Electric light bulbs and tubes	20	10	20
Pistols and revolvers	11	10	Negligible
Firearms, shells, and cartridges	11	10	1
Cameras, lenses, and film	20	10	15
Total			43
Miscellaneous excises:			
Telephone, telegraph, radio, cable	[2]	10	235
Local telephone	15	10	125
Transportation of persons	15	10	95
Leases of safe deposit boxes	20	10	5
Admissions:			
General	[3] 20	10	175
Cabarets	20	10	
Club dues, initiation fees	20	10	19
Total			654
Grand total			912

[1] Under present law this rate is scheduled for reduction to 10 percent on Apr. 1, 1954.
[2] Telephone or radio-telephone messages, toll charges over 24 cents, 25 percent; domestic telegraph, cable, and radio dispatches, 15 percent; international telegraph, cable and radio dispatches, 10 percent; leased wire service, teletypewriter, or talking circuit special service, 25 percent.
[3] Under present law a penalty tax of 50 percent is imposed on sales by proprietors in excess of the established tax; this rate is not reduced.

The bill also provides that those excise taxes which, under present law, would be reduced on April 1, 1954, will remain at present levels except in the case of the tax on sporting goods. In his budget message, the President stated that because of the present need for revenue he recommended continuation of the excises scheduled to be reduced April 1, and this bill carries out that recommendation. The tax on sporting goods is the only ad valorem tax above 15 percent in this group; hence it was included in the group reduced to 10 percent. It is contemplated that the committee will review excise tax rates next year.

The taxes which are continued at present rates are listed below and the estimates of increased tax collections due to continuation are shown:

Excise tax rates increased by the Revenue Act of 1951 continued under the bill

	Unit of tax	Present rate continued under bill	Rate prior to Revenue Act of 1951	Increased collections due to continuation (full year effect)
Liquor taxes:				*Million*
Distilled spirits	Per proof gallon	$10.50	$9	$150
Fermented malt liquors	Per barrel	$9	$8	87
Wine:				
Still wine:				
Containing less than 14 percent alcohol.	Per wine gallon	17 cents	15 cents	
Containing 14 to 21 percent alcohol.	do	67 cents	60 cents	
Containing 21 to 24 percent alcohol.	do	$2.25	$2	
Containing more than 24 percent alcohol.	do	$10.50	$9	8
Sparkling wines, liqueurs, cordials, etc..				
Champagne or sparkling wine	Per ½ pint	17 cents	15 cents	
Liqueurs, cordials, etc., and artificially carbonated wines.	do	12 cents	10 cents	
Tobacco taxes: Cigarettes	Per 1,000	$4	$3.50	191
Manufacturers' excises.				
Gasoline	Per gallon	2 cents	1½ cents	225
Passenger cars and motorcycles	Manufacturers' sale price.	10 percent	7 percent	276
Trucks, buses, truck trailers	do	8 percent	5 percent	75
Parts and accessories	do	do	do	60
Miscellaneous excises: Diesel fuel used for highway vehicles.	Per gallon	2 cents	(1)	5
Total				1,077

[1] No excise tax prior to Revenue Act of 1951.

EFFECTIVE DATE

For the retail and manufacturers' taxes and safe-deposit boxes the new tax rates are to apply to transactions on or after April 1, 1954. However, in the case of (1) leases, (2) installment sales, (3) conditional sales, or (4) chattel mortgage installment arrangements, entered into before April 1, 1954, payments made after April 1, 1954, are to be subject to the new rates.

For admissions, the new tax rates apply to amounts paid on or after April 1, 1954, for admissions on or after that date. For the cabaret tax, the new rates apply with respect to periods after 10 a. m. on April 1. For dues, the new tax rates apply to amounts paid on or after April 1 as dues or membership fees for periods beginning on or after April 1 or as initiation fees.

The new communications tax rates will apply with respect to amounts paid pursuant to bills rendered on and after April 1, 1954, for services rendered on and after such date, and for any services rendered in February and March for which no previous bill was rendered.

The new rate of tax on transportation of persons applies with respect to amounts paid on and after April 1, 1954, for or in connection with transportation which begins on or after such date.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE

CHAPTER 9A—WAR TAXES AND WAR TAX RATES

SEC. 1650. WAR TAX RATES OF CERTAIN MISCELLANEOUS TAXES

In lieu of the rates of tax specified in such of the sections of this title as are set forth in the following table, the rates applicable with respect to the period beginning with the effective date of title III of the Revenue Act of 1943 *and ending March 31, 1954*, shall be the rates set forth under the heading "War Tax Rate":

Section	Description of Tax	Old Rate	War Tax Rate
1700 (a)	Admissions	1 cent for each 10 cents or fraction thereof.	1 cent for each 5 cents or major fraction thereof.
1700 (b)	Permanent Use or Lease of Boxes or Seats.	11 per centum	20 percentum.
1700 (c)	Sales of Tickets Outside Box Office.	11 per centum	20 per centum.
1700 (e)	Cabarets, Roof Gardens, Etc.	5 per centum	20 per centum.
1710 (a) (1)	Dues or Membership Fees	11 per centum	20 per centum.
1710 (a) (2)	Initiation Fees	11 per centum	20 per centum.
2400 (except as respects watches selling at retail for not more than $65 and alarm clocks selling at retail for not more than $5).	Jewelry	10 per centum	20 per centum
2401	Furs	10 per centum	20 per centum.
2402	Toilet Preparations	10 per centum	20 per centum.
3268	Billiard and Pool Tables; and Bowling Alleys.	$10 per year per table; $10 per year per alley.	$20 per year per table; $20 per year per alley.
3406 (a) (10)	Electric Light Bulbs and Tubes.	5 per centum	20 per centum.
3465 (a) (1) (A)	Telephone, Long Distance	20 per centum	25 per centum.
3465 (a) (2) (A)	Leased Wires, Etc	15 per centum	25 per centum.
3465 (a) (2) (B)	Wire and Equipment Service	5 per centum	8 per centum.
3465 (a) (3)	Local Telephone Service	10 per centum	15 per centum.
3469 (a)	Transportation of Persons	10 per centum	15 per centum.
3469 (c)	Seats, Berths, Etc	10 per centum	15 per centum.

SEC. 1651. RETAILERS' EXCISE TAX ON LUGGAGE, ETC.

(a) TAX.—There is hereby imposed upon the following articles (including in each case fittings or accessories therefor sold on or in connection with the sale thereof) sold at retail a tax equivalent to [20] *10* per centum of the price for which so sold:

(1) Trunks, valises, traveling bags, suitcases, satchels, overnight bags, hat boxes for use by travelers, beach bags, bathing suit bags, brief cases made of leather or imitation leather, and salesmen's sample and display cases.

(2) Purses, handbags, pocketbooks, wallets, billfolds, and card, pass, and key cases.

(3) Toilet cases and other cases, bags, and kits (without regard to size, shape, construction, or material from which made) for use in carrying toilet articles or articles of wearing apparel.

* * * * * * *

SEC. 1657. FLOOR STOCKS REFUNDS ON ELECTRIC LIGHT BULBS

(a) IN GENERAL.—With respect to any article upon which tax is imposed under section 3406 (a) (10), upon which internal revenue tax at the rate prescribed in section 1650 has been paid, and which, on the rate reduction date is held by any person and intended for sale, or for use in the manufacture or production of any article intended for sale, there shall be credited or refunded to the manufacturer or producer of such article (without interest), subject to such regulations as may

be prescribed by the Commissioner with the approval of the Secretary, an amount equal to so much of the difference between the tax so paid and the tax that would have been paid if [section 1650 had not been applicable] *the applicable rate had been 10 per centum*, as has been paid by such manufacturer or producer to such person as reimbursement for the tax reduction on such articles, if claim for such credit or refund is filed with the Commissioner prior to the expiration of three months after the rate reduction date.

* * * * * * *

[SEC. 1658. TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES

[Notwithstanding section 1650, the rates therein prescribed with respect to the taxes imposed by section 3465 (a) (1), (2), and (3) shall continue to apply with respect to amounts paid pursuant to bills rendered prior to the rate reduction date; and, in the case of amounts paid pursuant to bills rendered on or after the rate reduction date for services for which no previous bill was rendered, the decreased rates shall apply except with respect to such services as were rendered more than two months before such date; and, in the case of services rendered more than two months before such date, the provisions of sections 1650 and 3465 in effect at the time such services were rendered shall be applicable to the amounts paid for such services.]

SEC. 1659. DEFINITION OF "RATE REDUCTION DATE"

For the purposes of this chapter the term "rate reduction date" means [such date as the Congress shall by law prescribe] *April 1, 1954.*

CHAPTER 10—ADMISSIONS AND DUES

SUBCHAPTER A—ADMISSIONS

SEC. 1700. TAX

There shall be levied, assessed, collected, and paid—

* * * * * * *

(b) PERMANENT USE OR LEASE OF BOXES OR SEATS.—

(1) RATE.—In the case of persons having the permanent use of boxes or seats in an opera house or any place of amusement or a lease for the use of such box or seat in such opera house or place of amusement (in lieu of the tax imposed under paragraph (1) of subsection (a)), a tax equivalent to [11] *10* per centum of the amount for which a similar box or seat is sold for each performance or exhibition at which the box or seat is used or reserved by or for the lessee or holder.

***Note.*—The rate of tax presently in effect on permanent use or lease of boxes or seats is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

* * * * * * *

(c) SALES OUTSIDE BOX OFFICE.—

(1) RATE.—Upon tickets or cards of admission to theaters, operas, and other places of amusement, sold at news stands, hotels, and places other than the ticket offices of such theaters, operas, or other places of amusement, at a price in excess of the sum of the established price therefor at such ticket offices plus the amount of any tax imposed under paragraph (1) of subsection (a), a tax equivalent to [11] *10* per centum of the amount of such excess.

***Note.*—The rate of tax presently in effect on sales outside box office is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

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(e) TAX ON CABARETS, ROOF GARDENS, ETC.—

(1) RATE.—A tax equivalent to [5] *10* per centum of all amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, by or for any patron or guest who is entitled to be present during any portion of such performance. * * *

***Note.*—The rate of tax presently in effect on cabarets, roof gardens, etc., is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

* * * * * * *

SUBCHAPTER B—DUES

SEC. 1710. TAX

(a) RATE.—There shall be levied, assessed, collected, and paid—

(1) DUES OR MEMBERSHIP FEES.—A tax equivalent to [11] *10* per centum of any amount paid as dues or membership fees to any social, athletic, or sporting club or organization, if the dues or fees of an active resident annual member are in excess of $10 per year.

***Note.*—The rate of tax presently in effect on dues or membership fees is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

(2) INITIATION FEES.—A tax equivalent to [11] *10* per centum of any amount paid as initiation fees to such a club or organization, if such fees amount to more than $10, or if the dues or membership fees, not including initiation fees, of an active resident annual member are in excess of $10 per year

***Note.*—The rate of tax presently in effect on initiation fees is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

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CHAPTER 12—SAFE DEPOSIT BOXES

SEC. 1850. TAX

(a) RATE.—There shall be imposed a tax equivalent to [20] *10* per centum of the amount collected for the use of any safe deposit box.

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CHAPTER 15—TOBACCO, SNUFF, CIGARS, AND CIGARETTES

SUBCHAPTER A—RATE AND PAYMENT OF TAX

SEC. 2000. RATE OF TAX

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(c) CIGARS AND CIGARETTES.—Upon cigars and cigarettes manufactured in or imported into the United States, which are sold by the manufacturer or importer, or removed for consumption or sale, there shall be levied, collected, and paid the following taxes:

* * * * * * *

(2) CIGARETTES.—On cigarettes made of tobacco, or any substitute therefor, and weighing not more than three pounds per thousand, $4 per thousand [until April 1, 1954, and $3.50 per thousand on and after April 1, 1954];

Weighing more than three pounds per thousand, $8.40 per thousand; except that if more than 6½ inches in length they shall be taxable at the rate provided in the preceding paragraph, counting each 2¾ inches (or fraction thereof) of the length of each as one cigarette.

The tax imposed by this subsection shall be in addition to any import duties imposed upon imported cigars and cigarettes.

* * * * * * *

[(g) FLOOR STOCKS REFUNDS ON CIGARETTES.—

[(1) IN GENERAL.—With respect to cigarettes, weighing not more than three pounds per thousand, upon which the tax imposed by subsection (c) (2), or upon which floor stocks tax imposed by subsection (f), has been paid, and which, on April 1, 1954, are held by any person and intended for sale, or are in transit from foreign countries or insular possessions of the United States to any person in the United States for sale, there shall be credited or refunded to such person (without interest), subject to such regulations as may be prescribed by the Secretary, an amount equal to the difference between the tax paid on such cigarettes and the tax made applicable to such articles on April 1, 1954, if claim for such credit or refund is filed with the Secretary prior to July 1, 1954.

[(2) LIMITATIONS ON ELIGIBILITY FOR CREDIT OR REFUND.—No person shall be entitled to credit or refund under paragraph (1) unless (A) such person, for such period or periods both before and after April 1, 1954 (but not extending beyond one year thereafter), as the Secretary shall by regulations

prescribe, makes and keeps, and files with the Secretary such records of inventories, sales, and purchases as may be prescribed in such regulations; and (B) such person establishes to the satisfaction of the Secretary, with respect to the cigarettes for which credit or refund is claimed by him under this section, that on and after April 1, 1954, and until the expiration of three months thereafter, the price at which cigarettes of such class were sold (until a number equal at least to the number on hand on April 1, 1954, were sold) reflected, in such manner as the Secretary may by regulations prescribe, the amount of the tax reduction.

[(3) PENALTY AND ADMINISTRATIVE PROCEDURES.—All provisions of law, including penalties, applicable in respect of internal revenue taxes on cigarettes shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.]

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CHAPTER 20—DIESEL FUEL

SEC. 2450. TAX ON DIESEL FUEL

There is hereby imposed a tax of 2 cents a gallon upon any liquid (other than any product taxable under section 3412)—

(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle, or

(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

[On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.]

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CHAPTER 25—FIREARMS

SUBCHAPTER A—PISTOLS AND REVOLVERS

SEC. 2700. TAX

(a) RATE.—There shall be levied, assessed, collected, and paid upon pistols and revolvers sold or leased by the manufacturer, producer, or importer, a tax equivalent to [11 %] *10 per centum* of the price for which so sold or leased.

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CHAPTER 26—LIQUOR

SUBCHAPTER A—DISTILLED SPIRITS

PART I—PROVISIONS RELATING TO TAX

SEC. 2800. TAX

(a) RATE.—

(1) DISTILLED SPIRITS GENERALLY.—There shall be levied and collected on all distilled spirits in bond or produced in or imported into the United States an internal revenue tax at the rate of $10.50 on each proof gallon or wine gallon when below proof and a proportionate tax at a like rate on all fractional parts of such proof or wine gallon, to be paid by the distiller or importer when withdrawn from bond. [On and after April 1, 1954, the rate of tax imposed by this paragraph shall be $9 in lieu of $10.50.]

* * * * * * *

(3) IMPORTED PERFUMES CONTAINING DISTILLED SPIRITS.—There shall be levied and collected upon all perfumes imported into the United States containing distilled spirits, a tax of $10.50 per wine gallon, and a proportionate tax at a like rate on all fractional parts of such wine gallon. Such tax shall be collected by the collector of customs and deposited as internal revenue collections, under such rules and regulations as the Commissioner, with the approval of the Secretary, may prescribe. [On and after April 1, 1954, the rate of tax imposed by this paragraph shall be $9 in lieu of $10.50.]

* * * * * * *

SUBCHAPTER B—WINES

SEC. 3030. TAX

(a) RATE.—

(1) STILL WINES.—

(A) Imposition.—Upon all still wines, including vermouth, and all artificial or imitation wines or compounds sold as still wine, produced in or imported into the United States on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date were on any winery premises or other bonded premises or in transit thereto or at any customhouse, there shall be levied, collected, and paid taxes at rates as follows, when sold, or removed for consumption or sale:

On wines containing not more than 14 per centum of absolute alcohol, 17 cents per wine-gallon, the per centum of alcohol under this section to be reckoned by volume and not by weight [, except that on and after April 1, 1954, the rate shall be 15 cents per wine-gallon];

On wines containing more than 14 per centum and not exceeding 21 per centum of absolute alcohol, 67 cents per wine-gallon [, except that on and after April 1, 1954, the rate shall be 60 cents per wine-gallon];

On wines containing more than 21 per centum and not exceeding 24 per centum of absolute alcohol, $2.25 per wine-gallon [, except that on and after April 1, 1954, the rate shall be $2 per wine-gallon];

All such wines containing more than 24 per centum of absolute alcohol by volume shall be classed as distilled spirits and shall pay tax accordingly.

Any such wines may, under such regulations as the Commissioner may prescribe, with the approval of the Secretary, be sold or removed tax-free for the manufacture of vinegar, or for the production of dealcoholized wines containing less than one-half of 1 per centum of alcohol by volume.

The taxes imposed by this subparagraph (A) of this paragraph shall not apply to dealcoholized wines containing less than one-half of 1 per centum of alcohol by volume; nor, subject to regulations prescribed by the Commissioner, with the approval of the Secretary, to wines produced for the family use of the duly registered producer thereof and not sold or otherwise removed from the place of manufacture and not exceeding in any case two hundred gallons per year.

* * * * * * *

(2) SPARKLING WINES, LIQUEURS, AND CORDIALS.—Upon the following articles which are produced in or imported into the United States, on or after the effective date of section 452 (a) of the Revenue Act of 1951, or which on such date are on any winery premises or other bonded premises or in transit thereto or at any customhouse, there shall be levied, collected, and paid, in lieu of the internal-revenue taxes imposed thereon by law prior to such date, taxes at rates as follows, when sold, or removed for consumption or sale:

On each bottle or other container of champagne or sparkling wine, 17 cents on each one-half pint or fraction thereof [, except that on and after April 1, 1954, the rate shall be 15 cents on each one-half pint or fraction thereof];

On each bottle or other container of artificially carbonated wine, 12 cents on each one-half pint or fraction thereof [, except that on and after April 1, 1954, the rate shall be 10 cents on each one-half pint or fraction thereof];

On each bottle or other container of liqueurs, cordials, or similar compounds, by whatever name sold or offered for sale, containing sweet wine, citrus-fruit wine, peach wine, cherry wine, berry wine, apricot wine, prune wine, plum wine, pear wine, pawpaw wines, papaya wines, pineapple wines, cantaloup wines, or apple wine, fortified, respectively, with grape brandy, citrus-fruit brandy, peach brandy, cherry brandy, berry brandy, apricot brandy, prune brandy, plum brandy, pear brandy, pawpaw brandy, papaya brandy, pineapple brandy, cantaloup brandy, or apple brandy, 12 cents on each one-half pint or fraction thereof [, except that on and after April 1, 1954, the rate shall be 10 cents on each one-half pint or fraction thereof];

Any of the foregoing articles containing more than 24 per centum of absolute alcohol by volume (except vermouth, liqueurs, cordials, and similar compounds made in rectifying plants and containing tax-paid sweet wine, citrus-fruit wine, peach wine, cherry wine, berry wine, apricot wine, prune wine, plum wine, pear wine, pawpaw wines, papaya wines, pineapple wines, cantaloup wines, or apple wine, fortified, respectively with grape brandy,

citrus-fruit brandy, peach brandy, cherry brandy, berry brandy, apricot brandy, prune brandy, plum brandy, pear brandy, pawpaw brandy, papaya brandy, pineapple brandy, cantaloup brandy, or apple brandy) shall be classed as distilled spirits and shall be taxed accordingly.

The Commissioner, under regulations prescribed by him, with the approval of the Secretary, is authorized to remit, refund, and pay back the amount of all taxes on such liqueurs, cordials, and similar compounds paid by or assessed against rectifiers at the distilled spirits rate prior to June 26, 1936.

* * * * * * *

SUBCHAPTER D—FERMENTED LIQUORS

SEC. 3150. TAX

(a) RATE.—There shall be levied and collected on all beer, lager beer, ale, porter, and other similar fermented liquor, containing one-half of 1 per centum, or more, of alcohol, brewed or manufactured and sold, or removed for consumption or sale, within the United States, or imported into the United States, by whatever name such liquors may be called, a tax of $9 for every barrel containing not more than thirty-one gallons, and at a like rate for any other quantity or for the fractional parts of a barrel authorized and defined by law. [On and after April 1, 1954, the tax imposed by the preceding sentence shall be at the rate of $8 in lieu of $9.] In estimating and computing such tax, the fractional parts of a barrel shall be halves, thirds, quarters, sixths, and eighths; and any fractional part of a barrel, containing less than one-eighth, shall be accounted one-eighth; more than one-eighth, and not more than one-sixth, shall be accounted one-sixth; more than one-sixth, and not more than one-fourth, shall be accounted one-fourth; more than one-fourth, and not more than one-third, shall be accounted one-third; more than one-third, and not more than one-half, shall be accounted one-half; more than one-half, and not more than one barrel, shall be accounted one barrel; and more than one barrel, and not more than sixty-three gallons, shall be accounted two barrels, or a hogshead.

The provisions of this section requiring the accounting of hogsheads, barrels, and fractional parts of barrels at the next higher quantity shall not apply where the contents of such hogsheads, barrels, or fractional parts of barrels are within the limits of tolerance established by the Commissioner by regulations which he is hereby authorized to prescribe with the approval of the Secretary; and no assessment shall be made and no tax shall be collected for any excess in any case where the contents of the hogsheads, barrels, or fractional parts of barrels heretofore or hereafter used are within the limits of the tolerance so prescribed.

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CHAPTER 27—OCCUPATIONAL TAXES

SUBCHAPTER A—SPECIAL PROVISIONS

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PART X—BOWLING ALLEYS, AND BILLIARD AND POOL TABLES

SEC. 3268. TAX ON BOWLING ALLEYS, AND BILLIARD AND POOL TABLES

(a) RATE.—Every person who operates a bowling alley, billiard room, or pool room shall pay a special tax of [$10] *$20* per year for each bowling alley, billiard table, or pool table. Every building or place where bowls are thrown or where games of billiards or pool are played, except in private homes shall be regarded as a bowling alley, billiard room, or pool room, respectively. No tax shall be imposed under this section with respect to a billiard table or pool table in a hospital if no charge is made for the use of such table. The tax imposed under this section shall not apply for any period beginning after June 30, 1952, with respect to any bowling alley, billiard table, or pool table maintained exclusively for the use of members of the Armed Forces on any property owned, reserved, or used by, or otherwise acquired for the use of, the United States if no charge is made for their use.

***Note.*—The rate of tax presently in effect on bowling alleys and billiard and pool tables is the temporary war rate of $20 as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

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CHAPTER 29—MANUFACTURERS' EXCISE AND IMPORT TAXES

SUBCHAPTER A—MANUFACTURERS' EXCISE TAXES

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SEC. 3403. TAX ON AUTOMOBILES, ETC.

There shall be imposed upon the following articles sold by the manufacturer, producer, or importer, a tax equivalent to the following percentages of the price for which so sold:

(a) Automobile truck chassis, automobile truck bodies, automobile bus chassis, automobile bus bodies, truck and bus trailer and semitrailer chassis, truck and bus trailer and semitrailer bodies, tractors of the kind chiefly used for highway transportation in combination with a trailer or semitrailer (including in each of the above cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 8 per centum[, except that on and after April 1 1954, the rate shall be 5 per centum]. A sale of an automobile truck, bus, truck or bus trailer or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(b) OTHER CHASSIS AND BODIES, ETC.—Other automobile chassis and bodies, chassis and bodies for trailers and semitrailers (other than house trailers) suitable for use in connection with passenger automobiles, and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 10 per centum[, except that on and after April 1, 1954, the rate shall be 7 per centum]. A sale of an automobile, trailer, or semitrailer shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(c) Parts or accessories (other than tires and inner tubes and other than radio and television receiving sets) for any of the articles enumerated in subsection (a) or (b), 8 per centum[, except that on and after April 1, 1954, the rate shall be 5 per centum]. For the purposes of this subsection and subsections (a) and (b), spark plugs, storage batteries, leaf springs, coils, timers, and tire chains, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a) or (b), shall be considered parts or accessories for such articles, whether or not primarily adapted for such use. This subsection shall not apply to chassis or bodies for automobile trucks or other automobiles. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of parts or accessories by the manufacturer, producer, or importer to a manufacturer or producer of any of the articles enumerated in subsection (a) or (b). If any such parts or accessories are resold by such vendee otherwise than on or in connection with, or with the sale of, an article enumerated in subsection (a) or (b) and manufactured or produced by such vendee, then for the purposes of this section the vendee shall be considered the manufacturer or producer of the parts or accessories so resold. In determining the sale price of a rebuilt automobile part or accessory there shall be excluded from the price, in accordance with regulations prescribed by the Secretary, the value of a like part or accessory accepted in exchange.

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SEC. 3406. EXCISE TAXES IMPOSED BY THE REVENUE ACT OF 1941

(a) IMPOSITION.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to the rate, on the price for which sold, set forth in the following paragraphs (including in each case parts or accessories of such articles sold on or in connection therewith, or with the sale thereof):

(1) SPORTING GOODS.—Badminton nets; badminton rackets (measuring 22 inches over all or more in length); badminton racket frames (measuring 22 inches over all or more in length); badminton racket string; badminton shuttlecocks; badminton standards; billiard and pool tables (measuring 45 inches over all or more in length); billiard and pool balls and cues for such tables; bowling balls and pins; clay pigeons and traps for throwing clay pigeons; cricket balls; cricket bats; croquet balls and mallets; curling stones; deck tennis rings, nets, and posts; golf bags (measuring 26 inches or more in length); golf balls; golf clubs (measuring 30 inches or more in length); lacrosse balls; lacrosse sticks; polo balls; polo mallets; skis; ski poles; snow shoes; snow toboggans and sleds (measuring more than 60 inches over all in length); squash balls; squash rackets (measuring 22 inches over all or more in length); squash racket frames (measuring 22 inches over all or more in length); squash racket string; table tennis tables, balls, nets, and paddles; tennis balls; tennis nets; tennis rackets (measuring 22 inches over all or more in length); tennis

racket frames (measuring 22 inches over all or more in length); tennis racket string; [15 per centum, except that on and after April 1, 1954, the rate shall be 10 per centum;] fishing rods, creels, reels, and artificial lures, baits, and flies; 10 per centum.

* * * * * * *

(4) PHOTOGRAPHIC APPARATUS.—Cameras and camera lenses, and unexposed photographic film in rolls (including motion picture film), [20] *10* per centum. The tax imposed under this paragraph shall not apply to X-ray cameras, to cameras weighing more than four pounds exclusive of lens and accessories, to still camera lenses having a focal length of more than one hundred and twenty millimeters, to motion picture camera lenses having a focal length of more than thirty millimeters, to X-ray film, to unperforated microfilm, to film more than one hundred and fifty feet in length, or to film more than twenty-five feet in length and more than thirty millimeters in width. Any person who acquires unexposed photographic film not subject to tax under this paragraph and sells such unexposed film in form and dimensions subject to tax hereunder (or in connection with a sale cuts such film to form and dimensions subject to tax hereunder) shall for the purposes of this subsection be considered the manufacturer of the film so sold by him.

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(10) ELECTRIC LIGHT BULBS AND TUBES.—Electric light bulbs and tubes, not including articles taxable under any other provision of this subchapter, [5] *10* per centum.

***Note.*—The rate of tax presently in effect on electric light bulbs and tubes is the temporary war rate of 20 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

SEC. 3407. TAX ON FIREARMS, SHELLS, AND CARTRIDGES

There shall be imposed upon firearms, shells, and cartridges, sold by the manufacturer, producer, or importer, a tax equivalent to [11] *10* per centum of the price for which so sold. The tax imposed by this section shall not apply (1) to articles sold for the use of any State, Territory of the United States, or political subdivision thereof, or the District of Columbia, or (2) to pistols and revolvers.

The taxes imposed by this section shall not apply to any firearm on which the tax provided by section 2720 has been paid.

The provisions of section 3452 (relating to expiration of taxes) shall not apply to the tax imposed by this section.

SEC. 3408. TAX ON MECHANICAL PENCILS, FOUNTAIN AND BALLPOINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES

(a) IMPOSITION OF TAX.—There shall be imposed on the following articles, sold by the manufacturer, producer, or importer, a tax equal to [15] *10* per centum of the price for which so sold: Mechanical pencils, fountain pens, and ballpoint pens; mechanical lighters for cigarettes, cigars, and pipes.

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SEC. 3412. TAX ON GASOLINE

(a) There shall be imposed on gasoline sold by the producer or importer thereof, or by any producer of gasoline, a tax of 2 cents a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline. [On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon.]

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this chapter be considered a sale. Any person to whom gasoline is sold tax-free under this section shall be considered the producer of such gasoline.

(c) As used in this section—

(1) the term "producer" includes a refiner, compounder, or blender, and a dealer selling gasoline exclusively to producers of gasoline, as well as a producer.

(2) the term gasoline means (A) all products commonly or commercially known or sold as gasoline (including casinghead and natural gasoline), benzol, benzene, or naphtha, regardless of their classifications or uses; and (B) any other liquid of a kind prepared, advertised, offered for sale or sold for use as, or used as, a fuel for the propulsion of motor vehicles, motorboats, or airplanes; except that it does not include any of the foregoing (other than products commonly or commercially known or sold as gasoline) sold for

use otherwise than as a fuel for the propulsion of motor vehicles, motorboats, or airplanes, and otherwise than in the manufacture or production of such fuel, and does not include kerosene, gas oil, or fuel oil.

(d) Every person subject to tax under this section or section 3413 shall, before incurring any liability for tax under such sections register with the collector for the district in which is located his principal place of business (or, if he has no principal place of business in the United States, with the collector at Baltimore, Maryland) and shall give a bond, to be approved by such collector, conditioned that he shall not engage in any attempt, by himself or by collusion with others, to defraud the United States of any tax under such sections; that he shall render truly and completely all returns, statements, and inventories required by law or regulations in pursuance thereof and shall pay all taxes due under such sections; and that he shall comply with all requirements of law and regulations in pursuance thereof with respect to tax under such sections. Such bond shall be in such sum as the collector may require in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, but not less than $2,000. The collector may from time to time require new or additional bond in accordance with this subsection. Every person who fails to register or give bond as required by this subsection, or who in connection with any purchase of gasoline or lubricating oil falsely represents himself to be registered and bonded as provided by this subsection, or who wilfully makes any false statement in an application for registration under this subsection, shall upon conviction thereof be fined not more than $5,000 or imprisoned not more than five years, or both, together with the costs of prosecution. If the Commissioner finds that any manufacturer or producer has at any time evaded any Federal tax on gasoline or lubricating oil, he may revoke the registration of such manufacturer or producer, and no sale to, or for resale to, such manufacturer or producer thereafter shall be tax-free under section 3413, this section, or section 3442, but such manufacturer or producer shall not be relieved of the requirement of giving bond under this subsection.

(e) Under regulations prescribed by the Commissioner with the approval of the Secretary, records required to be kept with respect to taxes under section 3413, or this section, and returns, reports, and statements with respect to such taxes filed with the Commissioner or a collector, shall be open to inspection by such officers of any State or Territory or political subdivision thereof or the District of Columbia as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils. The Commissioner and each collector shall furnish to any of such officers, upon written request, certified copies of any such statements, reports, or returns filed in his office upon the payment of a fee of $1 for each one hundred words or fraction thereof in the copy or copies requested.

(f) 1951 FLOOR STOCKS TAX.—On gasoline subject to tax under this section which, on the effective date of section 489 (a) of the Revenue Act of 1951, is held and intended for sale, there shall be levied, assessed, collected, and paid a floor stocks tax at the rate of ½ cent per gallon. The tax shall not apply to gasoline in retail stocks held at the place where intended to be sold at retail, nor to gasoline held for sale by a producer or importer of gasoline. The provisions of section 3443 shall be applicable to the floor stocks tax imposed by this subsection so as to entitle, subject to all the provisions of such section, (1) any manufacturer or producer to a refund or credit of such tax under subsection (a) (1) of such section, and (2) any person paying such floor stocks tax to a refund or credit thereof where gasoline is by such person or any other person used or resold for any of the purposes specified in subparagraphs (A) (i), (ii), and (iii) of subsection (a) (3) of such section.

[(g) FLOOR STOCKS REFUNDS ON GASOLINE.—

[(1) IN GENERAL.—With respect to any gasoline taxable under this section, upon which tax (including floor stocks tax) at the applicable rate has been paid, and which, on April 1, 1954, is held and intended for sale by any person, there shall be credited or refunded (without interest) to the producer or importer who paid the tax, subject to such regulations as may be prescribed by the Secretary, an amount equal to so much of the difference between the tax so paid and the amount of tax made applicable to such gasoline on and after April 1, 1954, as has been paid by such producer or importer to such person as reimbursement for the tax reduction on such gasoline, if claim for such credit or refund is filed with the Secretary prior to July 1, 1954. No credit or refund shall be allowable under this subsection with respect to gasoline in retail stocks held at the place where intended to be sold at retail, nor with respect to gasoline held for sale by a producer or importer of gasoline.

[(2) LIMITATION ON ELIGIBILITY FOR CREDIT OR REFUND.—No producer or

importer shall be entitled to a credit or refund under paragraph (1) unless he has in his possession satisfactory evidence of the inventories with respect to which he has made the reimbursements described in such paragraph, and establishes to the satisfaction of the Secretary with respect to the quantity of gasoline as to which credit or refund is claimed under such paragraph, that on or after April 1, 1954, such quantity of gasoline was sold to the ultimate consumer at a price which reflected the amount of the tax reduction.

[(3) PENALTY AND ADMINISTRATIVE PROCEDURES.—All provisions of law, including penalties, applicable in respect of the tax imposed under this section shall, insofar as applicable and not inconsistent with this subsection, be applicable in respect of the credits and refunds provided for in this subsection to the same extent as if such credits or refunds constituted credits or refunds of such taxes.]

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CHAPTER 30—TRANSPORTATION AND COMMUNICATION

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SUBCHAPTER B—TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES

SEC. 3465. IMPOSITION AND RATE OF TAX

(a) There shall be imposed:

(1) TELEPHONE AND TELEGRAPH, ETC.—

(A) On the amount paid within the United States for each telephone or radio telephone message or conversation for which the toll charge is more than 24 cents, a tax equal to [20] *10* per centum of the amount so paid. If a bill is rendered the taxpayer for the services described in this subparagraph, the amount upon which the tax shall be based shall be the sum of all such charges included in the bill, and the tax shall not be based upon the charge for each item, separately, included in the bill.

***Note.*—The rate of tax presently in effect on long distance telephone messages is the temporary war rate of 25 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

(B) On the amount paid within the United States for each telegraph, cable, or radio dispatch or message a tax equal to [15 per centum of the amount so paid, except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 per centum] *10 per centum of the amount so paid.* If a bill is rendered the taxpayer for the services described in this subparagraph, the amount upon which the tax at each of the rates in this subparagraph shall be based shall be the sum of all such charges at that rate included in the bill, and the tax shall not be based upon the charge for each item, separately, included in the bill.

If the tax under subparagraph (A) or (B) is paid by inserting coins in coin-operated telephones, the tax shall be computed to the nearest multiple of 5 cents, except that where the tax is midway between multiples of 5 cents, the next higher multiple shall apply. Only one payment of a tax imposed by subparagraph (A) or (B) shall be required notwithstanding the lines or stations of one or more persons are used in the transmission of such dispatch, message, or conversation.

(2) LEASED WIRES, ETC.—

(A) A tax equivalent to [15] *10* per centum of the amount paid for leased wire, teletypewriter, or talking circuit special service, but not including an amount paid for leased wire, teletypewriter, or talking circuit special service used exclusively in rendering a service taxable under subparagraph (B).

***Note.*—The rate of tax presently in effect on leased wires, etc., is the temporary war rate of 25 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

(B) A tax equivalent to [5] *8* per centum of the amount paid for any wire and equipment service (including stock quotation and information services, burglar alarm or fire alarm service, and all other similar services, but not including service described in subparagraph (A)).

The tax shall apply under this paragraph whether or not the wires or services are within a local exchange area.

***Note.*—The rate of tax presently in effect on wire and equipment service is the temporary war rate of 8 per centum as provided in section 1650 of the Internal Revenue Code, which under the bill expires March 31, 1954.**

MINORITY VIEWS

We supported the excise tax reductions in this bill. We object, however, to the hasty action of the committee and the inadequate consideration given to the subject of excise taxes.

Involved in the bill is a total of $1.989 billion in excise tax revenue, made up by reductions in excise taxes of $912 million and increases of $1.077 billion. The net effect is an increase of $165 million in excise taxes.

The bill was not available to the members of the committee until we met to consider it in executive session, and deliberations on it were completed in 1 day. In all our experience in handling tax legislation, there has never been such hasty consideration of legislation involving so much revenue.

We deny the claim that the bill "reduces a number of excise tax rates on a selective basis." The only selection involved in this bill is more or less a line-of-sight proposition where an ad valorem rate that stands up above 10 percent is leveled to 10 percent. Such a selection completely ignores any excise tax which is below 10 percent, or which is levied on a dollar-and-cents basis per unit taxed.

We do not mean that relief is not needed in the areas covered in the bill, but we do believe that consideration should be given to other areas of excise taxes and the voluminous testimony which the committee received last summer relating to administrative problems in the excise tax field.

Frankly, we were not prepared ourselves on such short notice to make well-considered recommendations for other adjustments in the field of excise taxes. We did fall back on the adjustments which were recommended in the revenue bill of 1950 as it passed the House, which provided for excise tax reductions of $1 billion. It will be recalled that these reductions were deleted in the Senate, due to the advent of the Korean conflict and the necessity of increasing rather than decreasing revenues. The recommendations in the revenue bill of 1950 were made by the committee after long hearings and consideration, and there were justifiable reasons for making them. Most of the reductions contained in the current bill were also contained in that bill.

Among the additional adjustments which we attempted to make in the current bill and which were defeated by the majority were the following, many of which were also included in the revenue bill of 1950: to repeal the tax on handbags, billfolds, key cases, etc.; watches selling for less than $65, and clocks and alarm clocks selling for less than $5; household water heaters; mechanical pens and pencils; admissions; admissions where the admission price is 50 cents or under; admissions to moving picture theaters where the admission price is 50 cents or under; admissions to amusement parks and rides where the admission price does not exceed 15 cents; household ironers and driers; communications; leased wire service furnished to shut-in students; local telephone calls; college and school athletic games; and bowling alleys, billiard and pool tables operated without charge by nonprofit organizations or governmental agencies. We also proposed to cut the tax on transportation of property in half.

These may not be the only, or necessarily the most deserving, cases for adjustments or for reductions at this time, but due to the fact that the bill was considered on such short notice we were not as fully prepared to make adjustments as we would like to have been.

Another unusual feature of this bill which seems to us to be difficult to defend on its face is the fact that the net effect of the bill amounts to an increase in excise taxes of $165 million. It is piously claimed in the title of the bill that it reduces excise taxes. We dispute this. A more appropriate title would be "A bill to increase excise taxes."

We are also disturbed by the fact that the majority are not just continuing the increases in excise taxes that were provided in the Revenue Act of 1951 to finance defense preparations for the Korean conflict for a temporary period—they are making them permanent. This contrasts to their proposal to continue present corporate taxes at their present level for only 1 year. This increase in excise taxes amounts to over $1 billion. Our only purpose in increasing these excise tax rates in the Revenue Act of 1951 was to finance these defense preparations, and we inserted a termination date so that the taxes would expire automatically.

We attempted in the current bill to permit the reductions to take place on April 1 as scheduled, because these excise tax rates are even higher than they were during World War II, and, since they are selective, it seems to us that these particular industries should not be singled out from all others to bear such a heavy load. Failing in this, we attempted to assure these industries that these high

rates would be continued only for 1 year. The majority defeated us in both of these attempts, and the effect of their action, as we stated, is to make these increases permanent.

The majority was determined to present this bill to the House as it was introduced, and all our efforts at making it more equitable were precluded from success even before they were made.

The majority also ignored the Treasury Department, which felt that the only adjustments in excise taxes which should be made at this time are in distressed industries, which they name as being the fur industry and the movie industry. The usual procedure of the committee in consulting the Treasury Department on legislation which it is considering was not followed in this case.

We would like to point out that this is the third instance in which the majority party has increased taxes, despite their claims during the last presidential campaign that they were not only going to reduce taxes but also balance the budget. We do not mean that we believe that the fiscal condition of the Treasury may not require the revenue involved in these increases, but we are concerned about the misleading promises which the majority party made. It will be recalled that the excess-profits tax was continued from June 30, 1953, to December 31, 1953. The committee has already voted to continue the corporate tax at 52 percent for another year, and in this bill the excise tax rate increases made in the Revenue Act of 1951 are being made permanent. These increases in taxes and the estimated deficit of almost $3 billion in the current year's budget is a case, in our opinion, of actions again speaking louder than words.

Jere Cooper, John D. Dingell, Wilber D. Mills, Noble J. Gregory, A. Sidney Camp, Aime J. Forand, Herman P. Eberharter, Cecil R. King, Thomas J. O'Brien, Hale Boggs.

The CHAIRMAN. Mr. Glen McDaniel will be our first witness.

Take the chair, Mr. McDaniel, identify yourself to the reporter, and make yourself comfortable.

STATEMENT OF GLEN McDANIEL, PRESIDENT, RADIO-ELECTRONICS-TV MANUFACTURERS ASSOCIATION

Mr. McDANIEL. My name is Glen McDaniel. I am president of the Radio-Electronics-Television Manufacturers Association, which is 30 years old, and comprises 375 companies that make television and radio sets, and their component parts.

Our products are taxed at 10 percent. The tax on television sets went on in the emergency bill right after Korea. We make 6 million television sets a year, and 12 million radio sets.

The CHAIRMAN. How much revenue do you pay on the present tax?

Mr. McDANIEL. $153 million a year.

We greatly appreciate the opportunity to be heard for H. R. 8224, as it passed the House, provides no tax reduction, either immediate or prospective, on essential household articles. By that, we mean refrigerators, ranges and other kitchen equipment, television and radio sets, laundry equipment, and the smaller household appliances.

These products are an important part of the budget of every American family, and we think that the tax on them should be reduced from 10 percent to 7 percent. We do not ask that any of the reductions now written in the bill be removed. We look at it this way, that H. R. 8224 is a 2-year bill. It grants relief both in 1954 and 1955.

The twofold objective, as stated by the House Ways and Means Committee, was, first, to stimulate business and employment, and second, to remove discrimination between industries subject to tax. The bill does this by providing $912 million of tax relief in 1954, and $1,072,000,000 in 1955. You can only look at it as a 2-year tax reduction bill. When we analyze this 2-year relief reported by the bill,

a remarkable defect appears in it. It grants relief to all taxed industries, with the single major exception of household articles.

The CHAIRMAN. Does it reduce the tax below 10 percent on any one?

Mr. MCDANIEL. Prospectively. I am talking about 2 years, now, Senator.

The CHAIRMAN. Two years from now?

Mr. MCDANIEL. No, I am talking about 1954 and 1955. The bill, for example, grants reductions from 10 to 7 percent, and from 8 to 5 percent on automobiles and trucks, respectively, effective in 1955.

The CHAIRMAN. If it goes into effect, that is.

Mr. MCDANIEL. That is correct, but it grants them in this bill.

The CHAIRMAN. Are you speculating about that? Is that your point?

Mr. MCDANIEL. No, I am looking at the bill as it appears. It provides reductions, some of which are effective this year and some next year. So I look at all of the reductions and I find that when you take them by categories, the only category that has been omitted entirely is household products. Everything else has been taken care of.

The CHAIRMAN. Are there any household products above 10 percent that have not been reduced to 10?

Mr. MCDANIEL. No.

The CHAIRMAN. All right, go ahead.

Senator GEORGE. There is no cutoff date on any of those household items?

Mr. MCDANIEL. No, sir, not on any of those.

Senator GEORGE. Were they increased in 1951, or after Korea?

Mr. MCDANIEL. In the case of television, the tax of 10 percent was first imposed in the summer of 1950. Now, as to whether there was an increase, I don't recall. The excise tax reduction bill as it passed the House in 1950 would have reduced the tax on some of these, but none were subjected to an increased rate right after Korea, except television, upon which a tax was then first imposed.

Senator GEORGE. Yes, I understand that.

You are in just as good shape as the others, because while there is a cutoff date, it doesn't necessarily follow that everything will be cut back on that date.

Mr. MCDANIEL. No, but it is a very glaring omission, Senator, to grant relief to expensive jewelry and perfumes, and admissions to racetracks, and leave out the articles that are essential to the American home—the stove and the refrigerator—and not give them any consideration at all, either presently or prospectively.

We think that this was not done by design. We think it happened because of the rush in the committee. When you analyze the bill and see that it grants relief to everybody except the products that are essential to the household——

The CHAIRMAN. The point was, they were not going to reduce below 10 percent. I suggest that it was not carelessly done. We haven't decided yet whether it was wisely done.

Mr. MCDANIEL. I will tell you how I think that happened, Senator: They started with the idea of reducing everything to 10 percent, but they were not able to stick with it, because of the floor amendments

which were offered and which reduced from 10 to 7, and from 8 to 5, the tax for the automobile and the truck and parts industry, respectively.

The CHAIRMAN. That is, when that bill becomes effective.

Mr. MCDANIEL. That is correct.

The CHAIRMAN. And it is not effective now.

Mr. MCDANIEL. Yes.

The CHAIRMAN. You are worried about when it becomes effective in the future?

Mr. MCDANIEL. It is a matter of tremendous importance to us, whether we have some relief to look forward to or whether we do not.

The CHAIRMAN. Are you asking for a cutoff date on your own; is that what you are asking for?

Mr. MCDANIEL. I am asking for these essential household articles to be given the same treatment as other consumer durables. You have provided for a reduction from 10 percent to 7 for two-thirds of the consumer durable industry subject to tax, namely automobiles.

The CHAIRMAN. That is under the cutoff date?

Mr. MCDANIEL. Yes, next year.

The CHAIRMAN. But the cutoff date is not effective.

Mr. MCDANIEL. Until next year.

The CHAIRMAN. Yes. If then.

Mr. MCDANIEL. Well, we ask that you write in the same cutoff date, if you will, for the household appliances.

The CHAIRMAN. I understand your position. Go ahead.

Mr. MCDANIEL. In other words, reduce us to 7 percent effective April 1, 1955.

The CHAIRMAN. You object to the 10 percent now?

Mr. MCDANIEL. That is correct. I don't think the housewife is going to be happy.

The CHAIRMAN. We are all in favor of the housewife. There is no question about that.

Mr. MCDANIEL. It is a rather glaring thing to just give relief to everybody except the young married couple trying to establish a home.

The CHAIRMAN. It is according to the present level they are trying to reach. That is the whole point, as I see it. They tried to get these taxes down to 10 percent. Those that had 10 percent, they decided not to go lower.

Mr. MCDANIEL. Well, you have automobiles being given a reduced rate in the future and we are seeking similar treatment.

The CHAIRMAN. You had the automobiles last year. Under your theory, they would have all been cut off this year, but they haven't been.

Mr. MCDANIEL. I know, but they have the promise to look forward to of a reduction to 7 percent next year, and our industry does not. That is what bothers us.

The CHAIRMAN. I suspect, in terms of what happens in the future, when it can be done, the housewife has not a great deal to worry about.

Mr. MCDANIEL. I am glad to hear that, but I would like to see it written in this bill, because it is difficult to explain to our industry why the rest of the consumer durables have been given relief, prospectively, and we have not.

The CHAIRMAN. The point is, you are not paying more than 10 percent, are you?

Mr. MCDANIEL. That is correct, we are not.

The CHAIRMAN. And the loss of revenue—let's be frank about it—in the automobile category involves about $400 million a year, and therefore, as a practical problem, it was decided that we could not give relief where many of us would like to give it in that category.

Mr. MCDANIEL. If you are going to reduce the automobile tax by $400 million a year from now, we think you ought to give us similar treatment at a revenue loss of less than $100 million.

The CHAIRMAN. If we do. Whenever we get around to that, then we will consider it and I think it would be more pertinent to your problem at that time.

Mr. MCDANIEL. We respectfully think otherwise, Senator.

The CHAIRMAN. You have that right. I am glad to have your views. That is why you are here.

Mr. MCDANIEL. The reason we respectfully think otherwise is that you have relief provided in this bill actually or prospectively, for everybody except two categories. One of them is narcotics, wagering, pinball machines, and other articles as to which there are punitive taxes, and the other is refrigerators, stoves, television sets, and articles essential to the American home.

The CHAIRMAN. It is prospective, if and when we do it. If and when we do it, we will consider all these other things. However, we are willing to consider it now. Go ahead with your case.

Mr. MCDANIEL. I will go ahead with my statement, if I may.

The CHAIRMAN. You haven't shattered whatever sense of fairness or morality I have in these matters, although it is very difficult to make a completely logical justification of excise taxes on the basis of absolute equality, nondiscrimination, and the morality of taxes. But you are not being taxed over 10 percent, and the main purpose of the House committee, as I understand it, was to bring things down to 10 percent.

If you have 10 percent, not to reduce them any lower. And you are continuing the tax that you are complaining about in the automobile field for another year.

Mr. MCDANIEL. That is correct, but you are looking at it from that standpoint, just of the 10 percent, but what we have done is to analyze the effect which that approach of Chairman Reed brings about.

The CHAIRMAN. What does it do to your business?

Mr. MCDANIEL. It results in a very bad effect.

The CHAIRMAN. How does that come about? Explain that.

Mr. MCDANIEL. Would you like to look at chart 1, Senator? That is the first chart following the text. In the box on the left you will see the percentage reductions afforded by this bill, to the various categories covered by excise taxes. Now, this is for the 2 years I am talking about, Senator, both 1954 and 1955, because that is written in the bill. The percentage reduction for communications is 55 percent; cameras is 50 percent; admissions, 49 percent; and so on down the line, to where the "All industries receiving reductions," gets a reduction of 21.1 percent.

Then you have two categories that get no relief whatever. One of them is wagering, narcotics, pinball machines, and other articles that

are subject to punitive or regulatory tax and the other category is ranges, television sets, refrigerators, and home laundry equipment.

Now, that is the actual effect that the bill has, and therefore, I think it is not sound legislation to try to stick to the 10 percent approach when it brings about an effect of this kind.

The CHAIRMAN. Of course, the best way to look at it is to get rid of all these excise taxes.

Mr. MCDANIEL. No; I think the best way to look at it, Senator, if I may disagree with you, is to treat them proportionately. If you are giving relief for the first time in 20 years in excises, don't discriminate —give everybody some relief. Don't eliminate some categories from any relief whatever.

The CHAIRMAN. Those aspects have to be considered. That is why we are postponing the automobile business for another year. There is $400 million involved, there. I would like to chop them all off, and I am sure other members of the committee would, but we have to consider the revenue effects in addition to all the other things that might be discussed.

Mr. MCDANIEL. Let me speak of the revenue effect of what we are proposing. The revenue effect of what I am asking for and which would only be effective a year from now is less than $100 million. It is $100 million without taking into effect increases in sales which would result from lower prices.

The CHAIRMAN. $100 million isn't hay.

Mr. MCDANIEL. No, but it is hay compared to the $2 billion reduction that you are providing by this bill, and that reduction is going to expensive jewelry and a lot of other luxury articles.

The CHAIRMAN. Nothing lower than 10 percent.

Mr. MCDANIEL. I know, but this $100 million is only 5 percent of the total amount of revenue loss that results from the bill. We think it is unsound to give reductions to all others and not to the household articles, even if you have to go another 5 percent.

The CHAIRMAN. We are bringing these things as closely as possible to a 10-percent limit. Do you agree with that?

Mr. MCDANIEL. That is what I am trying to show by these charts. It is an appealing, simple line by which you can approach the problem, but when you actually see the effect that it has, in H. R. 8224, I think it is unsound, and it is unsound because there is a glaring omission of articles that are important to every American family. I do not think it is legislatively or politically supportable.

The CHAIRMAN. That goes to all forms of taxation. You can make the same argument to get rid of all forms of taxation.

Mr. MCDANIEL. I am not arguing that. If I were doing it from the beginning, I would have given some kind of a proportionate reduction to all industries subject to tax.

The CHAIRMAN. The House took the position, "We want to bring this stuff down to 10 percent." Now, you have no objection to that, in and of itself, have you?

Mr. MCDANIEL. Not in and of itself.

The CHAIRMAN. You feel it sets up some discrimination against your own industry?

Mr. MCDANIEL. Yes, sir, I do.

The CHAIRMAN. Tell us about it.

Mr. McDANIEL. Therefore, I think it has to be modified. That is, the pristine simplicity of that 10-percent theory has to be modified a little bit because of the result it happens to have when you analyze it in connection with the facts.

The CHAIRMAN. It is a very happy thing to have a pristine simplicity around here, I will tell you.

Mr. McDANIEL. Taxation isn't always simple, as you know, and it has an effect, whether designed or not—and we don't think it was so designed—which is not supportable.

Well, let me continue with this statement. This ignored area of home products which gets no relief, presently or prospectively, we think, is the very area where stimulation provided by tax reduction would do the most good, and that was the first stated reason for the bill.

We do not think any amount of analysis of the facts can support this omission of home products, because the more we have studied the facts, the more we are convinced that the facts require some tax relief for home products. You have reductions up to 50 percent on the luxury items that I spoke of, and no relief whatever for ranges, refrigerators, and television sets.

The CHAIRMAN. You understand that the higher excises are being reduced, as on jewelry, furs, and so forth, which were very high to start with. Secondly, it had a very adverse effect on the business.

Now, I would like to hear how the 10 percent hurts your business.

Mr. McDANIEL. Well, now, Senator, you know that you cannot segregate economic data and say with certainty that "The tax caused this many people not to buy television sets." You never get that kind of information. But the answer to your question appears from page 5 on, in my statement. I have talked about the need, there, for economic stimulation.

Of course, we have to recognize that the House didn't accomplish any stimulation effective now, by providing relief in April 1955, but if the objective——

The CHAIRMAN. What relief are you talking about? You are going back to the automobiles?

Mr. McDANIEL. Yes. They are consumer durables, as are the products of our industry, and we think of them in that connection. Why should they have better treatment than we when automotive products make up two-thirds of consumer durables?

The CHAIRMAN. You haven't had 20 percent or 25 percent in these items, have you?

Mr. McDANIEL. No.

The CHAIRMAN. What about giving them some relief?

Mr. McDANIEL. I am not against that.

The CHAIRMAN. Now, your point is, because we may give relief a year from now to some other people, you should get relief now; is that the point?

Mr. McDANIEL. No; we should get relief at the same time. You say in this, "We are going to give relief a year from now."

The CHAIRMAN. You might get it at that time.

Mr. McDANIEL. If so, put it in the bill as you have it for automobiles.

The CHAIRMAN. No, there is a vast difference, as I told you. We have a revenue aspect to consider in this automobile business that is not applicable in other industries.

Mr. MCDANIEL. I am not asking you to change that.

The CHAIRMAN. I am simply suggesting to you that you are talking about something that may or may not happen a year from now, and maybe when that happens a year from now, I hope we are in shape to give some other relief—I would like to get all these things eliminated as far as possible, but I don't know whether they can be. They can't be now. I am just wondering about whether it is practical for you to get off of this "if" approach; "Because somebody might get relief a year from now, we are hurt because we don't get in the same category." Why shouldn't all these people get in the same category? Tell me why you should have relief a year from now and not all the other people?

Mr. MCDANIEL. I am not asking that anybody who is now in the bill for relief have his relief withdrawn. I say we should have relief like automobiles, a year from now, and have it in the law now, because the facts existing now show that our industry is more greatly in need of relief, now, than automobiles. It is in the law for automobiles, even though the effective date is postponed, and yet there is nothing provided for us.

The CHAIRMAN. Then you answer the point, why not give all these people a year cutoff, because you are suffering in some particular way that is not applicable to the others; is that the point?

Mr. MCDANIEL. No, they all have something in the bill and we have not. That is the thing that hurts us, you see. I am not asking that we be given any relief that is greater than anybody else; I am just asking that we be given some relief.

The CHAIRMAN. Answer me this, please: Why shouldn't everyone of these excise taxes, under your theory, have a year cutoff date?

Mr. MCDANIEL. That would be unnecessary since all industries except ours receive some relief; but that is up to the Congress to decide.

The CHAIRMAN. Sure, it is.

Senator GEORGE. Mr. McDaniel, if I may be permitted to make this statement, all that this bill—the way the House has it, so far as the rates that will become effective in April 1955 does—is just to insure that they will be looked at before that time.

Mr. MCDANIEL. That is correct.

Senator GEORGE. Now, you come here with a large number of household articles, some of which we may want to reduce 5 percent, and some of which we may want to reduce 7 percent, and some of which we may not want to tax at all, when we had a chance to look at them. You would have the same opportunity to have your products all looked at, at that time.

Mr. MCDANIEL. But why shouldn't we have the same assurance, Senator, as the other consumer durables?

Senator GEORGE. They have no assurance, except that it is entitled to a new look a year from next April.

The CHAIRMAN. If I may just interrupt for one thing, they have already had a cutoff date.

Senator GEORGE. We put that in in 1951. It would have gone out this April, if nothing was done. Now, they have gotten 2 years more, on that same sort of treatment.

It is true that if we had the time to go in, here, and make the selection of these articles, we might have done a better job, to be frank with you, because we might have been able to have cut back on things that would have stimulated industry and increased employment, and so forth, but that isn't just the picture. All it means is, I say to you frankly, that sometime between now and April 1, 1955, there will be another look taken at all these excises, as well as yours.

Mr. MCDANIEL. We would like to be sure that the look is taken at us.

Senator GEORGE. We can give you that assurance.

Mr. MCDANIEL. We have given you charts, here, that show——

Senator GEORGE. You will want something to do around here in another year or so.

Mr. MCDANIEL. Well, I do not know. It is not easy to get you gentlemen, here, and to get your undivided attention, as I have had it here.

The CHAIRMAN. You are here right now. We will be delighted to hear you.

Mr. MCDANIEL. I certainly do appreciate the attention and the care that you are giving what we have to say. It is just our feeling that——

The CHAIRMAN. I am sorry. First of all, you are very generous, because I have interrupted your presentation. Go ahead.

Senator FREAR. Mr. Chairman, before he proceeds, may I ask a question?

The CHAIRMAN. Proceed.

Senator FREAR. I think the historical background on taxes between automobiles, that you were speaking of, and radios and refrigerators, goes back to the 1941 act, does it not, when you were raised to 10 percent?

Mr. MCDANIEL. That is right.

Senator FREAR. And where automobiles and refrigerators were raised to the present rate, at that time? Was it at that time?

Mr. MCDANIEL. I am not sure it was the present rate. They were increased.

Senator FREAR. This present bill does revert to the 1941 act, or previous to the 1951 increase, rather, when automobiles and refrigerators were raised, in 1951—you maintained the same tax level, did you not, from the 1941 act?

Mr. MCDANIEL. Well, we didn't have taxes on television sets and we had a lower rate on radio sets at that time. I believe we had 5 percent on radio sets.

Senator FREAR. The 1941 act? It was previous to the 1941 act, I believe, but the 1941 act which brought automobiles up is the one that now, if this is effective on the date as proposed in here, you will then, if you are not changed and they are, what you will do is really revert to your previous 1941 situation, as compared to automobiles and radios?

Mr. MCDANIEL. We have no cutoff date, at all. If we were to revert back, we would go to 5 percent on radios, and no tax at all on television sets, for example, unless I did not get your point.

Senator FREAR. I am not getting my point over. I think what I am trying to say is this—and I'll ask you if you agree to it, or not—that is, the present proposal here regarding automobiles, to which you have alluded, merely goes back to the 1941 act, and if you were to ask for that same consideration, you would still be at 10 percent, under the 1941 act. Is that not true?

Mr. MCDANIEL. Not so far as television is concerned. We had no tax.

Senator FREAR. Television has come in since then, but as a comparative basis—as I assume you were doing there—between household appliances, exclusive of television, because television was then not on the market in any great quantities, but as a comparison between your household appliances and automobiles, to which you have alluded, a number of times, if you went back to the 1940 act, you would still be in the 10-percent tax class, would you not?

Mr. MCDANIEL. I believe that is right. There is that historical difference between automobiles and other things, but our facts show that there is no reason for that historical difference, and if there is any reason for any difference at all it is that the home products need relief now more than automobiles because they have suffered a greater decline in recent months.

Senator FREAR. I must say that I am quite sympathetic to your aims. I believe wholeheartedly that the excise tax should be reduced, but I was only trying to point out how it could happen.

Mr. MCDANIEL. But under present facts, there is no reason for that historical differentiation. Many of the appliances would have gone down to 7 percent under the 1950 act, as it passed the House, had it passed the Senate in the same form.

Mr. Chairman, I see you are looking at the clock. I have not read my statement, and I do not want to take too much of your time.

The CHAIRMAN. Give us your points.

Mr. MCDANIEL. There is one point that I have not had a chance to make which is also shown on chart 1, and it goes to the question of the revenue loss that you are talking about. When you analyze the 2-year effect of this bill, you will find that some tax relief is given either this year or next year to products which represent the source of 94 percent of excise-tax revenue, and there are only two categories that are omitted. One represents 2 percent and the other 4 percent, and the 2-percent category are those punitive taxes on pinball machines, wagering, and narcotics, and 4 percent of the revenue arises from the tax on the home products. Now if you are able to grant relief, revenuewise, if you are able to grant relief on 94 percent of your tax sources, surely you can grant some relief either presently or prospectively, on products essential to the American home.

The CHAIRMAN. There is considerable question as to whether any relief should be given. I favor relief, but there is a lot of argument that there shouldn't be any tax relief at the present time.

Mr. MCDANIEL. If you would amend this bill to give the household products I have listed the same treatment that you do automobiles, then at least you could look at it a year from now and decide what you want to do at that time.

The CHAIRMAN. I think I can safely say that a year from now we will be glad to take a look at your picture.

Mr. McDANIEL. But is there any reason why you shouldn't put it in the bill now?

The CHAIRMAN. Yes. Why not put it in for all industries?

Mr. McDANIEL. You will have put in some relief for everybody except narcotics and pinball machines, if you do that.

Senator BENNETT. It seems to me you are overlooking another area of excise, and I am surprised it is not on your chart. Ballpoint pens, lighters, small items of that kind.

Mr. McDANIEL. That is under "Cameras, etc.," because we couldn't spell it all out. We have it in chart 9 spelled out.

Senator BENNETT. I understand they get no prospective relief in this bill.

Mr. McDANIEL. They get immediate relief. Look on table 1, please, Senator. I think it all comes under sporting goods. "Sporting goods," and "Mechanical pens and pencils," get a 29.2 percent reduction this year.

The CHAIRMAN. Do they get a reduction which takes them to a point where they pay less taxes than you pay?

Mr. McDANIEL. They are brought to 10. They are paying the same rate. We would have no objection to having the same treatment for them that we are asking, Senator, and that is 7 percent, effective April 1, 1955.

Senator BENNETT. Then, I have misunderstood the situation. We were discussing the other day this subject and there was some complaint from that group that they had no cutoff date and I assumed they, too, had gotten no current relief and were complaining as you are complaining, that they would have no prospective relief in 1955.

Senator CARLSON. Mr. McDaniel, as I understand your request you would like to have your industry treated just as we treat other consumer goods and if that happens you would then be getting a 7-percent rate on April 1, 1955.

Mr. McDANIEL. Exactly.

Senator CARLSON. Assuming we come in here next year and take a look at these taxes, we might want to reduce that even less than 7.

Mr. McDANIEL. We will be here asking it, if the facts support it, at that time—and we have a sneaking suspicion they will—we hope they won't—we will be here asking for it, or at least asking for a hearing.

The CHAIRMAN. I think I can safely assure you—we are talking about what we will do a year from now, but just as sure as you are in that chair now I am sure you will be here a year from now and can make your case, then, when we are currently considering what we are going to do about those things which have a cutoff date a year from now.

I repeat again, when you start extending this cutoff business, there is just as much reason for applying it all the way across the board as for doing anything else. This is not a strictly logical business.

Mr. McDANIEL. We have tried to draw a line at consumer durables, Senator, where you have a clear category and you can apply the same rule to all consumer durables. You have already given it to two-thirds of consumer durables. The other third are the home products.

The CHAIRMAN. They are above 10 percent. They were reduced to 10 percent. That is the point.

Mr. McDANIEL. No, you are talking about the other taxes, but so far as the autmobiles are concerned, they haven't been above 10, and you are giving them a cutoff date. Now, I say you could give——

The CHAIRMAN. They have already had a cutoff date. Now, we are giving them another one.

Mr. McDANIEL. Now, you could give us one.

The CHAIRMAN. I am saying to you that everyone can come in here and ask for a cutoff date using the same arguments that you make for your own industry. Now, maybe they should have it but I doubt whether they are going to get it but I am trying to say to you that I think, as far as I am personally concerned, I will be delighted to hear your testimony when we come to consideration of the particular cutoff date that you are using as a premise for your own argument.

Mr. McDANIEL. Well, I did not make the point clear to you there. I am saying if you do give us the same cutoff date as you do automobiles, then you will say to those critics—the other people who are asking cutoff dates—you say to them: "We have given a cutoff date to all consumer durables. We had already provided it in the earlier law for two-thirds of consumer durables. We merely gave the same cutoff date to the remaining one-third of the consumer durables and we don't want to go beyond that line."

The CHAIRMAN. Then, you still have a line for those who were not cut off, who say, "Why give consumer durables a cutoff and not give us one."

Mr. McDANIEL. We have facts to support that here because of the amount of employment in that industry, the reaction those industries have to changed economic conditions. We have a very heavily documented statement here, Senator, that talks about inventories, factory shipments, retail failures which are several times more in 1953 than in 1952 in the case of retail home appliance stores, generally. You have conditions in consumer durables that justify this requested treatment, that you do not have for other products. That is our opinion. Because it is so close to the consumer, by its very nature. Sales, or rather lack of sales, of these articles affect the economy and changes in the economy affect the purchasing in consumer durables more than in night clubs and luxuries and other things of that kind, you see.

If I could start on page 5, then, we have covered the first part of this statement. I say there, that if economic stimulation is the objective of Congress, tax relief should be given immediately to consumer durable goods.

I say, if that is your objective. A large percentage of the total employment of industries subject to excises is found in the consumer durable industries, and immediate tax relief is given to products representing only 10 percent of this consumer durables employment.

The CHAIRMAN. But they are paying much higher taxes than you are paying.

Mr. McDANIEL. They were paying 15.

The CHAIRMAN. Your first table shows the amount of reductions to bring them down to 10 percent.

Mr. McDANIEL. That is right, and when you do that, you are affecting only 10 percent of the employment in the consumer durables industry. It just happened to have that effect.

The CHAIRMAN. I am quite sure that every member of this committee will agree with me, we can't give every relief that we would like to give.

Mr. MCDANIEL. That is true, but you want to draw logical lines, and you want to give equitable treatment as far as you can.

The CHAIRMAN. Let me say again that I would hate like the devil to have the job of depending on logical lines to build our tax-excise structure. I would hate like the devil to have that job.

Mr. MCDANIEL. Don't you want to be in the position of defending what you do to grant excise tax relief for the first time in 20 years? That is what you are doing now. We have been building these taxes up. Now, this is the first real excise tax relief bill in 20 years.

The CHAIRMAN. I have no difficulty in defending the proposition that brings rates down to 10 percent.

Mr. MCDANIEL. I know, but it does not do just exactly that, Senator, that is the trouble. It goes beyond that with this prospective relief business and when it does it shows this very queer result I have shown on chart 1.

The CHAIRMAN. The prospective relief business is the automobile field that you are talking about?

Mr. MCDANIEL. That is right.

The CHAIRMAN. Well, they haven't got it yet. That is the answer to that.

Mr. MCDANIEL. But if you gave us the same cutoff date.

The CHAIRMAN. We may give it to you when the time comes.

Mr. MCDANIEL. If you gave us the same treatment in the bill now, that you give to them, then there wouldn't be any occasion for saying that anybody had been overlooked at all.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. On the record.

I don't blame you for sitting in that chair and talking for your industry. I respect you for it.

Mr. MCDANIEL. Well, we are left out and we are with narcotics and pinball machines, Senator, and we don't like it. It doesn't seem right.

We are not asking for any revenue reduction now, but if you put in there the same treatment that you are going to give to automobiles, then you can decide, as you will with automobiles, between now and April 1, 1955, whether you are going to give us the relief or not.

The CHAIRMAN. We can decide it without giving you a cutoff date. You will be here a year from now.

Mr. MCDANIEL. We will be knocking on the door.

The CHAIRMAN. That is right and we will be glad to see you.

Mr. MCDANIEL. Well, I don't want to wear out my welcome. You have been very generous to give me this amount of time. I would appreciate your looking at these charts that I have attached to the statement, because we spent a heavy weekend in getting them prepared, Senator, and it is helpful information.

The CHAIRMAN. We are very glad to have it. Thank you very much, indeed. Come back a year from now.

(The prepared statement of Mr. Glen McDaniel follows:)

STATEMENT OF GLEN MCDANIEL, PRESIDENT, RADIO-ELECTRONICS-TELEVISION MANUFACTURERS ASSOCIATION

Mr. Chairman and gentlemen of the committee, my name is Glen McDaniel. I am president of the Radio-Electronics-Television Manufacturers Association, frequently referred to as RETMA, which consists of 375 companies engaged in the manufacture of television sets and other electronics products and their component parts. Our industry makes and sells about 6 million television sets and 12 million radio sets annually, taxed at the rate of 10 percent. Each year 1 out of every 3 American families buys a product of our industry and bears the burden of this tax.

We greatly appreciate the opportunity to be heard before the committee.

H. R. 8224 as it passed the House provided no tax reduction, immediate or prospective, on essential household articles, including refrigerators, ranges and other kitchen equipment, television and radio sets, home laundry equipment and household appliances. These products are an important part of the budget of every American family. We ask that the excise tax on these products be reduced from 10 to 7 percent.

We do not ask that any reductions now provided in the bill be withdrawn.

H. R. 8224 is a 2-year bill. It grants relief in both 1954 and 1955. The objective, as stated in the report of the House Ways and Means Committee, is:

(1) To stimulate business and employment; and

(2) To remove discrimination among industries subject to tax.

To do this the bill provides revenue reductions as follows:

Effective Apr. 1, 1954	$912, 000, 000
Effective Apr. 1, 1955	1, 072, 000, 000
Total	1, 984, 000, 000

DISCRIMINATORY OMISSION OF HOME PRODUCTS

When we analyze the 2-year relief afforded by the bill, a remarkable defect appears:

1. It grants tax relief to all taxed industries, with the single major exception of essential household articles.

2. It gives big excise tax reductions to products and services which are not crucially important to the American home, and totally ignores products that are essential to the home.

3. The ignored area of home products is the very area where the stimulation provided by tax reduction would do the most good.

This queer result is doubtless the byproduct of haste and inadvertence. No amount of analysis of the facts can justify the omission. The more the facts are studied the more forcibly it appears that the announced purpose of the bill requires tax relief for home products.

You cannot justify whopping reductions, up to 50 percent, in the taxes on expensive jewelry and perfumes, or admissions to night-clubs and racetracks, and give no relief whatever to ranges, refrigerators, television sets, and home laundry equipment.

Business enterprises are major beneficiaries of some of the biggest reductions in the proposed bill. No consideration whatever has been given to the problems of the young married couple setting about to equip their first home with necessary household aids.

In the first excise tax reduction program in 20 years, articles essential to the American home have been excluded and given no consideration. In this bill they are treated the same as narcotics, gambling, pinball machines, and other articles taxed for regulatory or punitive purposes.

We have depicted this grossly discriminatory situation in chart 1 and table 1. It is shocking to observe that:

(1) Industries accounting for 94 percent of all excise tax collections, including liquor and tobacco, will receive total tax reductions of 21.1 percent.

(2) Home products, including television sets, and representing less than 4 percent of total excise tax collections, will receive not a nickel of relief now or in the future.

ALL CONSUMER DURABLES SHOULD BE TREATED ALIKE

H. R. 8224 recognizes the fairness and need for relief for durable goods by reducing the tax from 10 percent to 7 percent on automobiles and from 8 percent to 5 percent on trucks and auto parts, but postpones the relief to April 1, 1955

These are substantial reductions of 30 percent and 40 percent.

No reductions at all are given to home products.

Two-thirds of all consumer durables subject to excise tax are automobiles and associated items, and home products constitute the other one-third. Why are one-third of consumer durables excluded from tax relief?

You certainly cannot justify it on the basis that automobiles are more necessary to the American family than household appliances.

Nor can you justify it on the basis of the economic facts. The attached charts 6 and 8 show that household appliances have suffered more from the economic readjustments of recent months than have automobiles. Television year-end inventories increased about 61 percent and automobile inventories 24 percent. (Chart 6.) Factory shipments of home appliances and automobiles have declined in 1953 as follows (chart 8):

	Automobiles	Appliances
	Percent	*Percent*
Decline from peak month	31.5	35.7
Decline December 1952 to December 1953	4.3	34.0

All consumer durable goods subject to tax should be treated alike. This means that refrigerators, ranges, and other kitchen equipment, television and radio sets, home laundry equipment and household appliances, as well as automobiles, should be given the same reduction. This would be a reduction to 7 percent (5 percent for auto parts), effective not later than April 1, 1955.

It is apparent that the House acted upon H. R. 8224 under the compulsion of time and without the benefit of all the facts. We believe they would welcome action by the Senate to eliminate this unintended inequity by providing for the uniform treatment of all consumer durable goods.

IF ECONOMIC STIMULATION IS THE OBJECTIVE OF CONGRESS, TAX RELIEF SHOULD BE GIVEN IMMEDIATELY TO CONSUMER DURABLE GOODS

The first stated objective of H. R. 8224 is the prompt stimulation of business and employment.

A rate reduction from 10 to 7 percent on all consumer durable goods effective April 1, 1955, will make no contribution whatever toward the stimulation of business and employment today. If the objective of Congress is to stimulate business and employment now, the best way to do it is to grant an immediate reduction in excises on consumer durable goods. This will do more to stimulate business and employment than the types of immediate reductions now contained in the bill.

More than 40 percent of total employment in the industries subject to excises is found in the consumer durable industries (table 9).

There has been a decline in industrial activity generally and manufacturing in particular, as shown in chart 2, but the industries which have experienced the sharpest decline are the very industries for which no immediate excise tax relief is given.

This is clearly demonstrated on charts 3 and 4, which compare the decline in the industries not receiving immediate relief with those favored by the bill.

A specific example of the extent of recent decline among industries receiving no immediate relief under the bill may be found in the Chicago area. There, 61 producers of electrical equipment last week reported a drop in employment of almost 40 percent compared to 1953. This is shown in the following table:

	1953	1954	1954 as percent of 1953
January	33,529	20,066	59.8
February	33,049	20,793	62.9

Chicago is no rare exception. It is the greatest manufacturing center in the radio-television set industry.

Whether measured by manufacturing employment, sales, inventories, or retail failures, the industries excluded from relief by H. R. 8224 have suffered more than industry generally.

The impact of the current decline on the consumer-durable industries which do not receive immediate relief is further illustrated by the following charts:

Chart 5 shows that compared with the peak of 1953, December sales of electrical appliances were down 40 percent, while in 1952 last-quarter sales increased substantially. In fact, household appliance, radio, and TV manufacturers' sales in December 1953 were 15 percent below average 1952 sales.

Chart 6 shows the rise in inventories of radio and television sets and passenger automobiles. Television sets were up 60.9 percent, radio sets 41.3 percent, and automobiles 23.9 percent.

Chart 7 shows that whereas in January 1952, 1 out of every 29 retail establishments that failed was an appliance or radio store, by December 1953, 1 out of every 10 retail failures originated in this group. In December 1953 failures of houshold appliance and radio stores were twice as numerous as those of the previous year, while failures of retail stores in general were only slightly higher.

Chart 8 shows that factory shipments of consumer durables have declined substantially.

The foregoing charts and discussion have demonstrated that H. R. 8224 does not provide immediate assistance to the industries most directly affected by the recent downswing in business activity. Indeed, H. R. 8224 attempts no selection between industries confronted with distressed economic conditions and those which are not.

The facts, which would undoubtedly prove more dramatic if more recent data were available, indicate that H. R. 8224 would grant the greater portion of immediate relief to the industries that have suffered least.

It is possible to argue as the majority of the House Ways and Means Committee did that the reduction in excises would "stimulate business and employment, not only in those industries directly affected by these taxes, but also in other industries, since consumers will pay less for many of these taxed items and have more money available for other purposes." But reflection will show that the stimulation to depressed industries from assistance to other industries is slow, unsure and indirect at best. Money saved because of a reduction in excises may be held and not spent. Or, if spent, it may go to industries which have not suffered a drop in business.

The right way to stimulate business in the face of depressing economic forces is to use the direct and sure approach. That approach, of course, is to help directly those industries which have suffered the greatest decline in activity.

It is in the consumer durable segment of our economy, characterized by mass-production methods, high labor costs in terms of total price, extreme sensitivity to price changes, and violent fluctuation in volume as general business conditions change, that immediate excise tax cuts, translated into price reductions substantially greater than the dollars of tax reduction due to the pyramiding factor, would have the greatest stimulating effect upon the economy.

It is significant that the report accompanying H. R. 8224 offers no information, statistical or otherwise, to suggest that the committee or the House was at all cognizant of the above significant facts and the capricious effects the scheduled tax relief would have. We are confident that your committee will give thoughtful attention to this new evidence.

CONCLUSION

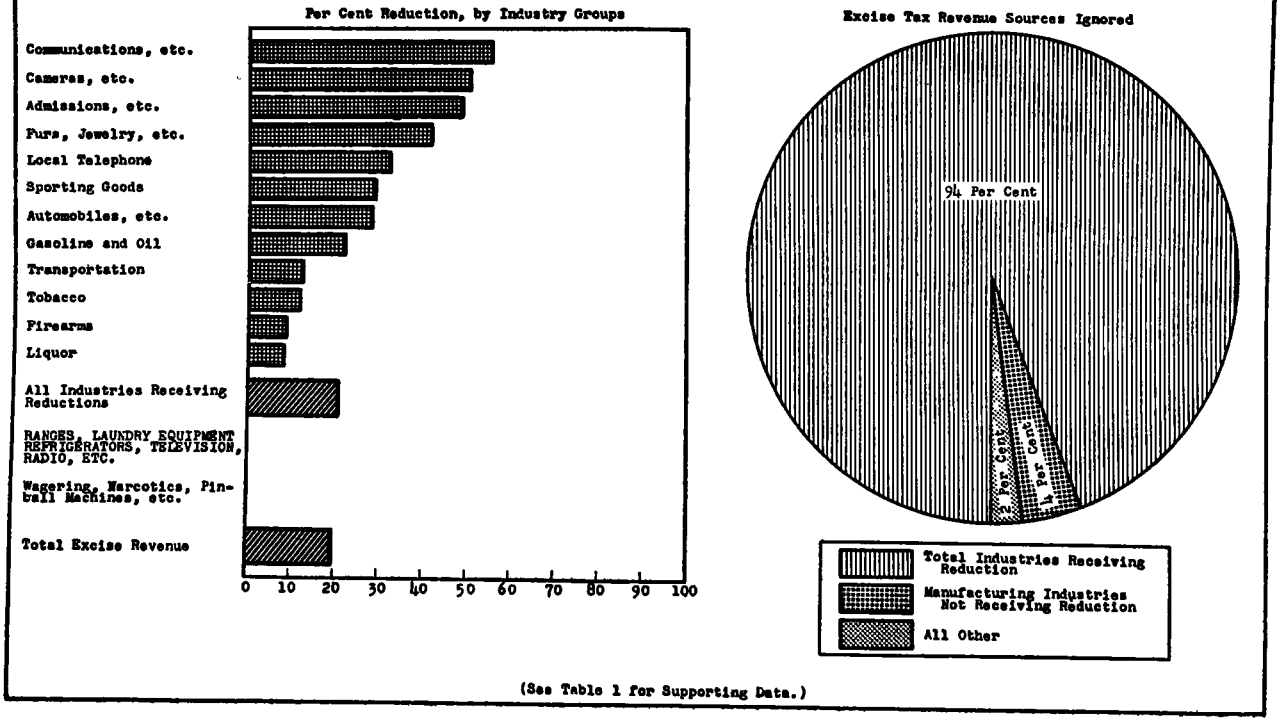
We urge that—

1. Congress should relieve the discrimination against home products in H. R. 8224 by treating them the same as other consumer durable goods. This would mean reducing from 10 percent to 7 percent, not later than April 1, 1955, the tax on refrigerators, ranges, and other kitchen equipment, television and radio sets, home laundry equipment and household appliances.

2. If it is the purpose of Congress to stimulate business and employment, the effective date of the reduction on the above articles, as well as on automobiles, trucks, and parts, should be April 1, 1954.

CHART 1

H.R. 8224 IGNORES HOME PRODUCTS



(See Table 1 for Supporting Data.)

TABLE 1.—*H. R. 8224 ignores home products*

[Millions of dollars]

Product or service	Current annual revenues		Revenue reduction under H. R. 8224		Percent reduction
	Actual	Percent of total	Effective Apr. 1, 1954	Effective Apr. 1, 1955	
Industries receiving reductions:					
Communication other than local telephone	$423		$235		55.6
Electric light bulbs and cameras	69		35		50.7
Admissions, dues, initiation fees, and safe deposit boxes	405		199		49.1
Furs, jewelry, luggage, and toilet preparations	513		215		41.9
Local telephone	387		125		32.3
Sporting goods and mechanical pens and pencils	24		7		29.2
Automobile:					
Passenger autos and motorcycles	[1] 917				
Trucks, buses, and parts	[1] 341				
Tires	195			[1] $411	28.3
Total	1,453				
Gasoline and oil:					
Gasoline	[1] 916				
Diesel fuel	[1] 16				
Lubricating oils	75			[1] 225	22.3
Total	1,007				
Transportation:					
Persons	[1] 290				
Property	435				
Oil by pipeline	29		[1] 95		12.6
Total	754				
Tobacco taxes	1,568			191	12.2
Firearms, pistols, and cartridges	11		1		9.1
Liquor taxes	2,795			245	8.8
Total, industries receiving reductions	9,409	94	912	1,072	21.1
Principal manufacturing industries not receiving reductions:					
Essential household articles:					
Ranges, laundry equipment, and water heaters	106				
Refrigerators	85				
Television, radio, etc.	153				
Total	344				
Business machines	52				
Total, principal manufacturing industries not receiving reductions	396	4			
Other:					
Regulatory taxes:					
Wagering	11				
Sugar	80				
Narcotics, pinball machines and all others	51				
Total	142				
Stamp taxes	91				
Total, other	233	2			
Total excise revenue	10,038	100	912	1,072	19.8

[1] Indicates the item on which rate reduced.

Source: The Budget of the U. S. Government for the Fiscal Year ending June 30, 1955, Budget Message of the President and Summary Budget Statements. House of Representatives, 83d Cong., 2d sess., Report 1307, Excise Tax Reduction Act of 1954, p. 2 (Estimates of revenue loss prepared by technical staff of the Joint Committee on Internal Revenue Taxation.)

CHART 2

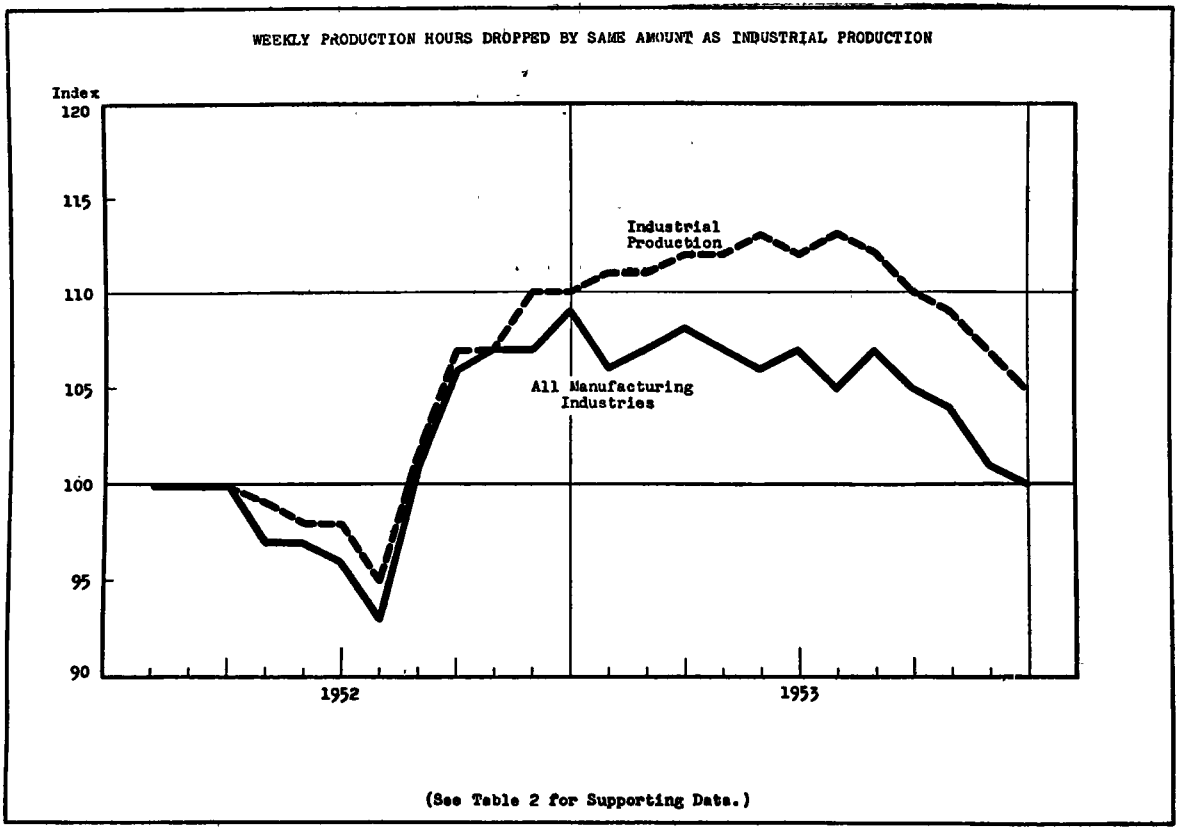

WEEKLY PRODUCTION HOURS DROPPED BY SAME AMOUNT AS INDUSTRIAL PRODUCTION
Index
120
115
110
105
100
95
90
Industrial Production
All Manufacturing Industries
1952
1953
(See Table 2 for Supporting Data.)

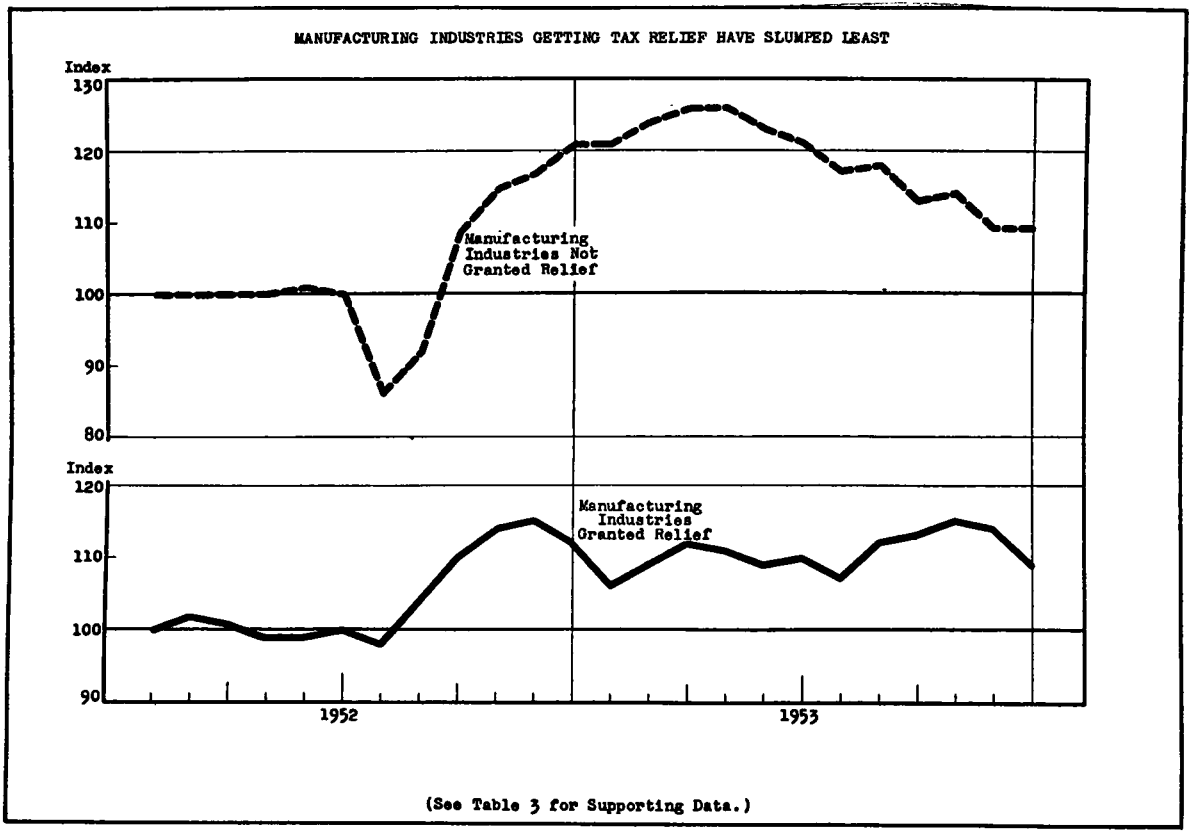
TABLE 2.—*Weekly production hours dropped by same amount as industrial production*

Year and month	Federal Reserve Board index of industrial production [1]		Weekly production hours [2] in all manufacturing industries	
	1947-49=100	January 1952=100	Actual (thousands)	Index (January 1952=100)
	(1)	(2)	(3)	(4)
1952—January	121	100	525,953	100
February	121	100	527,024	100
March	121	100	525,811	100
April	120	99	512,306	97
May	119	98	511,585	97
June	118	98	505,278	96
July	115	95	487,937	93
August	123	102	529,294	101
September	129	107	555,252	106
October	130	107	561,384	107
November	133	110	560,357	107
December	133	110	571,248	109
1953—January	134	111	558,379	106
February	134	111	561,680	107
March	135	112	568,454	108
April	136	112	561,326	107
May	137	113	557,549	106
June	136	112	561,131	107
July	137	113	550,740	105
August	136	112	560,966	107
September	133	110	551,897	105
October	132	109	549,490	104
November	129	107	533,040	101
December	[3] 127	105	527,504	100

[1] Adjusted for seasonal variation.
[2] Weekly production hours determined from average weekly hours worked and number of production workers.
[3] Preliminary.

Source: (1) Board of Governors of the Federal Reserve System, Federal Reserve Bulletin. (3) Derived from United States Department of Labor, Bureau of Labor Statistics: Employment and Payrolls, Hours and Earnings, Monthly Labor Review.

CHART 3



(See Table 3 for Supporting Data.)

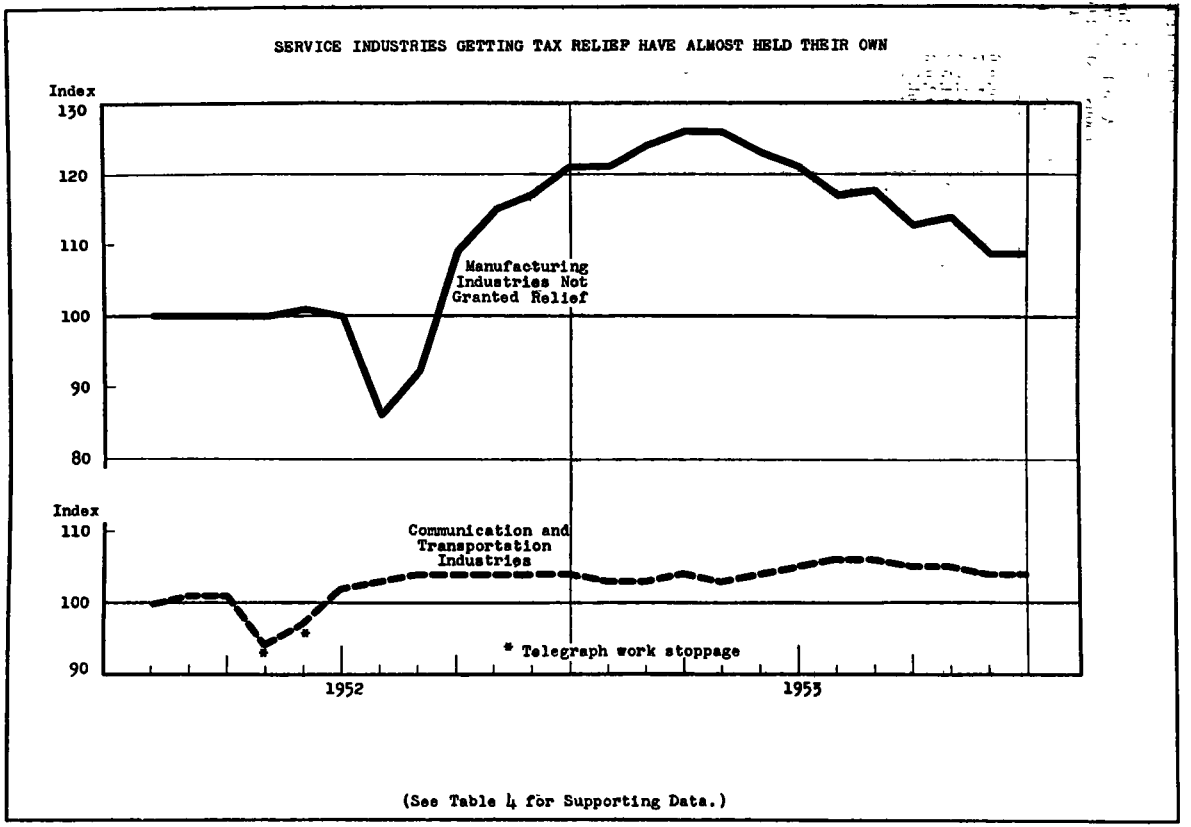
TABLE 3.—*Manufacturing industries getting tax relief have slumped least*

Year and month	Weekly production hours [1] in manufacturing industries subject to excise tax—			
	Granted relief		Not granted relief	
	Actual (thousands) (1)	Index (January 1952=100) (2)	Actual (thousands) (3)	Index (January 1952=100) (4)
1952—January	15,002	100	61,616	100
February	15,309	102	61,607	100
March	15,227	101	61,898	100
April	14,912	99	61,552	100
May	14,828	99	62,023	101
June	15,023	100	61,736	100
July	14,747	98	52,784	86
August	15,599	104	56,928	92
September	16,445	110	67,389	109
October	17,107	114	70,750	115
November	17,186	115	72,159	117
December	16,741	112	74,591	121
1953—January	15,956	106	74,428	121
February	16,314	109	76,158	124
March	16,768	112	77,780	126
April	16,656	111	77,794	126
May	16,425	109	75,893	123
June	16,557	110	74,700	121
July	16,028	107	72,221	117
August	16,838	112	72,417	118
September	16,899	113	69,726	113
October	17,306	115	70,160	114
November	17,062	114	67,195	109
December	16,371	109	67,217	109

[1] Weekly production hours determined from average weekly hours worked and number of production workers.

Source: (1) and (3) derived from U. S. Department of Labor, Bureau of Labor Statistics: Employment and Payrolls, Hours and Earnings, Monthly Labor Review.

CHART 4



(See Table 4 for Supporting Data.)

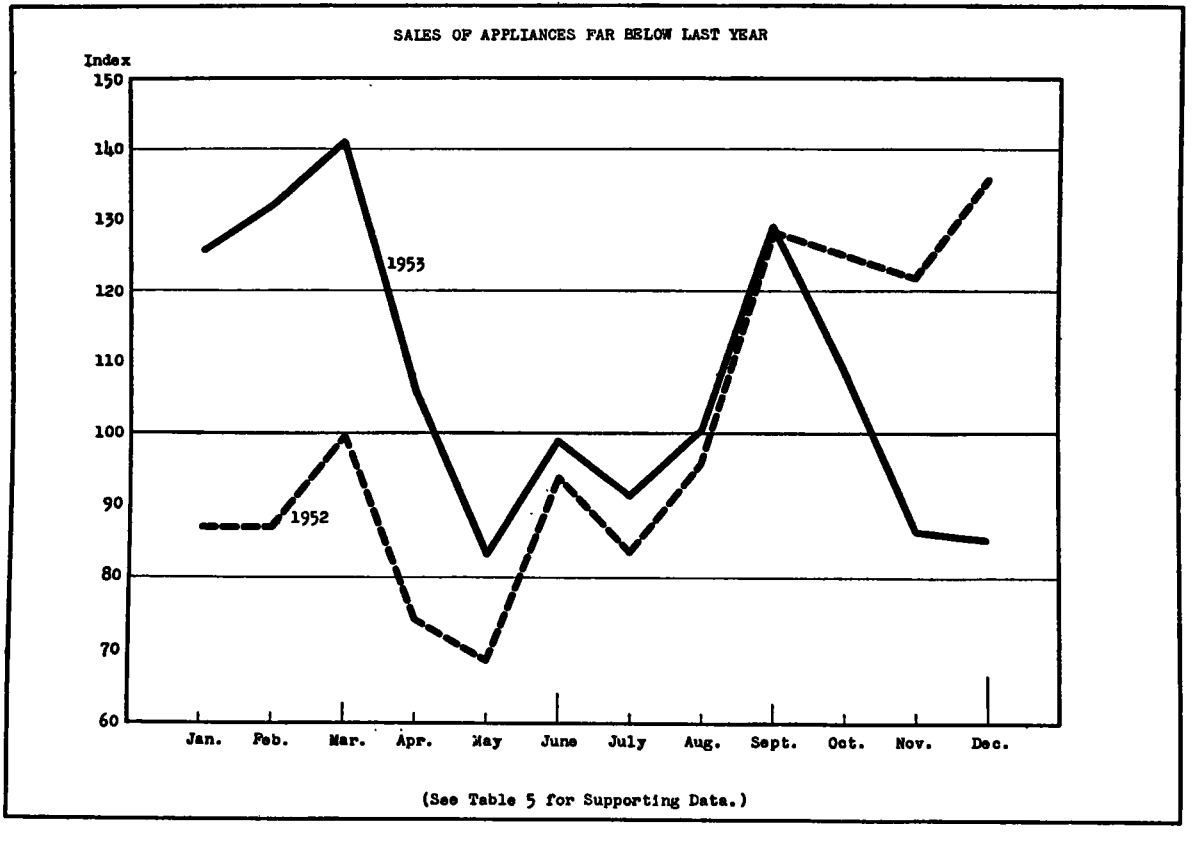
TABLE 4.—*Service industries getting tax relief have almost held their own*

Year and month	Weekly production hours [1] in manufacturing industries subject to excise tax and not getting relief		Employment in the transportation [2] and communication industries	
	Actual (thousands)	Index (January 1952=100)	Number (thousands)	Index (January 1952=100)
	(1)	(2)	(3)	(4)
1952—January	61,616	100	976.1	100
February	61,607	100	983.4	101
March	61,898	100	985.9	101
April	61,552	100	[3] 921.6	94
May	62,023	101	[3] 943.5	97
June	61,736	100	1,000.3	102
July	52,784	86	1,007.9	103
August	56,928	92	1,017.2	104
September	67,389	109	1,012.9	104
October	70,750	115	1,014.6	104
November	72,159	117	1,015.7	104
December	74,591	121	1,017.8	104
1953—January	74,428	121	1,003.0	103
February	76,158	124	1,005.7	103
March	77,780	126	1,010.6	104
April	77,794	126	1,001.7	103
May	75,893	123	1,019.6	104
June	74,700	121	1,026.9	105
July	72,221	117	1,037.4	106
August	72,417	118	1,030.6	106
September	69,726	113	1,023.0	105
October	70,160	114	1,023.6	105
November	67,195	109	1,019.3	104
December	67,217	109	1,015.1	104

[1] Weekly production hours determined from average weekly hours worked and number of production workers.
[2] Passenger transport only.
[3] Telegraph work stoppage.

Source: (1) and (2) Derived from U. S. Department of Labor, Bureau of Labor Statistics: Employment and Payrolls, Hours and Earnings, Monthly Labor Review. U. S Department of Commerce, Office of Business Economics, Survey of Current Business.

CHART 5



(See Table 5 for Supporting Data.)

TABLE 5.—*Sales of appliances far below last year*

[1952 monthly average=100]

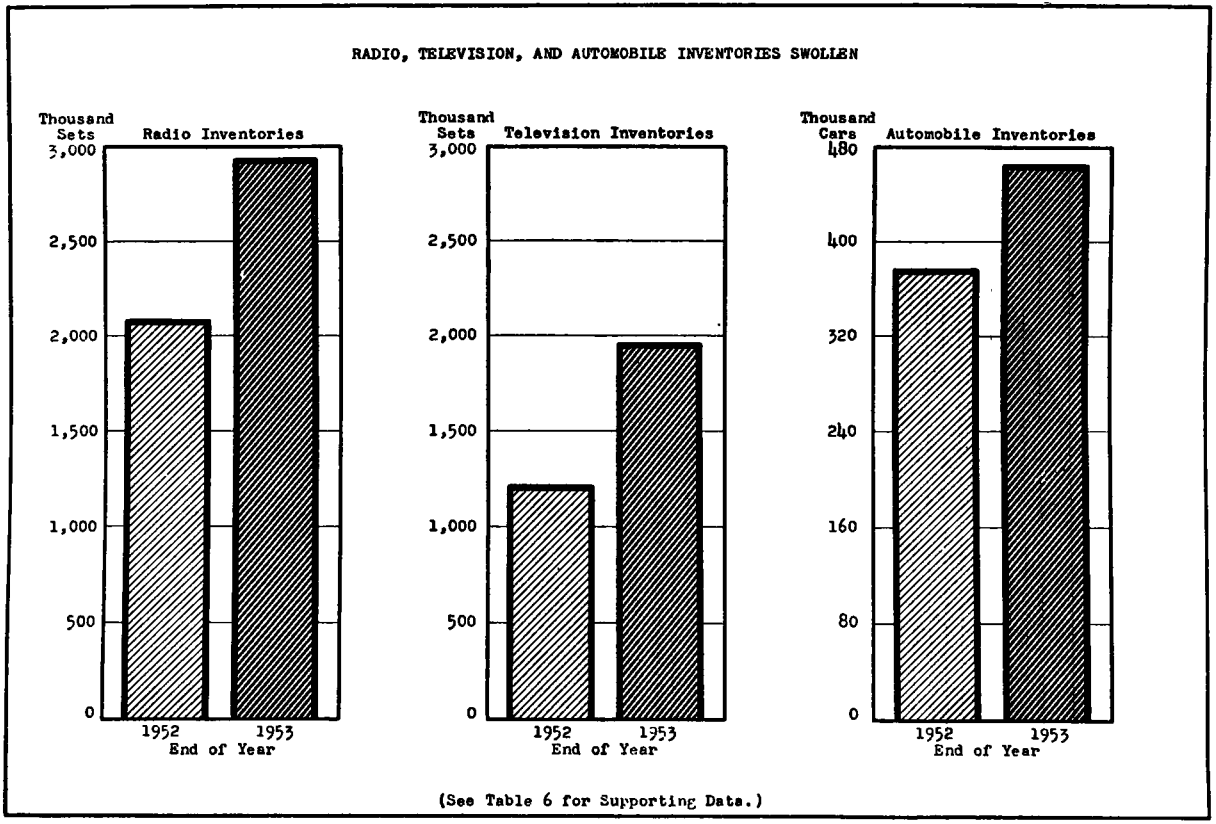
Month	Index of retail value of manufacturers' sales of household appliances	
	1952	1953
January	86.8	125.6
February	86.8	132.1
March	99.7	141.2
April	74.1	105.8
May	68.3	83.2
June	94.1	99.1
July	83.4	91.3
August	95.9	100.6
September	128.1	129.4
October	125.0	108.8
November	121.8	86.2
December	135.8	85.1

NOTE.—The 1952 average retail price for each item included in the series (listed below) was applied to the monthly volume of sales (or shipments) during 1952 and 1953.

TV sets (domestic factory sales).
Radios (domestic factory sales).
Electric household refrigerators (domestic factory sales).
Electric farm and home freezers (domestic factory sales).
Automatic tumbler dryers (factory sales).
Automatic ironers (factory sales).
Electric storage water heaters (shipments).
Electric ranges (shipments).
Gas ranges (domestic shipments).

Source: Electrical Merchandising. Gas Appliance Manufacturers Association, Inc., Statistical Highlights. National Electrical Manufacturers Association, Statistical Bulletin. Radio-Electronic-Television Manufacturers Association, Statistical Yearbook and Monthly Production Report. William Shaw, Chicago, Ill. (monthly releases).

CHART 6



(See Table 6 for Supporting Data.)

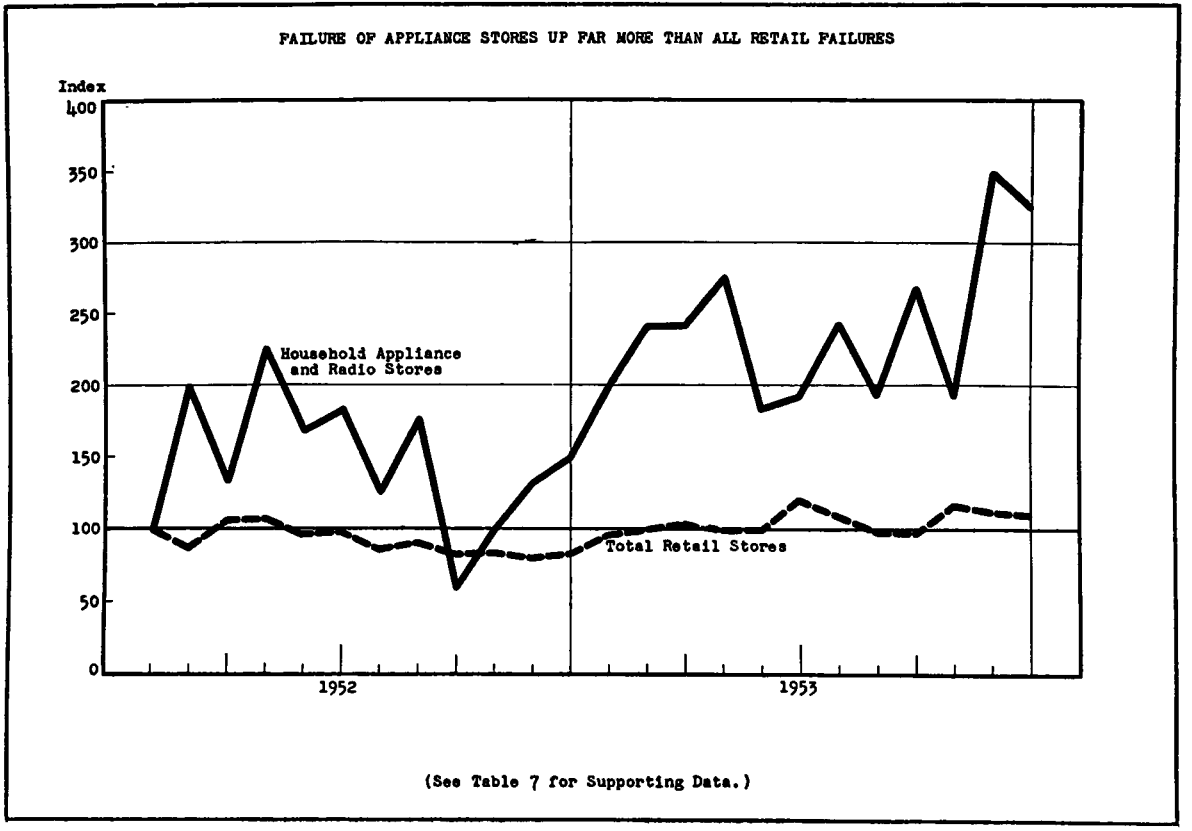
TABLE 6.—*Radio, television, and automobile inventories swollen*

	Total inventories at the end of the year	
	1952	1953
(1) Radio sets [1]	2,073,991	2,930,436
(2) Television sets	1,211,177	1,949,285
(3) Automobiles	374,971	464,725

[1] Excludes auto radios.

Source: (1) and (2) Radio-Electronics-Television Manufacturers Association, Dealer Purchases, Sales, and Inventories of Radio and Television Sets. (3) Automotive News, Slocum Publishing Co., Inc., Detroit, Mich.

CHART 7



(See Table 7 for Supporting Data.)

TABLE 7.—*Failures of appliance stores up far more than all retail stores*

Year and month	Retail appliance stores [1]		All retail stores	
	Actual	Index (January 1952=100)	Actual	Index (January 1952=100)
	(1)	(2)	(3)	(4)
1952—January	12	100	348	100
February	24	200	304	87
March	16	133	371	107
April	27	225	375	108
May	20	167	333	96
June	22	183	340	98
July	15	125	299	86
August	21	175	316	91
September	7	58	288	83
October	12	100	291	84
November	16	133	280	80
December	18	150	288	83
1953—January	24	200	334	96
February	29	242	348	100
March	29	242	361	104
April	33	275	344	99
May	22	183	344	99
June	23	192	419	120
July	29	242	380	109
August	23	192	340	98
September	32	267	336	97
October	23	192	404	116
November	42	350	389	112
December	39	325	382	110

[1] Includes radio and television retail stores.

Source: (1) Dun & Bradstreet, Inc. (2) U. S. Department of Commerce, Office of Business Economics, Survey of Current Business.

CHART 8

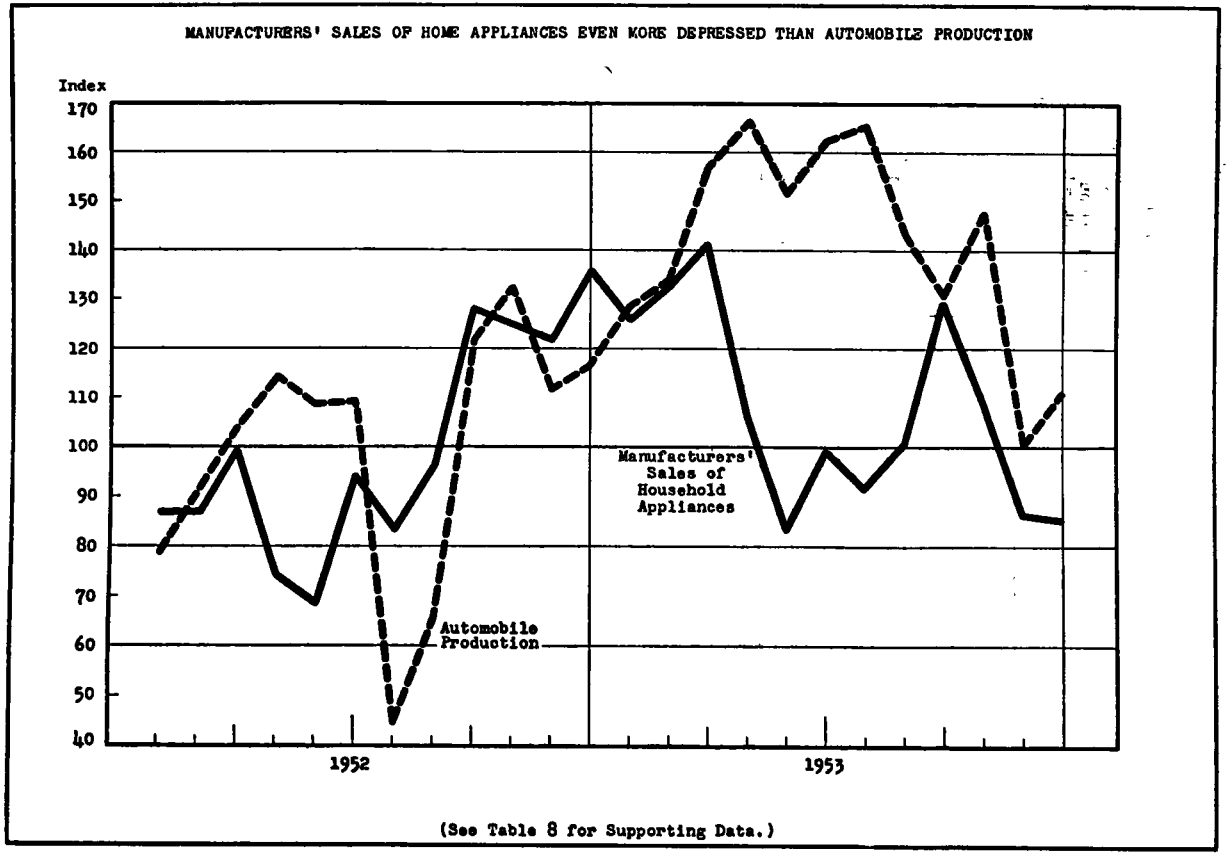

MANUFACTURERS' SALES OF HOME APPLIANCES EVEN MORE DEPRESSED THAN AUTOMOBILE PRODUCTION
Index
170
160
150
140
130
120
110
100
90
80
70
60
50
40
1952
1953
Manufacturers' Sales of Household Appliances
Automobile Production
(See Table 8 for Supporting Data.)

TABLE 8.—*Manufacturers' sales of home appliances even more depressed than automobile production*

[1952 monthly average=100]

Year and month	Automobile production		Index of retail value of manufacturers' sales of household appliances
	Thousand units	Index	
	(1)	(2)	(3)
1952—January	284.9	78.8	86.8
February	330.9	91.5	86.8
March	376.5	104.2	99.7
April	414.5	114.7	74.1
May	393.7	108.9	68.3
June	394.6	109.2	94.1
July	159.6	44.2	83.4
August	238.0	65.8	95.9
September	440.6	121.9	128.1
October	479.9	132.8	125.0
November	403.7	111.7	121.8
December	420.5	116.3	135.8
1953—January	465.8	128.9	125.6
February	485.1	134.2	132.1
March	568.9	157.4	141.2
April	601.2	166.3	105.8
May	546.1	151.1	83.2
June	587.6	162.6	99.1
July	597.1	165.2	91.3
August	517.4	143.1	100.6
September	470.9	130.3	129.4
October	532.6	147.4	108.8
November	361.7	100.1	86.2
December	401.7	111.1	85.1

Source: (1) Automotive News, Slocum Publishing Co., Inc., Detroit, Mich. (3) Table 5.

TABLE 9.—*Employment in industries subject to Federal excise tax* [1]

	Average employment 4th quarter 1953 (thousands) (1)	Percent of total (2)
Industries receiving immediate relief under H. R. 8224, other than durable goods:		
Telephone	698.6	
Telegraph	47.6	
Interstate railroads [2]	116.7	
Bus lines, except local	51.8	
Air transportation	104.7	
Motion pictures	227.9	
Fur goods	9.3	
Soap, cleaning and polishing preparations	49.4	
Miscellaneous chemicals	90.8	
Luggage	18.3	
Handbags and small leather goods	30.0	
Jewelry, silverware, and plated ware	59.2	
Costume jewelry, buttons, and notions	70.0	
Total employment, nondurables receiving relief	1,574.3	40.4
Durables receiving no immediate relief under H. R. 8224:		
Tires and innertubes	109.0	
Heating apparatus (except electric) and plumbers' supplies	145.5	
Office and store machines and devices	112.9	
Service: Industry and household machines	191.2	
Electrical appliances	70.5	
Communication equipment (electronic)	525.9	
Automobiles	887.7	
Watches and clocks	46.4	
Musical instruments and parts	18.1	
Total employment, durables not receiving immediate relief	2,107.2	54.0
Durables receiving immediate relief under H. R. 8224:		
Electric lamps	28.3	
Photographic apparatus	71.0	
Toys and sporting goods	86.4	
Pens, pencils, and other office supplies	33.5	
Total employment, durables receiving relief	219.2	5.6
Total employment, industries subject to Federal excise	3,900.7	100.0

[1] Excludes liquor, tobacco, and gasoline industries.
[2] Based on portion of total operating revenue received for passenger transport. Excludes an estimated 1,239,000 employed in property transport.

Source: (1) Derived from U. S. Department of Labor, Bureau of Labor Statistics, Employment and Payrolls. (Industry groups included are based on standard industry classification.)

(The following letter was subsequently received for the record:)

RADIO-ELECTRONICS-TELEVISION MANUFACTURERS ASSOCIATION,
Washington, D. C., March 15, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKIN: On behalf of the radio-electronics-television industry I want to express our sincere appreciation for the courteous hearing which you and other members of the Senate Finance Committee gave to my testimony this morning.

We are confident that during the committee's deliberations it will see the reasonableness and wisdom of our plea that home products like television sets should be given the same treatment in H. R. 8224 as automobiles, so that all consumer durables can look forward to an excise tax reduction from 10 percent to 7 percent effective April 1 of next year. Moreover, if in your deliberations on the bill you should determine to provide for an immediate reduction in the 10 percent tax on consumer durables such reduction should most certainly include home products such as television sets.

You will recall that practically all of my time before the committee consisted of my attempts to answer the very searching questions put by you and other

members, and that this oral discussion took the place of the reading of my statement. For this reason I omitted to mention one point that I would have brought up had I read the statement.

This point is that we urge the committee to give consideration to the removal of the 10 percent manufacturers' excise tax on color television sets, together with color picture tubes, until color television has had an opportunity to establish itself. This request is in line with the traditional interest of Congress in giving new products a period of time in which to establish themselves before they are asked to bear the burden of an excise tax.

Our statement before your committee on H. R. 8224 is supported by a number of charts indicating the severe impact of the current decline in the economy upon elements of the television industry as well as other home products. The advent of color television under the economic conditions described in our statement on H. R. 8224 presents a special problem for color television which may be solved only by postponing the tax on this new product until it has had an opportunity to develop.

Progress toward mass production of color television sets at reasonably low prices will necessarily be slow. It is a revolutionarily new product with the usual initial high costs of production. In addition, the ordinary problems of marketing new products are intensely complicated by the need to have color television programs which may be received. On the other hand the broadcasters are not encouraged to put on such programs until a sufficient number of color sets are in the hands of viewers to provide an acceptable audience for color programs. This is the "hen-and-egg" dilemma which makes the launching of any new broadcasting service a perilous undertaking.

The mere fact that the Federal Communications Commission has now authorized commercial color television transmissions has caused many potential purchasers of black and white sets to postpone their purchases until color sets are available at a price they can afford. As you have probably noticed in the press, color television receivers are being offered at prices ranging between $1,000 and $1,200 plus $200 to $500 a year for service maintenance. Experience so far has indicated that the public cannot afford to buy the color sets at these prices. A serious stalemate may result.

Deferral of the tax on color television sets would permit immediate price reduction up to $100 or more and would materially aid the industry's effort to combat this crisis.

We respectfully urge that the excise tax imposed by section 3404 of the Internal Revenue Code be removed from color television sets and tubes.

I respectfully ask that this letter be made a part of the record of today's hearing.

Yours sincerely,

GLEN MCDANIEL, *President.*

The CHAIRMAN. Mr. Mendelson, will you sit down, please, and identify yourself to the reporter.

STATEMENT OF L. R. MENDELSON, GAS, WATER HEATERS MANUFACTURING TAX COMMITTEE

Mr. MENDELSON. My name is L. R. Mendelson. I am president of the Hotstream Heater Co., of Cleveland, Ohio. I appear before you on behalf of the water-heater manufacturers, being chairman of their tax committee. I urge you to recommend the complete elimination of the excise tax on domestic water heaters, gas, oil, and electric alike. The water-heater industry is made up of more than 100 manufacturers, most of which are small, extending from New England to the Pacific coast. In addition, the industry is represented by wholesalers and dealers located in every large and small town in the Nation.

The modern water heater is a prime necessity for the preservation of the health and hygiene of all Americans, rich and poor alike—just as necessary as drugs and medicine—but unlike them it is taxed and taxed heavily.

An adequate supply of hot water is mandatory in every home, hospital and public eating place for health and sanitation. Federal, State, and local government policies reflect this accepted fact in all fields except excise taxation.

I have an attachment "A" that brings out these points and which will be presented to you all.

(The paper referred to follows:)

ATTACHMENT A

GOVERNMENTAL TREATMENT OF WATER HEATERS AS A PLUMBING ITEM, NECESSARY FOR HEALTH AND HOUSING

Federal, State, and local government agencies have established water heaters as an essential plumbing and heating item, for example:

The National Production Authority placed water heaters under the plumbing section of the Building Materials Division.

The National Housing Act (FHA titles 1 and 2) clearly established water heating equipment as a permanent part of the realty, * * * not part of the furnishing.

The Federal Reserve Board and Housing and Home Finance Agency, in their regulations, definitely recognize water heaters as a permanent part of the realty.

During World War II, previous defense agencies, such as WPB and OPM, classified water heaters as essential under their plumbing and heating classification.

All State and local laws concerning plumbing and heating installation include water heating equipment.

The Defense Department through all its armed service divisions, cannot operate effectively without hot water.

Water heaters are not purchased voluntarily as are many other items. Water heaters are only purchased to replace expended water heating equipment or to provide new home service. The volume of production, therefore, is controlled by necessity—by the demand of the consumer.

Mr. MENDELSON. To make water heaters, classified by everyone, except the Federal tax collector, as a plumbing item essential for health, subject to excise taxation is inconsistent with sound national tax and economic policies.

To make water heaters more expensive by imposing an excise tax is to put a tax on the health and housing of the people.

This tax is substantial enough to put this indispensable feature of health and housing beyond the economic reach of many American families.

This tax, set at a 10 percent level, on the manufacturer's sales price, is practically doubled by the markup on the manufacturer's sales price plus the markup on the tax by the jobber, and the dealer's markup on what he paid the jobber.

From here in you will find a few deviations from the printed text.

In reality, the cost to the consumer is artifically increased by approximately 18 percent of the manufacturer's price through the imposition of the excise tax. Of this 18 percent that the consumer pays, the Government gets 10. The consumer is paying 18, but the Government is getting only 10.

The CHAIRMAN. That is through the compounding of the markups.

Mr. MENDELSON. On account of the compounding of the markups.

The CHAIRMAN. I am glad to hear your testimony because sometimes the National Association of Manufacturers and other organizations come in here and say, "Oh, there is no tax markup. Let's put everything at the manufacturers' level and there won't be any tax markup."

Mr. MENDELSON. I will try to tell you the truth.

The CHAIRMAN. Go ahead.

Mr. MENDELSON. In this connection there is an important point I would like to emphasize and underscore: Relief from the excise tax provided to this industry will definitely be passed along to the public in reduced costs of water units. A water heater is not an appliance. It is a plumbing item, and there are more than 38,000 such plumbing and heating items.

During the days of the War Production Board and later, the National Production Authority, water heaters were naturally classified in the plumbing section along with heating equipment. The same classification is true with Federal housing, veterans' housing, the military, and the Department of Commerce. Our product is historically recognized in all phases of industry as a plumbing item and not a luxury item. If you gentlemen think that hot water is a luxury, try doing without it for a week. What good is your bathroom without hot water? What good is your kitchen without hot water? Drugs and medicines are not subject to tax. Yet, think of the important part hot water plays in the health of the Nation. And the tax is discriminatory. There are other methods of heating water for domestic purposes that are not subject to the tax.

Why, therefore, should water heaters have ever been included in the excise tax category, at all? Why should 1 out of 38,000 different plumbing and heating items be singled out for the excise taxation?

The CHAIRMAN. Mister, you've got me. I mean you've got me on your argument. You haven't got me yet on the tax.

Mr. MENDELSON. Well, let's see about that.

The tax on water heaters crept into the original bill as a last minute thought on someone's part. The industry knew nothing about it and had no chance to protest or voice their objections. Had we known that this tax was contemplated on water heaters, we would have been here to point out that there is no more reason for an excise tax on a water heater than there is for an excise tax on a sink or a toilet, or a bathtub, or a heating plant. A hot-water heater is a necessity in every man's home, rich and poor alike. Including water heaters in the luxury excise tax was a fundamental mistake, or an accident, or a fluke, and no rhyme or reason for it right from the beginning.

If it was a mistake then, it is a mistake now, and this mistake should be rectified and not perpetuated.

Senator FREAR. Mr. Chairman, maybe the mistake was made in not including toilets and sinks.

The CHAIRMAN. I was sitting here thinking, why did we miss those.

Mr. MENDELSON. How did you happen to miss shingles and lumber and glass and everything that goes to build up a home?

Senator FREAR. Of those 38,000 articles, maybe they missed 37,999, then.

Mr. MENDELSON. Maybe you believe in the theory of a sales tax on everything.

Senator FREAR. No, I'm sorry, but I am one who opposes it, and I also opposed the excise tax on which you are talking, sir.

Mr. MENDELSON. Thank you.

At the time the tax was originally imposed, there was the stipulation that this tax would be eliminated when hostilities ceased. This, of course, as you know, didn't happen.

The answer to that next question, is the next big reason why it should be eliminated now. The tax was imposed on water heaters in World War II as a part of the tax program for the conservation of critical materials and labor to provide a conversion to war production. The national economic desire to retain consumption of materials and labor by taxation of a particular use should, in all logic, be revised when today, a wise national policy calls for more production and employment in our industry, and the housing industry of which it is an integral part.

The continuation of this tax has, from the day it was enacted, definitely hurt our business. During the past year, this condition has been aggravated. When unemployment hits our industry like it has in the last year, it is a real storm warning that I feel this committee should know about, but more than that, a letdown in purchases of such vitally necessary items as water heaters could lead to serious trouble in many other ways.

The CHAIRMAN. What is your present tax?

Mr. MENDELSON. Ten percent.

Frankly, business with this industry hasn't been good in comparison with the normal expansion of business and the growth in population since the manufacturers' excise tax was first imposed.

In the Congress at this time, both the Senate and House are considering new housing legislation recommended by the President to provide better housing at decent prices. What could be a more appropriate part of these housing programs than to make it possible for the people to purchase water heaters at a lower price? Removal of this excise tax would make this possible.

Since the justification for the committee's action in removing water heaters from the excise taxation depends upon its acceptance of our contention that it is properly classified as a plumbing item necessary for health, I am submitting as attachment A some of the outstanding examples of official Government action so classifying water heaters, and a booklet compiling the views of outstanding authorities on the subject.

There is one brief additional point not included in this testimony which I would like to mention. When this committee, the Senate and the House, approved the Revenue Act of 1951, the inequity of this tax on water heaters was recognized and the tax was eliminated on commercial water heaters.

In my opinion, the elimination of the tax on domestic heaters is far more important. At that time, the hope was expressed by Members of the Congress that the excise tax on this plumbing item would be taken off entirely at the first available opportunity. Now, there is just one more repeat thought: Doesn't it seem strange that in the building industry in which thousands of items are used, and in the plumbing and heating industry which covers considerably over 38,000 items, that just one item in the entire lot, the water heater, is subject to the excise tax? Really, gentlemen, isn't it ridiculous?

Senator JOHNSON. What would be the loss to the Treasury if this tax was not here?

Mr. MENDELSON. Approximately $15 million a year.

The CHAIRMAN. That is not for your item. That covers that whole category?

Mr. MENDELSON. I mean just water heaters.

The CHAIRMAN. About $15 million for your water heaters.

Mr. MENDELSON. No, for water heaters alone.

The CHAIRMAN. That is what I am talking about.

Mr. MENDELSON. Water heaters alone I understand—I am not sure about the rest of the tax.

Mr. STAM. The whole tax on electric, gas, and oil appliances is about $113 million.

The CHAIRMAN. What about water heaters?

Mr. STAM. That is estimated at around about $15 million.

Mr. MENDELSON. Well, we are not asking for much, are we?

The CHAIRMAN. Wouldn't you like to have it in your company's till?

Mr. MENDELSON. We could use it. The way things are going, we certainly could use it.

I appreciate the indulgence of this committee in making it possible for the water-heater industry to present aspects of a program which is of great concern, not only to manufacturers but to the people of the country.

Thank you, Mr. Chairman, and members of the committee, for the opportunity to present the views of our industry.

The CHAIRMAN. Thank you for coming. We appreciate your appearance here.

Now, you are going to leave your appendix with the reporter.

Mr. MENDELSON. We will have a complete copy.

(See p. 52).

The CHAIRMAN. Mr. Nehemkis, please.

STATEMENT OF PETER R. NEHEMKIS, JR., AMERICAN HOME LAUNDRY MANUFACTURERS' ASSOCIATION

Mr. NEHEMKIS. My name is Peter R. Nehemkis, Jr. My residence is Washington, D. C., Ring Building.

I appear here as special counsel to the American Home Laundry Manufacturers' Association.

Mr. Chairman, gentlemen of the committee, I am, this morning, presenting the ststement of the chairman of the excise-tax committee of the American Home Laundry Manufacturers' Association.

As the committee is aware, H. R. 8224 makes no provision for relief from manufacturers' excise taxes now at the 10-percent rate. Included in this 10-percent excise rate are household ironers and clothes dryers, the two home appliances with which my testimony is concerned.

Last July, the home laundry equipment industry presented to the Ways and Means Committee what I then regarded—and still believe—to have been a sound and compelling case for relief from this particular excise tax.

More recently, there was submitted to the Ways and Means Committee—and to all Members of the Congress—a memorandum from my association which set forth the aggravated and alarming economic conditions which presently confront the home laundry equipment industry.

Unless there were present other factors with which I am not familiar, I have been constrained to conclude that the hardship of, and the urgent need of relief from, this particular excise tax could not have

been fully understood by the majority members of the Ways and Means Committee since the Reed excise tax bill omitted recommending relief for household ironers and clothes dryers.

In brief, here is our economic situation.

The CHAIRMAN. What is your present tax rate?

Mr. NEHEMKIS. 10 percent, sir.

Since this tax went into effect in November of 1951, sales of ironers have dropped 42 percent. No other major household appliance has experienced so drastic a decline in sales in the short period of time—1951 to 1953—in which this particular excise tax has been operative. Several of our companies have actually been forced to discontinue their ironer business entirely.

The CHAIRMAN. You do not attribute that all to the excise tax?

Mr. NEHEMKIS. I think anyone who did so would be making a statement which would be utterly misleading to this committee. I will say, and the thrust of my presentation to you this morning is, that the major deterrent has been the incidence of this tax—and I hope I shall have the opportunity to so demonstrate.

The CHAIRMAN. You will.

Mr. NEHEMKIS. Every manufacturer of ironers has had to lay off workers.

May I cite to you as an example of the utter absurdity of this tax the experience of one of our ironer manufacturers whose plant is located in a small town in Illinois. This company paid $60,000 in excise taxes during the period 1951 to 1953. But during the same period, the Treasury lost $200,000 in withholding and corporate income taxes because sales had shrunk and workers had been laid off from their jobs. So to collect $60,000 the Government loses $200,000. When a revenue tax produces these absurd economic consequences it becomes a punitive tax. For the Treasury to insist that it must hold on to a tax which actually causes a loss in revenue is ridiculous.

Turning to the dryer side of our industry, our business ought to be booming. We should be adding new workers to our payrolls and building new plants. Instead, we have been forced to cut back on production and to lay off our workers. Ask any retail appliance dealer what he thinks the "hottest" major household appliance is and he'll tell you: An automatic clothes dryer. This appliance has been on the market only a few years. Every housewife recognizes that in a clothes dryer she can put an end to being a bending, a lifting, and a stooping machine; that an automatic clothes dryer can open new horizons of leisure and freedom from drudgery.

And yet, with this vast potential, untapped market, only 5 percent of all wired homes now have a dryer. Actually, the number of homes with a dryer should be at least twice this percentage.

Let me recapitulate what I have said somewhat differently: Our dryer sales since the tax has been imposed, since November 1951, have dropped almost 40 percent, and in the appliance industry, that is the most critical drop in the percentage of sales of which I am aware.

Now, the reason our sales have contracted so sharply results from the circumstance that the excise tax has added an additional $20 to $25 to the cost of these two household appliances.

That extra $20 to $25 has removed these two appliances from the average family budget.

I believe this committee understands how such a tax is pyramided from manufacturer, to distributor, to dealer, with the result that what may start as a $10 bill at the manufacturer's plant, ends up as an additional $25 out of the consumer's pocket when he goes into the store to buy the appliance.

The CHAIRMAN. Many items have multiplied their production carrying larger taxes, than your own.

Mr. NEHEMKIS. I would have no question on that. That is correct. You have a point, sir. I am not quite sure I follow it.

The CHAIRMAN. How do you know I have a point, then?

Mr. NEHEMKIS. You asked a question and I agreed with you.

The CHAIRMAN. Many industries have multiplied their sales.

Mr. NEHEMKIS. Despite the incidence——

The CHAIRMAN. Despite the excise tax.

Mr. NEHEMKIS. That could be. I am concerned with addressing myself to this industry.

The CHAIRMAN. We have to be concerned somewhat with the aspect of the whole picture.

Mr. NEHEMKIS. I agree.

The CHAIRMAN. I am wondering why this article, which you say is something that is highly desired by every housewife, why you haven't been able to sell it when other industries paying an even larger tax than you, have multiplied their sales of articles.

Mr. NEHEMKIS. Without knowing specifically, sir, to what industries and which articles you refer, I would simply answer your question in this manner. We are talking here about articles which retail in the approximate $200 class. There are variations in price as between products. From a merchandising point of view, when you add that additional $25, there is a vast segment of our population who have been literally taxed out of their capacity to acquire this particular article. Your working mothers, for instance, who need these appliances if they are to hold down a job and keep their families clean, they can't afford that extra $25. It means that much to them. The large middle income groups where there are no servants, they cannot afford that additional $25. And that is the reason why sales to ironers have slumped 42 percent and sales of dryers have slumped approximately 40 percent since this tax became operative.

The CHAIRMAN. Could it be that the consumer wants something more than he does a dryer or an ironer and pays the price?

Mr. NEHEMKIS. Let me answer your question, sir, in terms of my own personal experience: My wife has, as her most important daily chore, the problem of keeping the family clean: The washing, the drying, and the ironing. The two most important things in her life are to make sure that clothes are dried and ironed. And I am interested because if she didn't have a dryer, I'd have the job of lugging that stuff out on the backyard clothesline.

Now, sir, I can speak of many others in the same situation. That is why a dryer, an ironer and a washing machine are mighty important machine tools in the average American family.

The CHAIRMAN. I am not denying for one moment that it is an important tool, I asked you a question whether consumer appetite might be tempted to put the spending money into other items which likewise carry taxes.

Mr. NEHEMKIS. I would venture to say——

The CHAIRMAN. I am trying to figure out why you have had this tremendous drop while others carrying taxes have had an increase.

Mr. NEHEMKIS. It depends on what the basic price of this article has been.

The CHAIRMAN. Doesn't it depend also on what the consumer wants?

Mr. NEHEMKIS. Consumer desires are the thing that——

The CHAIRMAN. Many people will buy a fur coat when perhaps—we don't need to go too far with it—they should buy a dryer. Many people buy jewelry when perhaps they should buy a dryer. Many people will buy a television when perhaps they should buy a dryer. I am talking about what the people want to buy. If they wanted to buy your product, wouldn't they buy it?

Mr. NEHEMKIS. We are in agreement on the fundamental of your question, sir, that it is the consumer who is the king emperor of our economy. He determines whether we are all prosperous or whether we slump into a recession, or worse.

The CHAIRMAN. Well, then, hasn't he decided to buy something else in preference to the dryer and ironer?

Mr. NEHEMKIS. No, sir, and I will tell you why I think I can answer that without attempting to be dogmatic, but in this manner—I endeavored to do so a moment earlier. For millions of American homes where there are no longer domestic servants, the housewife has got to do the ugliest chores that exist: Washing, drying, and ironing clothes. I challenge you, Senator Millikin, to ask any American woman whether she would voluntarily prefer to use a scrub board and a tub, or whether as a matter of choice she would elect to haul that wetwash in four basket loads from the basement to the backyard line in winter weather and in all seasons, get it from the line back into the basement, or the kitchen or the bathroom or wherever the ironing has to be done, if—if it was possible for her husband to go out and buy her a mechanical appliance which would do it for her and relieve her of that back-breaking and fatiguing chore.

The CHAIRMAN. Let us assume that is a back-breaking and fatiguing chore.

Mr. NEHEMKIS. That isn't even a rebuttal presumption, sir.

The CHAIRMAN. Let us presume that it prevents the husbands if they have a drier and an ironer, from lugging the stuff out to put on the wash line in the backyard. Let's assume that: Isn't it a fact that while you have been losing business, others who also pay excise tax have increased their volume?

Mr. NEHEMKIS. I will accept your statistics. I don't know. Where do we go from there?

The CHAIRMAN. We go just that far and that has considerable to do with your argument that the excise tax has been a tremendous deterrent to your own business.

Mr. NEHEMKIS. Well, that is a matter for your consideration. You must judicially weigh the evidence. I present you the facts as I understand them. It is for you to accept them——

The CHAIRMAN. I agree with what you have to say. Although we do not have a wash line at home and we use some kind of a dryer, sir,

or we use the laundry. I would hate like the devil to lug that stuff out in the backyard.

Mr. NEHEMKIS. You bet your life you would.

The CHAIRMAN. I can recall when we didn't have dryers and we didn't have these ironers that you are talking about—I do not want to return to that situation—but I don't recall that the men lugged the stuff out to the line.

Mr. NEHEMKIS. This is a new generation, sir. You ought to see what we have to do these days.

The CHAIRMAN. I am not quarreling with your argument. I am just wondering why other industries have increased under excise taxes, while your business has decreased.

Mr. NEHEMKIS. It is a matter for your consideration and I don't want to labor the point.

The CHAIRMAN. I don't either. Go ahead. And I want to repeat, again, that I am not in favor of going back to those days that I was talking about.

Mr. NEHEMKIS. I didn't think you were, sir.

It is axiomatic that, when sales dry up, tax revenues inevitably shrink.

In the 27 months since this tax has been in effect, it has produced annually an average of only $9 million.

Every citizen-taxpayer, every intelligent businessman, is anxious to do his part in providing the Government with tax revenues to maintain the essential governmental services.

But the point which needs to be considered is this: Does it make sense to cripple an industry, to close down its plants, to put men out of work, and really reduce the revenues of the Government, in order to raise some $9 million annually?

They used to call this being penny wise and pound foolish.

Actually, removal of the excise tax on ironers and driers would produce more revenue for the Government and create more jobs because all branches of our industry, manufacturers, distributors and dealers, would be able to increase sales anywhere from 20 to 50 percent.

That would mean real tax money for the Treasury instead of this piddling $9 million which is all that can now be collected.

At a time when there is considerable uncertainty as to the depth and duration of the contraction in business activity, it is vitally important—I think we are all in agreement—that we must keep consumer buying high, and I think we are all in agreement, sir, that the elimination of consumer taxes is the most direct and effective way to increase and stimulate purchasing power and to expand our high standard of living economy.

Repeal of the manufacturers' excise tax on household ironers and dryers would provide many thousands of housewives with a powerful incentive to resume their buying because the price of these two appliances would be reduced automatically by $20 to $25.

With that kind of an adrenalin shot to consumer buying, we in the dryer and ironer industry could forget all about the nightmare of depression.

We'd like to think that what's good for the consuming public is good for busines,, and the Nation.

It is entirely possible that I have misunderstood what the Reed excise tax bill (H. R. 8224) purports to do. From my analysis, however, it strikes me as being a magnificent but hollow edifice which purports to mete out equal justice to both the luxuries and the necessities of life. As I understand it, under the Reed excise tax bill, all major industry groups, except household necessities, will receive tax reductions ranging from 9 to 56 percent. In effect, the House bill levels some 20 individual excise rates now above 10 percent down to 10 percent, but completely ignores any excise rates now at 10 percent. Thus, with majestic equality all major industry groups are placed on a parity.

The working mothers and housewives of America will derive little comfort from the knowledge that their House of Representatives in the first excise tax reduction program in 20 years has graciously allowed the privileged wearers of mink coats and diamond bracelets a tax reduction, while they are sentenced to hang the family wash on the backyard clothesline.

The CHAIRMAN. The "average fur" is a rabbit fur. It isn't a mink fur. The mink furs went out of popularity last November.

Mr. NEHEMKIS. So I have heard, but I am not sure, sir, that the Republican majority of the Ways and Means Committee is thoroughly aware of that.

The CHAIRMAN. They should be and I think they are, because considerable was said about that.

Mr. NEHEMKIS. I hope so.

The CHAIRMAN. What I am trying to say is that, in the first place, I think we can struggle with these excises from now to eternity and we won't have a thoroughly well balanced, equitable tax. It would be better if we didn't have any, at all. These taxes came from a need for revenue. If you are going to have war and emergencies, you have to get the money, and you have to get it where you can get it. And that sometimes makes a very tough equitable problem, a tough moral proble, but after all, you have to get the money.

Mr. NEHEMKIS. Yours is a very unenviable position.

The CHAIRMAN. You said it. You said it.

Mr. NEHEMKIS. There is neither logic nor science in the way these things are put on.

The CHAIRMAN. That is right.

Mr. NEHEMKIS. We all, I think, recognize that. But I think by the same token, it is also incumbent upon our Senators who consider these things, and who are obliged, if you will, to weigh these matters judiciously, to recognize that if you can't get any revenue out of an industry because you have beat its head out and it can't sell its products, then, you are doing something which merely compounds a piece of foolishness.

The CHAIRMAN. Could be, but after all, the excise taxes that this revenue gets is the most dependable source of revenue there is.

Mr. NEHEMKIS. Is it really, sir?

The CHAIRMAN. Yes, it is.

Mr. NEHEMKIS. Is it, sir, when you have an industry such as I represent here this morning and speak for, and when its sales drop by 42 percent in ironers, when it drops 40 percent in dryers, when you lay off men, in small community after small community, when

in order to collect this revenue, all that the Treasury of the United States gets is $9 million?

The CHAIRMAN. I would say at once if that were the sole cause of this drop, that your case is 100 percent perfect. That is why I was questioning you a while ago.

Mr. NEHEMKIS. Well, the burden of proof is still on you, Senator Millikin, to determine that what I say isn't correct.

The CHAIRMAN. I suggested to you a while ago that a lot of businesses have expanded under excise taxes while yours has declined.

Mr. NEHEMKIS. We think we are pretty smart merchandisers.

The CHAIRMAN. I don't say that you are not. I know that you are smart.

Mr. NEHEMKIS. Thank you, sir. And our people beat their brains out from early morning until late at night. We all live—from the man on the production line to the fellow who goes out and sells—on the sale of these appliances. And if you can't sell them because the housewives are sitting on their pocketbooks, then all I can say is, there is something awfully wrong with this tax.

The CHAIRMAN. If the housewives are sitting on their pocketbooks, that means a new problem.

Mr. NEHEMKIS. Don't you suggest, sir, that we might defer that one.

The CHAIRMAN. I don't want our housewives to sit on their pocketbooks.

Mr. NEHEMKIS. No, sir. That is bad for business.

Shall I continue, sir?

The CHAIRMAN. Go ahead.

Mr. NEHEMKIS. Now, the argument has been advanced, and you, Senator Millikin, have suggested it to my count on three occasions, that to single out the household ironer and drier industry for relief—meritorious though its case may be, would be to open the door to other industries whose claims for relief have equal merit. If I may respectfully state, sir, we submit that this argument merely takes the easy way out. The plain truth of the matter is that the Congress of the United States has consistently refused to put an excise tax on household washing machines or vacuum cleaners, or sewing machines, presumably because these appliances were deemed to be necessities for the housewife, and were considered to be indispensable machine tools for the American home. This has been the congressional policy with respect to these three household appliances in World War II, and in the more recent Korean emergency when the revenue needs of the Government were as great or greater than at this postwar juncture. When the Congress has properly and wisely decreed that washing machines, vacuum cleaners, and sewing machines shall be immune from excise taxes, the Congress can and should also decree that ironers and driers shall likewise be immune from the incidence of the same tax, particularly when it is demonstrated that not only has the tax outlived its usefulness, but when it has paralyzed an entire industry.

Constitutionally, it is the Committee on Ways and Means of our House of Representatives which proposes tax reductions but it is the Finance Committee of the United States Senate which in the last analysis disposes of these recommendations.

The CHAIRMAN. For the time being, you see we have to go back into the House for a conference. They are tough fellows in the House and they regard that prerogative you are talking about as very sacred.

Mr. NEHEMKIS. They do, but you will forgive me if I state a reality of constitutional life. It is never too late, Mr. Chairman, and gentlemen of the committee, to rectify an injustice. This committee with its traditional statesmanship and its historic sense of equity can, if it will, dispose once and for all of an obsolete and punitive tax, a tax which in 27 months has clearly demonstrated that not only does it fail to produce any appreciable revenue, but actually has been a deterrent to the creation of revenue for both the Treasury of the United States and for those who look to the household ironer and dryer industry for their livelihood.

The CHAIRMAN. Did you present your case to the House?

Mr. NEHEMKIS. Indeed, sir. In abundant detail.

This committee should, once and for all, put an end to this absurd tax on the privilege of staying clean.

The CHAIRMAN. I hope this committee isn't put in the position of favoring things that are unclean.

Any questions?

Thank you very much, indeed.

Mr. NEHEMKIS. It has been a great privilege, gentlemen. I am grateful to you.

The CHAIRMAN. Thank you.

Mr. Mort Farr.

STATEMENT OF MORT FARR, NATIONAL APPLIANCE AND RADIO-TV DEALERS ASSOCIATION

The CHAIRMAN. Identify yourself to the reporter, please.

Mr. FARR. My name is Mort Farr. I am a retailer from Upper Darby, Pa. I have been in the retail appliance business for over 30 years. I appear here as chairman of the board of the National Appliance and Radio and Television Dealers Association to represent over 100,000 dealers who are employers of several hundred thousand salesmen and servicemen. I am accompanied by Mr. Peter Nehemkis of this city, who is special counsel to my association.

Last July, I appeared before the Ways and Means Committee and offered my testimony regarding the compelling urgency for relief from the 10-percent excise tax on household ironers and automatic clothes dryers.

In the opening paragraph of my statement I said: "Certainly, these two appliances are not luxuries in the mink coat or diamond class."

Apparently, my arguments carried little weight with the committee—or at least the Republican majority—since the Reed excise tax bill obviously regards mink coats and diamonds as more important than household necessities.

The CHAIRMAN. Well, now, I suggest to you that we get off of this partisan note. We don't allow this to be a partisan cockpit in here. If we did, we would have some interesting arguments on the subject you have raised.

Mr. FARR. We have such interesting arguments.

The CHAIRMAN. And you don't convince the people on the other side, so far.

Mr. FARR. Unfortunately.

This is not to say that relief is not needed in certain of the areas covered in the House bill. But in the appliance trade let me tell you, for what it may be worth, that we think H. R. 8224 is a grim jest. There are over 100,000 of us dealers in appliances all over the country. We're fighting for our economic lives right now. How do you think we feel about a bill which gives relief to the luxury items and utterly neglects those very household necessities the sale of which spells the difference between staying open or closing our doors?

Maybe the Reed bill is smart politics. As a businessman, I wouldn't know. It is, however, obvious even to a nonprofessional, that to ask anyone to vote against this bill is like asking for a vote against sin.

You, Senator Millikin, are reported in the press as having said that the House bill will pass the Senate "substantially" in its present form.

The CHAIRMAN. You said that.

Mr. FARR. Well, the only reason I had the heart to come down to Washington this morning and speak my piece for the appliance dealers of America is the hope I derive from Senator Millikin's use of the word "substantially."

On that one word we, the appliance dealers of America, pin our hope that the Finance Committee of the United States Senate will rectify the injustice which is embedded in the Reed excise tax bill—that this committee will recognize the obvious unfairness of ignoring the need for excise tax relief for household necessities.

As an individual dealer of home appliances and speaking for my association, we regard all forms of manufacturers' excise taxes as an unsound approach to raising tax money. I propose to address myself at this hearing solely to the manufacturers' excise tax on household ironers and dryers. No other 2 appliances so eloquently demonstrate the absurd economic results of an excise tax as does the 10 percent excise on these 2 products.

A tax which has placed an entire industry in distress because it can't sell its products—a tax which prevents millions of housewives from acquiring labor-saving appliances which they urgently need and want—a tax which is a dismal failure as a revenue producer—ought to be repealed. May I stop there and just state I noticed in your questioning of the previous witness, as to some industries going forward while the dryer and ironer industry apparently has lagged, the one product most comparable to it would be automatic washers. That is a home laundry device. It has no tax and never had a tax. Neither has vacuum cleaners. A housewife in her mind cannot differentiate between a washer which she uses at the same time and for the same uses as dryers and ironers and doesn't understand this discrimination. Automatic washers have had phenomenal growth since the war which we have expected in these other devices but which hasn't occurred.

This tax hasn't worked for one basic reason: It has caused the price of ironers and dryers to be increased by another $20 to $25. This additional cost to the consumer taxes these two appliances right out of the average family budget.

To call this tax a manufacturers' tax is misleading. It's a consumer's tax.

Anyone in the business of manufacturing or wholesaling or retailing knows that it is the ABC of American business for a manufacturers' excise tax to be pyramided. And that in the final analysis, the excise tax is paid out of the consumer's pocketbook—but many times inflated. As the former Assistant Secretary of Commerce, Mr. Craig R. Sheaffer—who, by the way, is a manufacturer and would know whereof he speaks—testified before the House Select Committee on Small Business:

It is important to remember that the farther away from the final sale that the tax is levied, the more the consuming public is likely to pay as a result of the tax.

A manufacturers' excise tax inflates the price on each transaction at every stage of distribution.

In fact, it is estimated on this ironer and dryer tax the Government gets only 25 cents out of each 42 cents which the consumer pays in the form of this tax.

A manufacturers' excise tax has to be financed at each stage of distribution through the wholesaler, the jobber and the retailer because the tax becomes embedded in the price at all levels of distribution.

A manufacturers' excise tax increases the cost of financing inventory; insurance; property taxes; rental; and wages.

So in the end, it comes out of the hide of the long-suffering consumer.

The great majority of consumers, however, have never heard of a manufacturers' excise tax. But they do know when the price of an article is right and within the reach of their family budget.

During the growth of the appliance industry a price reduction of 10 percent broadened the base of the market by about 20 percent and increased sales by that amount.

It's logical to expect that if this excise tax was removed, that such an increase would be attainable.

Right now millions of housewives are painfully aware that the extra $20 to $25 which they are being asked to pay for an ironer or dryer is too much. So they're waiting. And while they wait, inventories are piling up.

We dealers have to carry and finance those inventories.

We dealers simply can't afford to act as bankers for our merchandise.

When we dealers can't move our inventories, that's the beginning of the vicious spiral which leads to a recession.

We cut back our orders from our distributors.

Our distributors cut back on their orders from the manufacturers.

The manufacturer cuts back on his production; starts laying off his workers—and the specter of unemployment looms; small communities which depend upon these manufacturing plants for their well-being begin to feel the pinch of the lack of community purchasing power. When the manufacturer, the distributor, the dealer are no longer able to sell ironers or dryers, the tax revenues otherwise available to the Government begin to dry up.

So we have this situation: A tax which is supposed to produce additional revenue as an emergency measure produces annually only some $9 million of excise revenue, dries up sales, and results in even larger losses of corporate income tax revenue.

Is a tax which leads to these economic consequences really worthwhile?

In all seriousness, does anyone on this committee really think that, if this tax—which nets the Treasury a paltry $9 million annually—were repealed, it would even move a decimal point in the Federal budget?

As far as I am able to judge, the real beneficiary of the House bill is the National Association of Manufacturers. As is well known, the NAM advocates a uniform manufacturers' sales tax on all manufactured goods.

The CHAIRMAN. They haven't got it, have they?

Mr. FARR. No, thank goodness.

The CHAIRMAN. I suggest they are not going to get it.

Mr. FARR. That is fine.

Although President Eisenhower ruled out any national retail sales tax in his legislative program, the practical effect of the House bill is to give the NAM a legislative victory on a diamond-studded platter. While the NAM did not obtain a uniform 5 percent manufacturers' excise levy, it has for all practical purposes won the first round of its well-publicized campaign by obtaining a uniform 10 percent manufacturers' levy.

If the Finance Committee adopts this principle, in my judgment we have moved in the direction of making the manufacturers' excise tax a permanent feature of the tax structure.

The CHAIRMAN. I think maybe you are jumping a little bit there. That doesn't necessarily follow. And I am not so sure that the NAM has won a victory. We haven't added any taxes, have we, in this bill?

Mr. FARR. No.

The CHAIRMAN. They would like to have a tax on all items that are manufactured, with a few exceptions.

Mr. FARR. So I understand.

The CHAIRMAN. Go ahead.

Mr. FARR. If this is to be the policy of the Congress, I respectfully suggest that it should not be accomplished as part of a tax measure which purports to give tax relief.

Let this policy be adopted only after it has been fully debated on its merits. Let it not be accomplished by indirection.

I began my testimony with a hope. I end it with a prayer. It is this: That this distinguished committee will with courage and wisdom in its consideration of H. R. 8224 draw the necessary distinction, on the one hand, between those items of the home which are indispensable necessities as, for example, household ironers and dryers and where repeal of the existing 10 percent tax is amply justified; and, on the other hand, such other items which the House bill neglects as, for example, radios and television sets where outright repeal of the 10 percent tax is not urged but where a reduction in the rate is called for.

By drawing this distinction, in my judgment it is still possible to save the House bill from the stigma of discriminatory legislation.

The CHAIRMAN. When was this tax put on?

Mr. FARR. On dryers and ironers?

The CHAIRMAN. Yes.

Mr. FARR. November 1951.

The CHAIRMAN. What administration was in charge of the Government at that time?

Mr. FARR. Well, I suppose everyone remembers that.

The CHAIRMAN. Would you mind telling us, because you introduced a little partisan note a while ago.

Mr. FARR. Well, I am sure we all understand that that was a Democratic administration. May I say, sir, I am from Upper Darby, Pa., which is a strong Republican area.

The CHAIRMAN. Off the record.

(Discussion off the record.)

Mr. FARR. Are there any questions?

The CHAIRMAN. I have no questions. Are there any questions?

Thank you very much. You have made a very interesting presentation.

Mr. FARR. Thank you, Senator.

The CHAIRMAN. Mr. Condon, please.

Make yourself comfortable and identify yourself for the reporter, please.

STATEMENT OF ARTHUR D. CONDON, COUNSEL, AMANA REFRIGERATION, INC., AMANA, IOWA

Mr. CONDON. Mr. Chairman and gentlemen, my name is Arthur Condon, attorney, of Washington, D. C., and I appear here as counsel for the Amana Refrigeration, Inc., of Amana, Iowa, manufacturers of home refrigerators and home freezers, on which the present excise tax is 10 percent.

At the outset, I wish to express our appreciation for the opportunity to make known our views to the committee.

The CHAIRMAN. We are very glad to have you.

Mr. CONDON. Thank you, sir.

In the interest of conserving the committee's time, and to avoid repetition, I would like, with permission, to submit my statement and ask that it be included in the record. And then I would like to confine my remarks to a summary.

The CHAIRMAN. You may proceed, and we will be glad to put your statement in the record.

(Mr. Condon's prepared statement follows:)

STATEMENT OF ARTHUR D. CONDON, COUNSEL FOR AMANA REFRIGERATION, INC., AMANA, IOWA

Mr. Chairman and gentlemen of this honorable committee, I am Arthur D. Condon, attorney, of 1000 Vermont Ave. NW., Washington, D. C., and I am testifying here as counsel for Amana Refrigeration, Inc , of Amana, Iowa, manufacturers of refrigerators and freezers, a substantial portion of which are of the type used in homes.

We welcome and appreciate the opportunity to appear here and present our point of view as to the effect upon our industry's economy and the welfare of all our citizens if the excise tax on home refrigerators and home freezers is maintained at its present 10 percent rate as proposed in the House report on the 1954 revenue bill.

The home freezer industry was practically nonexistent 10 years ago. Despite the strides made, the industry is still in its infancy and is in the promotional stage. Of all the household appliances beneficial to the American public's health, welfare and economy, freezers and refrigerators constitute a major factor in raising the standards of America's health through the proper preservation of food products.

The use of home freezers and refrigerators in farm homes is a family necessity and not a luxury. Their use provides a method for the safe and economical preservation of food and prevention of spoilage and waste. It is well known that

Federal and State Governments concerned with health safeguards advocate and urge the use of mechanical refrigeration, including home freezers

Recognition by Government agencies of the importance of electrical refrigeration has been a chief factor in the spread of rural electrification. The farms of a typical Midwestern State, predominantly rural, are 98 percent electrified today. Our industry proves that the 10-percent excise tax constitutes a definite deterrent to the low income farm groups. The House report proposes to reduce the excise tax on telephone service to 10 percent but provides no proportional reduction, or any reduction, for electrical refrigerators and freezers. What justification is there for leaving the excise tax on electrical refrigeration at the high rate of 10 percent, and reducing the telephone tax? Farmers need relief on this vital and essential service.

In view of the limitations of time I will confine my statement to one more point. That is, the importance in the national economy of the freezers and refrigerators and the significance of its successful operation upon employment, wages, salaries, income for investment affecting suppliers of raw and fabricated materials, the transporters, the distributors, the retailers, frozen-food industry, as well as our own industry.

It is respectfully submitted that the best interests of the Nation's standards of health, food, and economy, will be served by omitting, or at least substantially reducing, the present excise tax on freezers and refrigerators.

Mr. CONDON. On home refrigerators and home freezers, the tax is 10 percent. These are among the group of household items referred to this morning upon which no reduction is proposed.

The class of people who are hit the most by the excise tax on these products are the farmers. For example, in Iowa, which I will suggest as a typical farm State, statistics show that today, 98 percent of the farms of Iowa are electrified, which means, of course, that they are adaptable to electrical refrigeration and electrical freezers. Now, the Federal Government, the State governments, and the municipal governments have, for the past several years, persisted in their efforts to encourage farmers to obtain electrified equipment for refrgeration and freezing, from a health standpoint, and from the standpoint of food preservation. Large strides have been made, as we all know, in that sense.

So far as the industry, itself, is concerned, especially referring to the home freezer industry, which is comparatively new—there were no home freezers—at least no standardized types of home freezers before World War II. Having in mind the newness of the industry, and the fact that it is in its infancy, and therefore, can be said to be in a promotional stage, and I don't think we need much argument to point out that the 10 percent tax is a definite handicap to the industry.

Certainly, from the standpoint of health and food preservation on the farm, refrigerators and home freezers take second place in importance to no other household appliance, or any other type of appliance.

The House bill proposes cuts in telephone excise taxes, a cut in the present tax on long-distance calls, and also in the present tax on telephone service generally, down to 10 percent.

On the basis of comparison, it seems only fair that if the Congress proposes to recognize that there should be, in the interests of the economy, a reduction in the telephone excise tax, certainly, proportionately, we feel there should be a reduction in the tax on refrigerators and home freezers.

The CHAIRMAN. Your point is to reduce them all proportionately, is that your point?

Mr. CONDON. Yes, sir.

The other point I would like to make, sir, is that the industry is an important section of our economic activity. It is a growing industry,

but it is strong, it is well established, and the present 10 percent tax has proven to be a burden because the industry is highly competitive. So, gentlemen, in conclusion, may I say that it is our hope that the committee will look carefully into this question and weigh the factors that I have recited here, with a view to seeking a reduction in the present 10 percent excise tax on refrigerators and home freezers.

The CHAIRMAN. Any questions?

Senator GEORGE. What is the tax paid by the industry, now?

Mr. STAM. It is $80 million.

Mr. CONDON. Is that for refrigerators and home freezers?

Mr. STAM. Yes, sir.

Senator BYRD. Is your business going up or down?

Mr. CONDON. This particular company is holding its own, Senator, the management is very efficient.

Senator BYRD. I mean, taken as a whole.

Mr. CONDON. I just don't know. I don't have that information as to the industry.

Senator BYRD. The previous witness testified their business has declined 42 percent, the home dryer and ironer business.

Mr. CONDON. I will be glad to provide it. I don't have that information.

Senator BYRD. That tax was placed the same time as it was on the dryers, is that correct, October 1951?

Mr. CONDON. It was placed on home freezers for the first time, in November 1950, the tax on dryers was effective November 1, 1951.

Senator BYRD. Would you furnish a statement as to the total amount of business, the decline and increase during that period?

Mr. CONDON. We will endeavor to do that, sir, promptly.

(The information requested follows:)

Annual production of home freezers [1]

Year	Units	Amount
1951	1,050,000	$378,000,000
1952	1,140,000	421,800,000
1953	1,200,000	480,000,000

[1] From the January 1954 issue of Electrical Merchandising published by McGraw-Hill.

The CHAIRMAN. Thank you very much.

Mr. Oliver F. Fancey, will you make yourself comfortable and identify yourself?

STATEMENT OF OLIVER F. FANCEY, WASHINGTON REPRESENTATIVE, NATIONAL SCREW MACHINE PRODUCTS ASSOCIATION

Mr. FANCEY. My name is Oliver Fancey, of Washington, D. C. I am a trade-association executive and I appear here today on the problem affecting the screw machine products industry, which I represent, as well as all manufacturers in this country using cutting oils in their manufacturing processes.

Our problem is improper classification. The problem involves the misapplication of Internal Revenue Code section 3413 to a group of oils known commercial as cutting oils. The solution, although simple,

requires an act of Congress. To this end, we request an amendment to eliminate cutting oils used in manufacturing processes from the general category of lubricating oils, now taxed at 6 cents a gallon, under section 3413 of the IRC.

We have proposed an amendment, here, which is similar to a bill introduced in the House—H. R. 5606.

I have submitted enough of these briefs so that copies can be used for insertion in the record, and I would like to ask for insertion in the record. I will comment on some of the paragraphs.

We propose amending the Internal Revenue Code to provide that the excise tax on lubricating oils shall not apply to cutting oils, as follows:

Be it enacted by the Senate and House of Representatives of the United States of America, in Congress assembled, That section 3413 of the Internal Revenue Code (relating to tax on lubricating oils) is hereby amended by adding at the end thereof the following: "Oils used primarily in cutting and machining operations on metals and known commercial as 'cutting oils' shall not, for the purposes of this section, be considered as lubricating oils."

SEC. 2. The amendment made by the first section of this Act shall take effect on the first day of the first month which begins more than ten days after the date on which this Act is enacted.

We need congressional action to obtain relief, because back in 1939 some members of the industry instituted a suit in the Court of Claims to recover lubricating oils tax paid on cutting oils and fluids.

The claim was denied by the court about 2 years later, and the decision then that cutting oils act as a lubricant, as well as a coolant, has prevented our getting administrative correction through the Internal Revenue Service.

The industry operates principally automatic screw machines in producing metal products machined from bar, rod, or tube stock. The screw machine products industry embraces approximately 1,500 establishments.

An impelling reason for this action is the use by this samll industry of more cutting fluids, in proportion to sales volume of products, than any other industry in the country, and therefore, this tax bears unequally on these producers.

The first tax on lubricating oils was applied in 1932, and the record at that time discloses that Congress intended to tax only lubricating oils used in automobiles, similar to the Federal gasoline tax. Unfortunately, the original act, and its amendments in 1940 and 1942, was so worded as to include for tax purposes all lubricating oils, later defined under Regulation 44, section 314.40, to include all oils which are sold as lubricating oil and all oils which are suitable for use as a lubricant.

The present tax law, imposing rate of 6 cents per gallon on lubricating oils, has been construed by the Treasury Department to apply to cutting oils and fluids, classing them as lubricants, although expert and practical opinion of the industry as to their function does not support this appraisal.

Cutting fluids and oils are a much cheaper commodity than motor and/or true lubricating oils, costing as little as 10 cents per gallon in some groups, making the ad valorem rate of tax 60 percent. The average ad valorem rate on cutting oils based on 6 cents per gallon tax would be over 20 percent.

The last factual survey of annual consumption in the United States of cutting oils and fluids, made in 1947, indicates annual use to be 15,689,765 gallons of straight cutting oils, and 9,202,106 gallons of emulsifiable cutting oils. Emulsifiable oils are diluted with water before using.

Approximately 25 million gallons are used annually. This volume is supported by American Petroleum Institute sales survey in 1951 which lists total United States sales of industrial oils for nonlubricating uses at 25,599,000 gallons. At the lubricating oil excise tax rate of 6 cents per gallon, annual revenue would be approximately $1½ million.

All operators of machines that cut metals purchase a small amount of oil for actual lubrication of the machine parts, such as gears and bearings. They also purchase and use a much larger quantity of cutting oil base which, mixed with water, sulfur, chlorine or other substances, is flushed on the metal being cut and on the cutting tools during cutting operations and functions as a coolant and to carry away cuttings and chips. These coolant and flushing mixtures which we are dealing with are called "cutting fluids or cutting oils."

Mr. F. M. Aldridge, president of Aldrich Industrial Oils, Inc., of Cleveland, Ohio, says:

> There is considerable difference between compounds and fluids used as lubricants and ones used in cutting or forming of metals.

A definition of lubricant is:

> That which lubricates; specifically, a substance, like oil or grease, which may be interposed between moving parts of machinery to make surfaces slippery, reduce friction, and prevent sticking between the lubricated surfaces.

Mr. Aldridge points out that metalworking fluids are not to be confused with the oils or greases contained in the bearings, gear cases, hydraulic systems, motors, et cetera. His description reads, in part, as follows:

> *Cutting oils.*—Suitable fluids applied between the work metal and the forming tools, to cool, and cushion both tools and work. That essentially, is the purpose of metalworking lubricants, so to function between work and tool as to facilitate the forming of the desired piece as quickly, cheaply, and accurately as possible, and with the least damage or wear to the forming tools.

He also says:

> All true metalworking processes which utilize fluids or compounds do so under conditions of extremely high unit pressure.

He points out the functions of metalworking oils and fluids as follows: (1) Minimize surface friction to preclude temperature rise—chemical cooling; (2) dissipate heat generated due to metalworking—physical cooling; (3) cushion work and forming tools to prevent metal adhesion and pickup—physical surface activity; (4) by chemical means at workmetal-tool interface, prevent rapid wear and galling of workmetal on tools or dies—chemical surface activity; (5) flush, cleanse, blow or dissipate ordinary contaminants—particles, dirt, scales, et cetera—from between working surfaces; (6) assist in securing or maintaining metallurgical characteristics in the workmetal necessary to the processing desired.

In a cutting fluid, the cooling action is highly important, as there is so much heat generated due to internal friction in a metal resulting from grain deformation.

The high unit pressures are vastly different than the load between moving parts and machinery, et cetera. As a result, the following are commonly used in making metalworking fluids or coolants: Active sulfur, active chlorine, fats of many types, water, inert fillers such as talc, chalk, and various pigments, mineral oils lighter than SAE 10. These are not commonly used in materials which are considered as lubricants.

I would like to say we have no gripe with our treatment. In all the 14 years that we have been pushing this matter, we have been received well, our case has been said to be meritorious, we have had helpful assistance from the Ways and Means Committee, from the staff, from Mr. Stam's staff, and in fact, from everybody, but they just haven't gotten around to doing anything about it, because taxes were not being reduced in those years and apparently no consideration could be given to our case, so we are just where we were in 1941.

The CHAIRMAN. What is the present tax?

Mr. FANCEY. It is a per gallon tax of 6 cents. It is not an ad valorem tax, it is per gallon.

We have been promised consideration later on, in the Ways and Means Committee, but over the years that we have battled this thing, we have found that things happen later, and there is no time for consideration. Therefore, we feel we would be remiss if we don't put this matter up to the Senate Finance Committee for consideration.

I mentioned the statement by Mr. Aldridge in which he describes cutting fluids, and I would like to point out that the American Petroleum Institute, in a survey for the Department of Commerce on sales of oils and greases, issued July 1953, under "Business Information Service," includes a statement on page 4, under "Classification of products," as follows:

> Sales analysis of lubricants and allied products, under the heading "Industrial and Other Oils," gives this definition: "Products intended for processing, testing, or other nonlubricating uses, which are sold by the gallon, including tanners' products, cutting oils and compounds intended to be used for any operation in the working of metal, such as cutting, machining, threading, forging, drawing, grinding, rolling, punching, stamping, etc., and oils and compounds used for quenching, tempering, or rust prevention."

Now, we have been unable to get an administrative ruling that cutting oils are not lubricating oils because of the court decision against us, which we feel was academic, and therefore, it is necessary for us to prove that, administratively, this amendment is feasible; that the people who sell cutting oils, know what they are selling, that the people who buy then know what they are buying, and know what they are used for.

These cutting oils are in an entirely different category than lubricating oils. These oils are primarily used to cool the metal being cut, and the tools used in a machining operation—hence, the term "cutting oils." On the other hand, oils used purely for lubrication are different in viscosity and compounding and are carried in separate reservoirs in the machine tools, with every attempt made to keep the two types of oil from contaminating each other.

Cutting oils are used in extremely large volume because volume is needed to effect proper heat transfer. The average automatic multispindle screw machine requires 75 gallons of cutting fluid mixture in

the flushing tanks which is circulated at the rate of 50 gallons per minute, and is completely dissipated, by loss through spray and on chips, 10 or more times per year.

The cost of cutting fluids used average 5 cents per machine-hour operated for each automatic screw machine, higher than many other costs such as employee insurance.

As the gentlemen on this committee know, normal lubrication consists of inserting a film of oil between two objects to separate them and so reduce friction.

For example, a knife blade easily cuts a pencil. But if I were able to maintain a film of oil on the pencil, the blade would slip off the wood instead of penetrating; likewise, in a bar of steel and a cutting tool.

If cutting oils were used for lubricating purposes, the cutting tool could not dig into the bar and remove sections of it in the form of chips. To be effective, the point of the tool must penetrate into the metal, and the extreme heat so generated must be dissipated.

This explanation illustrates that cutting oils are not purchased for lubricating purposes and, therefore, are in the category of oils for nonlubricating uses and have been previously improperly classified.

The CHAIRMAN. May I ask you, Mr. Fancey, whether the manufacturer pays less for cutting oil than he does for lubricating oil?

Mr. FANCEY. Yes. Very much less. While you were out, I covered that in my statement. The average price of cutting oil is somewhere between 10 cents and 30 cents a gallon. At 10 cents per gallon, with a 6-cent tax, it would be 60 percent ad valorem. It would run down as low as 20 percent, possibly. Of course, we are not trying to prove that we ought to have a reduction in tax; we are trying to prove that we have been misclassified and that we are not in the lubricating-oils class at all.

The CHAIRMAN. You wouldn't object to a cut, would you?

Mr. FANCEY. Oh, no, but our premise for 14 years has been misclassification.

The CHAIRMAN. If there was a proper classification, you would feel you would have less taxes?

Mr. FANCEY. In view of the fact that we are in the lubricating oils——

The CHAIRMAN. Your company is very pleasant, but you are not here just for a social occasion, are you?

Mr. FANCEY. No, but I might say as we are now in the lubricating oils class, there are a good many administrative problems which Mr. Stam, I am sure, could tell you about, that would make it difficult to give us an ad valorem cut. We would be glad to have it, surely, and we tried to figure out a formula for the Ways and Means Committee. In fact, that committee went into this quite substantially but they got to the point where they had to pass a tax bill and they did not have time to consider our phase at the first go around.

We respectfully ask that this committee include the proposed amendment in the revision of the revenue act in justice to the actual use of cutting oils and to eliminate the present discrimination.

I wish to thank the committee for this opportunity to appear before you and will be available to answer any questions raised by my statement.

The CHAIRMAN. Are there any questions?

Thank you very much, Mr. Fancey. We are glad to have your testimony.

Mrs. Pauline B. Dunckel.

STATEMENT OF MRS. PAULINE B. DUNCKEL, EXECUTIVE SECRETARY, THE INSTITUTE OF COOKING AND HEATING APPLIANCE MANUFACTURERS

Mrs. DUNCKEL. Mr. Chairman and gentlemen of the committee, I am Pauline Dunckel. For 20 years I have been executive secretary of the Institute of Cooking and Heating Appliance Manufacturers, which is made up of companies which produce all types of domestic cooking and water-heating appliances, gas, electric, and oil.

I would like to file my formal statement and speak extemporaneously.

The CHAIRMAN. It will be made a part of the record.

(Mrs. Dunckel's statement follows:)

STATEMENT OF MRS. PAULINE B. DUNCKEL, EXECUTIVE SECRETARY, THE INSTITUTE OF COOKING AND HEATING APPLIANCE MANUFACTURERS

INTRODUCTION

Mr. Chairman and members of the Finance Committee, my name is Pauline Dunckel. For more than 20 years, I have been executive secretary of the Institute of Cooking and Heating which has broad coverage of the electric, gas and oil appliance manufacturing industry. Its members produce all fuel types of domestic cooking appliances, water heaters and space heating equipment, as well as a variety of other major appliances.

This testimony would ordinarily have been presented by a manufacturer but the Friday announcement of these Monday hearings made it impracticable to get a manufacturer to Washington and have him prepare a statement over the week end.

The industry we represent is made up primarily of small-business concerns employing less than 500 persons. It operates in 38 States and has approximately 100,000 factory employees. The level of business activity in our industry affects a broad segment of the American economy since our products are sold through an estimated 5,000 wholesalers and perhaps 100,000 retailers.

PURPOSE OF TESTIMONY

The institute and its members recognize the country's urgent need for high tax revenues, the importance of adequate defense, and of sound Government financing. We have not conducted high-pressure campaigns to obtain removal of the excise tax imposed on electric, gas, and oil appliances, but we have appeared at every excise tax hearing scheduled by either the Senate Finance Committee or the House Ways and Means Committee since 1941 to point out the fallacy of taxing vital necessities of life.

The very urgency of the country's need for high tax revenues places an added responsibility on Congress to see that taxes are levied equitably and impose approximately the same degree of burden on all classes of taxpayers.

Through the adoption of H. R. 8224, the House indicated that downward adjustments in some excise tax schedules are now possible. It may seem to be fair to roll back many schedules to the 10 percent figure thus attaining what appears to be a degree of uniformity. We believe, however, that the revision of present selective and highly discriminatory excise tax schedules should be made on a sounder basis.

No household can be established without a cooking range and a water heater. A 10 percent tax on them is a much greater hardship on the taxpayer than a 10 percent tax on jewelry and furs, for example, because purchases of those products are completely discretionary.

A manufacturers' tax on durable goods discourages sales—in fact, it was imposed for that purpose. The very reasons which impelled the imposition of the

tax on appliances 13 years ago, now makes its repeal imperative as a brake on the deflationary pressures evident in all segments of our market.

Our purpose in appearing before you is to urge the immediate adoption of an amendment to H. R. 8224 to repeal the burdensome tax on domestic ranges and water heaters.

FIVE BASIC REASONS WHY

I shall mention briefly only five points in support of our position. Many others could be advanced if time permitted:

1. *This tax on the most essential of all household appliances is, in effect, a tax on food and good health.*—Legislators have carefully avoided taxing foods and drugs, yet a tax on a range is, in effect, a tax on food and a tax on a water heater is as unsound as a tax on medicine because both are essential to good health.

2. *The tax is selective and discriminatory.*—It does not apply to all consumer durable goods and places certain durables at a particular disadvantage in competition with "soft goods." Among the household items not taxed are washing machines, vacuum cleaners, draperies, floor coverings, furniture, kitchen cabinets and sinks, sewing machines, and most consumer soft goods.

None of these is as essential as the range and the water heater which are used almost continuously every day.

The concentration of taxable items—ranges, refrigerators, water heaters, freezers, dishwashers, electric garbage disposers, ironers, dryers, and small appliances—is in the kitchen, the heart of the home.

The distinguished chairman of the Ways and Means Committee, Mr. Daniel A. Reed, made this statement before the House of Representatives on July 20, 1953: "The present (excise tax) system which has piled discrimination onto discrimination over the past 20 years cannot be corrected overnight. * * * It is my sincere expectation, however, that out of these present studies we will be able to develop a tax system which will be fair to all."

The members of our industry had hoped that H. R. 8224 would include the reform measures to which Mr. Reed referred. However, from statements made on the floor of the House and from a review of the bill it is plainly just a stopgap for the purpose of extending certain wartime excise rates beyond April 1 and giving relief to some industries claiming business hardship.

Most industries, certainly the one I represent, are suffering reduced sales and profits in this present "rolling readjustment" or "recession"—whatever you prefer to call it. Since the claim of business hardship is applicable to most taxed products, amendments in excise tax schedules now should be based primarily on fairness to consumers.

3. *The tax restricts employment opportunities.*—Under present very sensitive business conditions, the excise tax on ranges and water heaters restricts sales and, in direct proportion, cuts down employment opportunities. This is true not only in manufacturers' plants, but in the warehouses and stores of thousands of distributor and dealer concerns which handle our products.

The consistent opposition of the national labor organizations to excise taxes has been based on the fact that they bear most heavily on low-income groups and because such taxes restrict sales and limit employment opportunities in affected industries.

4. *The tax has contributed to the present business hardship in the appliance industry.*—Rising costs and a drop in consumer demand have brought with them a sharp decline in earnings by producers and sellers of cooking and water-heating appliances. Business activity for the first 2 months of this year continued sluggish, showing a decline between 5 and 10 percent below the levels of sales in the early months of 1953.

President Eisenhower recently stated that unless business activity shows an upward trend during the current month, he will use every measure at his disposal to prevent a further deflationary spiral. The removal of excise taxes on essential household appliances would be one factor in accomplishing the President's objectives because it would make more discretionary purchasing power available.

5. Tax authorities agree that any tax is a bad tax (*a*) if it bears most heavily on those least able to pay, or (*b*) if the cost of collection or the cost to the taxpayer is out of proportion to the net receipts of the Government.

This tax on essential appliances is bad on both counts. It bears most heavily on low-income groups because every family must have a means for cooking and water heating. The well-to-do man spends comparatively little more for these necessities than one with a low income. Discretionary spending in high-income

groups is more frequently for luxurious (and untaxed) rugs, draperies, furniture, china, glassware, etc., than for taxed appliances.

A further proof of the burden on low-income groups rests on the fact that purchases of ranges and water heaters are not postponable when new households are being set up or when old equipment has broken down. These appliances are, as you know, absolute necessities of everyday life.

CONSUMERS PAY NEARLY DOUBLE THE AMOUNT OF NET REVENUE TO THE GOVERNMENT

As we have said, low collection costs are an important factor in a sound tax structure. The excise tax on durable goods, imposed at the manufacturing level, costs the consumer approximately 75 to 80 percent more than the Government actually collects in taxes.

Wholesalers and retailers state (and there is a great deal of merit in their position) that the amount of money they pay out for taxes is a part of their cost of doing business, and they are justified in including the excise tax payment along with all other costs, before applying their customary margins of markup.

A spread of approximately 75 to 80 percent between actual tax revenue to the Treasury and the cost to the consumer is prohibitive.

CONCLUSION

We have supported our request for immediate repeal of excise taxes on ranges and water heaters in a number of ways, but our case is primarily based on the fact that this tax is not in the public interest and is in effect a tax on food and good health.

Almost every industry requesting excise-tax relief has claimed that its portion of total tax revenues is "negligible." We could use the same argument. We prefer, however, to rest our case on the fact that, since Congress has decided a downward revision of excise-tax schedules is warranted now, it is important to make those revisions which are fairest to consumers. H. R. 8224 is only a stopgap measure which perpetuates existing inequities and adds some new ones because proposed rates on some items (much less essential than ranges or water heaters) are lower than those in effect before the Korean war.

We hope your committee will recommend to the Senate that the tax on essential ranges and water heaters be eliminated and proper steps be taken to protect distributors and dealers against a loss of taxes paid on stocks they own when the tax is removed.

The wisdom of floor-stock refunds was again recognized overwhelmingly by the House of Representatives a few days ago when a last-minute amendment to H. R. 8224, was passed to take care of such refunds when taxes on automobiles and trucks are scheduled for rollback.

It is difficult for a layman to estimate the effect on Federal revenues of removing excise taxes, but we believe the sales stimulant resulting from tax removal will increase corporate-tax payments as well as income taxes paid by thousands of employees in our industry and in the wholesale and retail concerns which distribute our products, thereby either wholly or in part offsetting lost revenue from excises.

We urge your favorable consideration of immediate repeal of the tax on ranges and water heaters and appreciate this opportunity to present our case to you again. We shall welcome questions or requests for further information.

Mrs. DUNCKEL. The tax was imposed in 1941. It was a wartime measure, and had two principal purposes, as you gentlemen know, first to raise revenue for war purposes and perhaps primarily to conserve metal.

We have not fought this act during the war period, because we recognized the need for high revenues, but we do question, now, the wisdom of changing one type of inequity in tax structures for another. The business of manufacturing cooking appliances is widely spread throughout the States, most plants are small, employing less than 500 people. We deal through 5,000 wholesalers and 100,000 or more retailers.

The association for which I speak has, through many witnesses, been represented at all of the hearings of your committee and of the

House Ways and Means Committee for 13 years. It has been frequently our experience that "nest year" the taxes on our products will be considered. We feel that the time for consideration is now, because Congress has apparently recognized that some tax rollback is possible, and we think that when you tax a range, you are taxing food. No household in America can be set up without some kind of a cooking device. The only one you leave untaxed is a coal or wood stove. No house can be healthfully operated without a water heater, and you tax all water heaters except those burning solid fuels.

On the other hand, given sufficient money, I can buy a $4,000 Persian rug with no tax; I can buy brocaded draperies, fine china, fine glassware, all of these things, untaxed; whereas, the stove on which I must cook meals is taxed 10 percent at the manufacturing level, with the markups which have been repeatedly reported to you before the article reaches the consumer.

Now, as I said, we have never conducted any high pressure campaigns to get the tax off, as long as the country was committed to a program of high defense spending, and we are not too strenuously fighting for a tax removal now. We are fighting for equity of taxes. Whatever basis you gentlemen decide on as a revenue for excises, we feel that it should be levied so that all consumers bear a proportionate burden. A new householder can elect whether or not she is going to buy jewelry or furs, or even, to a degree, cosmetics and luggage and these other things, but she has no election about a range, except she can buy an inexpensive one, or one slightly more luxurious, or deluxe, if you prefer that word.

So, I say that from the consumer's point of view, it is not good, it is not in the public interest, to tax either food or health, and you are doing that when you tax ranges and water heaters.

It is a strange thing that the concentration of taxable items in the home is in the kitchen. It is an important part of the house, and yet you tax ranges, refrigerators, water heaters, freezers, dishwashers, food disposers, and many small appliances while many of the other types of furniture and house furnishings are free from tax.

Last summer, when Mr. Reed was working on this present tax bill, he said he hoped it would incorporate many of the tax reforms which have been promised us for years. We certainly shared that hope with him. However, we don't think that the appearance of equity in the 10 percent tax is necessarily a real equity. You must remember that is just a 10 percent figure. Some of the taxes are at the retail level, some at the manufacturing level; and some are at lower levels than they were before Korea. The roll-backs on telephones, on some types of admissions, on telegraph and 1 or 2 other items, are actually lower than they were before the Korean War, so you are giving some industries more relief than they were entitled to, on the assumption that the rollback was to pre-Korean levels.

A very important reason for the removal of excise taxes is the two-barreled reason that high prices, which have been partially the result of excise taxes—nobody can judge how much—and partially of rising costs, have cut our market. There is price resistance at the consumer level. When the consumer doesn't buy, employment opportunities are restricted; and this present rolling readjustment or recession or whatever you want to call it has resulted.

President Eisenhower has promised us that this month, March, he will take steps, if the trend doesn't turn upward in business activity. And I submit that a change in excise tax rates on household essentials might release some additional purchasing power and rebuild our market and permit us to add to employment rolls and get back on a more sound basis of operations, both for our employees and for our stockholders.

I have figures to show that the profits of our industry, based on a sample of about $200 million, have declined from approximately 12 percent net before taxes in 1950 to 3.23 percent net before taxes in 1953, and that the percentage is probably still falling in the first quarter, based on declining sales.

A fourth point which I think is very important to remember in connection with the tax is that a high collection cost has always been considered to be a bad characteristic of a tax; while it doesn't cost the Government much to collect this tax, it costs the consumers a tremendous amount. You have heard estimates this morning from 75 to 125 percent markup. I am inclined to think the figure is nearer 80 percent markup on the tax. The consumer pays $18, and Uncle Sam gets $10. That is a pretty high collection cost.

In conclusion, I should like to stress again that our request for immediate repeal of excise taxes on ranges and water heaters, which has been repeated ever since the end of the war, is based on the fact that the tax is not in the public interest and is, in effect, a tax on food and good health.

There is one other point which I think we must recognize, and that is that if your committee should, as we hope, recommend to the Senate that the tax on ranges and water heaters be eliminated because these products are essentials of life, that proper steps should be taken to protect distributors and dealers against a loss of taxes paid on stocks they own when the tax is removed.

The wisdom of floor stock refunds was again recognized by the House the other day when they adopted an amendment providing a refund on automobiles and trucks next April when the rollback occurs.

I hope I have avoided duplication of others' testimony to a great extent and I greatly appreciate the privilege of appearing before you.

The CHAIRMAN. We have been very glad to have you here.

Are there any questions?

Thank you very much. Mr. Trible, please.

STATEMENT OF JOHN R. TRIBLE, APPLIANCE PARTS JOBBERS ASSOCIATION, INC.

Mr. TRIBLE. My name is Jack Trible. I am a jobber of appliance parts. My business is in Washington, and my home in Virginia. I appear before this committee in my capacity as president of the Appliance Parts Jobbers Association, a national organization.

I am accompanied by Mr. Nehemkis. The jobber members of this association service virtually every retail dealer of appliances in the United States. We have nearly 1 million repairmen in this country.

The CHAIRMAN. These are the repair organizations exclusively. Who do you supply parts to?

Mr. TRIBLE. We are the supply house, the jobber. The appliance-part distributor, so to speak.

Mr. Chairman and members of the Finance Committee, the members of my association and their accounts service all types of appliances, domestic and commercial. I should like to give you, at this time, a worm's eye view, so to speak, of the service repairman—the men who go into the homes and who have a keen appreciation of what labor-saving devices mean for the housewife.

I shall confine my brief remarks to two household appliances—the ironer and the clothes dryer. Neither of these essential appliances are given any tax consideration or reduction under H. R. 8224.

It is my understanding that the 10 percent excise tax on ironers and dryers is a "luxury" tax. In my business, I have yet to find a housewife who regards the washing, drying, and ironing of clothes as a luxury. On the contrary, the complaint we hear most frequently is that these are the most backbreaking and fatiguing chores which the housewife has to do.

It is particularly difficult for working mothers to hold down a job and keep their families clean without a washing machine or a dryer or an ironer.

I find it difficult to understand why there is no tax on washing machines, but there is a tax on dryers and ironers.

The housewife encounters no such neat separation. She washes the clothes; she's got to get them dried; and they have to be ironed.

Why should she be free of tax on one product, but forced to pay a tax on the others?

While I am far from being a tax expert, it also strikes me as strange, that the same Congress which taxes ironers and dryers, doesn't put a tax on machine tools for the factory or implements for the farm—both of which make the job easier for men.

Certainly the dryer and the ironer are the machine tools for the housewife, and make the job easier for the housewife.

I hope you gentlemen will pardon me if I say that the housewives and mothers of this Nation deserve better of their Congress.

I thank you gentlemen for your indulgence.

The CHAIRMAN. Thank you very much for coming.

Are there any questions?

Senator GEORGE. No questions.

The CHAIRMAN. Thank you very much.

Mr. C. W. Halligan is submitting a written statement instead of testifying orally.

(The statement of Mr. Halligan follows:)

STATEMENT OF THE RUBBER MANUFACTURERS ASSOCIATION, INC., NEW YORK, N. Y., ON BEHALF OF TIRE AND TUBE MANUFACTURERS

Mr. Chairman, my name is Charles W. Halligan. I am chairman of the tax committee of the tire division of the Rubber Manufacturers Association. We wish to present a statement on excise taxes on tires and tubes. This statement bears the endorsement of every tire and tube manufacturer in the United States, whether they are members of the association or not.

While tires and tubes were first subjected to the Federal excise tax at the close of World War I, this tax was removed in 1926. Our present tire and tube excise taxes date from 1932, when the automobile was still considered quite a substantial luxury.

It has become an established principle of taxation that taxes on the basic necessities of life such as food, clothing, and shelter are unsound. We maintain

that tires and tubes today are a necessity in the economic life of the American people, ranking just behind these basic necessities of food, shelter, and clothing.

These basic products have been exempted because without them life itself cannot be sustained. However, the importance of the tire and tube product is that the American people rely on them to provide the means of transportation to and from their jobs. Without the earnings obtained in this fashion, even food, clothing, and shelter could not be obtained by a substantial number of American workers.

Our argument today, then, is that a tax on tires and tubes is in principle unsound because of the basic necessity of the product.

We also maintain that it is unjust to treat the tire and tube industry as a luxury industry while at the same time many luxurious foods and glamorous and luxurious clothing go untaxed, as do many nonessential items in the gadget-filled and luxurious homes of the present day.

Since the inception of the present tire and tube excise tax, the tax has been based upon the average weight of tires and tubes. Our industry supports this basis for the application of excise taxes on tires and tubes, if this Congress finds one essential; for a tire excise tax cannot be applied on sales value without creating chaotic administrative problems. However, the present rate of the tax is out of line with other taxes which are based upon a percentage of sales value. We submit that the tax per pound should be established at a level which would be comparable with other related products such as automobiles and automotive parts. The tax for passenger and motorcycle vehicles is at 10 percent of the manufacturers' sales price; on trucks, it is 8 percent, and on automobile parts and accessories, it is also 8 percent. However, if we look at a 6:00 x 16 passenger-car tire regularly listed according to information in one of the tire magazines at $14.60 and offered for sale at $11.95, the tax of $1.10 is equal to 9.2 percent. To take another example, the 6:70 x 15 tire regularly $16.55, on sale at $13.95, with a tax of $1.15 is approximately at a level of 8.25 percent. These percentages are at the consumer level and would be materially higher if related to the manufacturer's sale price. They are considerably higher percentages than the 8 percent or the 10 percent that we have mentioned for automobiles and automotive products.

Although we maintain that the excise tax on tires and tubes is not an equitable tax because tires and tubes are basic necessities today to workers in all segments of our population, we realize that the yield amounting to $170 million in 1953 is an essential portion of our Federal Government's income. We therefore petition today not for the complete elimination of the tire and tube tax at this time, but for a reduction in the tire and tube tax to the level existing in 1941.

The tax today on tires is 5 cents per pound. We recommend a reduction in this tax to 2½ cents per pound. The tax on inner tubes is 9 cents per pound. We recommend a reduction in this tax to 4½ cents per pound.

If a reduction in tire and inner tube excise tax rates is made, provision should be made for a credit on floor stocks equivalent to the tax reduction, otherwise all dealers, including small dealers, holding tax-paid stocks of tires and tubes on the effective date of the change, would be penalized and placed in an inequitable position as against those who hold stocks of tires and tubes upon which the tax has not been paid. As a protective measure, those tire distributors who are thus discriminated against would hold off purchases and disrupt the even flow of goods from manufacturer to consumer.

We wish to express our appreciation for the opportunity of presenting our views.

The CHAIRMAN. We will recess until 10 o'clock tomorrow morning. Thank you.

(By direction of the Chairman, the following is made a part of the record:)

LAWN MOWER INSTITUTE, INC.,
Washington, D. C., March 11, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington 25, D. C.

DEAR MR. CHAIRMAN: On behalf of the power lawn-mower industry and the multitude of home owners who will use our products, we respectfully request that the Senate Finance Committee give careful consideration to our appeal for repeal of the 10 percent Federal Manufacturers' Excise Tax on power lawn mowers.

We also respectfully suggest that the action of the House in passing H. R. 8224 on March 10, 1954 failed to give equitable treatment to industries such as ours in their haste and broadaxe approach to excise tax reductions.

Enclosed herewith you will find a copy of our petition to the 83d Congress setting forth the details of hardship under which our industry is laboring due to the penalty to the 10 percent Federal Excise Tax. Also enclosed you will find a copy of our witness' testimony on this same subject before the House Ways and Means Committee last summer together with a copy of H. R. 4900 which was introduced to repeal said tax on power lawn mowers.

Briefly, our position is this:

1. The action of the House in passing H. R. 8224 failed to give equitable consideration to the hardship problems of our industry due to the imposition of the 10 percent Federal Manufacturers' Excise Tax.

2. The first year's operation of our industry under this tax resulted in a decrease in sales over the previous year of 86,000 units amounting to some $11 million, or about 9 percent.

3. In the year 1953, considered to be the greatest year in our Nation's history, the power lawn-mower industry's sales were less than 2¾ percent ahead of the first year prior to the imposition of the 10 percent Federal Excise Tax.

4. Due to the historic trade practices of spring dating in this seasonal industry, the imposition of this tax places a severe and unnecessary burden of collection and financing on the industry.

5. This tax has increased the cost of power lawn mowers to the general public by 16 to 17½ percent and is a tax on the individual homeowner's necessary equipment.

6. This penalty has reduced sales volume causing serious loss of employment to our factory workers and reduction in corporate profits and individual workers' income.

7. The abolishment of the tax would result in increased sales and all the attendant benefits which would provide increased revenues to the Government more than sufficient to offset the $8½ million annual revenue collected by the Government from this 10 percent Federal manufacturers' excise tax on power mowers.

We also request that this statement together with the enclosures be made a part of the Senate Finance Committee hearings on this subject.

Respectfully submitted.

LAWN MOWER INSTITUTE, INC.
By HAROLD HOWE, *Executive Secretary.*

STATEMENT OF HAROLD K. HOWE, EXECUTIVE SECRETARY, THE LAWN MOWER INSTITUTE, INC., WASHINGTON, D. C.

The Revenue Act of 1951 established a 10 percent Federal manufacturers excise tax on household type power lawn mowers in section 3406 (a) (3) of the Internal Revenue Code. This tax became effective on manufacturers' sales as of November 1, 1951.

It is quite apparent that this tax was adopted by the Congress with very little consideration for economic effects of such a tax on the industry. As far as we have been able to discover there was no consultation with the power lawn mower industry at the time this tax was adopted. This is all the more evident when it is noted that this tax has been tacked on, as if as an afterthought, to a group of appliances used in the home and designated under the general category of "household type." The word "household" has never been used in the lawn mower industry to designate a particular type of mower. This has obliged the excise tax ruling section of the Internal Revenue Bureau to come to a completely arbitrary decision as to what constituted a "household type" power lawn mower. Thus, at the very beginning we come upon one of a whole series of inequities that exist in this 10 percent manufacturers' excise tax on power lawn mowers.

Due to this obvious illogical inclusion of the tax on power lawn mowers in a grouping of appliances used in the home, the Internal Revenue Bureau in Washington is unable to tell anyone just how much revenue has accrued to the Federal Government through this tax which has been in operation for more than a year. Therefore, we have been obliged to make our own survey within the industry as to the amount collected by the Federal Government annually from this tax.

We estimate that there are approximately 75 principal manufacturers of lawn mowers in the country, with an additional undetermined number of manufacturers who occasionally produce small quantities of mowers, depending upon market

conditions, etc. We further estimate that members of the Lawn Mower Institute, Inc., comprising 38 principal manufacturers, produce close to 80 percent of the power lawn mowers manufactured in the country. In making our statistical survey we included nonmembers as well as members of the institute. We received an extremely high percentage of returns on our survey which is an indication of the grave concern with which the industry at large views this tax. After consultation with the leading marketing men in the industry, we feel our figures are unusually complete and reliable.

HOW MUCH TAX IS COLLECTED BY THE GOVERNMENT ANNUALLY?

From our survey, including nonmembers as well as members of the institute, annual payments under the 10 percent Federal excise tax were:

By 49 manufacturers (giving actual figures)	$6,022,082
By 14 manufacturers (carefully estimated)	2,670,000
Total tax collected	8,692,082

Thus we are talking about $8 ½ million revenue to the Federal Government from this 10 percent Federal manufacturers' excise tax.

EFFECTS ON THE INDUSTRY

1. Cost of collecting the tax for the Government

The lawn-mower industry generally is made up of small businesses, although some lawn-mower plants are subsidiaries of large companies. Of the total number of companies, some 175 manufacturers, producing lawn mowers only 12 percent have annual sales of lawn mowers in excess of $1 million and less than 5 percent have more than $5 million of lawn-mower sales per year. Thus the lawn-mower industry is essentially an industry of small businesses. It is obvious that the lawn-mower business is seasonal—just as is agriculture. Lawn mowers are usually bought by individuals in the spring and early summer months with practically no sales in the late summer, fall, or winter. In order to maintain as uniform a production schedule as possible and to spread out and equalize employment in the industry over as many months as possible, it is a general practice in the industry to give spring-dating terms to distributors and dealers. That means that most of the lawn mowers shipped in October, November, December, January, February, March, and April are paid for in April and May. However, the Government requires the lawn-mower manufacturer to make a report on each month's shipments and to pay the manufacturers' excise tax of 10 percent within 30 days. Thus the manufacturer has to pay much of the year's tax several months before it is actually collected from the customer and has to borrow money to pay this tax. The burden of financing such tax collections for the Government is extremely severe for these small businesses and represents another inequity forced on the lawn-mower industry. Replies to our survey reveal actual costs, to those manufacturers replying to this question, of $69,500 in interest and financing these tax payments to the Government before collection from customers. In addition, extra bookkeeping and other costs required to handle these collections were estimated at $47,000 for those companies reporting. This is almost a $117,000 burden annually for this small industry to collect the tax, which is in turn an item of cost which further increases the price of power lawn mowers to the general public.

2. Tax causes serious reduction in sales volume

A 10 percent tax on manufacturers' sales is not merely passed on to the ultimate customer but actually becomes a 16 percent or 17½ percent tax when the customer pays it. OPS allowed wholesalers to consider the 10 percent manufacturers excise tax as an element of their cost and to add their historical markup to all elements of cost. The retailer or dealer enjoyed the same privilege so there was a second markup or pyramiding of the tax, which conservatively estimated, became a 16 percent to 17½-percent tax to the ultimate buyer. This tax on power lawn mowers is not a manufacturer's tax; it is not paid by the manufacturer. It is a tax on the individual—on the homeowners. It is just another hidden tax—a hoax on the individual homeowner.

It is a well-known economic law that except in times of severe shortages price increases create sales resistance, reduce markets, and sales volume in units. Thus the Federal excise tax on power lawn mowers has substantially increased the

price of power lawn mowers to the ultimate buyer resulting in a marked increase in consumer resistance to these higher prices and has thus seriously reduced the industry's sales. As a matter of fact, all during the last season due to competitive conditions lawn-mower manufacturers were selling their products below OPS permitted price ceilings and could not take advantage of the OPS permitted price increases resulting from increased costs of steel, aluminum, other metals, repairs, and replacement parts, inbound transportation charges, and so forth.

The industry, by cost absorption and technological improvements in product and in production methods, has done everything it can to place power lawn mowers in the homeowners' hands at the lowest possible cost. This is an age of mechanization. Power lawn mowers are the mechanized equipment of the homeowner—just as tractors are for the farmer—just as machine tools are for the factory. Power lawn mowers are not a luxury but are tools for homeowners. But the Government is requiring the individual to pay this tax on his necessary machine tools, and thus increasing the cost substantially.

Tabulations from our survey show that 35 manufacturers of law mowers believe that the imposition of the 10 percent Federal excise tax has substantially reduced sales volume. It is interesting to note that only 1 manufacturer was not sure and 3 gave us no estimate of the amount of reduction. The tabulation of the replies as to the amount of reduction is as follows:

	10 percent excise tax has reduced volume—
1 manufacturer replied	Less than 10 percent.
4 manufacturers replied	10 to 14 percent.
4 manufacturers replied	15 to 19 percent.
9 manufacturers replied	20 to 24 percent.
6 manufacturers replied	25 to 29 percent.
5 manufacturers replied	30 to 35 percent.
2 manufacturers replied	50 to 60 percent.

Thus the majority of the industry estimates that sales volume has been reduced by more than 20 percent due to the imposition of the 10 percent Federal excise tax.

3. Excise tax causes serious loss to factory workers

Naturally this reduction in sales volume has had a serious impact on the workers in the industry, as reduction in sales volume means reduction in production followed by factory layoffs. It was more difficult to secure reports from the industry as to the effect on factory workers in terms of some common denominator. Nevertheless, a clear picture is available from the replies to our survey. The reduced sales volume covered in the preceding section has been reflected in lower factory production in 24 lawn-mower manufacturing plants. In four plants reporting reduced sales, reduction in production did not occur. However, anticipated increases based on the previous year's experience failed to materialize.

Loss to factory workers from reduced sales volume was reported in two ways—a percentage reduction in employment or a loss in man-hours. The tabulations from the survey reveal the following:

In 1 plant, a reduction of 7½ percent in employment;
In 3 plants, a reduction of 10 percent in employment;
In 1 plant, a reduction of 25 percent in employment;
In 17 plants, a loss of over 1,058,160 man-hours of work for the season.

This reduction in employment naturally meant smaller payrolls and consequently smaller individual income-tax collections for the Federal Government. Indirectly, it meant smaller consumer expenditures in all of those communities where these reductions in employment occurred. Moreover, reduced production meant smaller profits for the lawn-mower manufacturers and less corporation taxes paid to the Federal Government.

Before closing we wish to call to the committee's attention another inequity which exists in the law as it now stands. Seventeen lawn-mower manufacturers report that they buy rubber tires and tubes on which an excise tax is charged. These purchases amount to more than $553,660 per year. Section 3400 of the Internal Revenue Code covers the excise tax on tires and tubes. Section 3403 (e) provides for the credit or refund on tires when they are used on automobiles or motorcycles. This credit provision was put into effect in 1932 and apparently nobody thought of rubber-tired power mowers at that time. Section 3443 (a) has to do with credits and refunds generally but it specifically prohibits the collector from granting any similar ruling in favor of lawn-mower manufacturers by excepting tires and tubes from the provisions of section 3443 (a).

In conclusion, we ask that immediate steps be taken for the necessary congressional action to abolish the 10 percent Federal manufacturers' excise tax on power lawn mowers for the following reasons:

1. This tax was originally imposed without consultation with the industry and without due regard to the economic factors involved in this industry of small businesses.
2. It is full of inequities, ignores the economics of the power lawn-mower industry, and places an unnecessary burden of collection and financing on the industry.
3. It is working an undue hardship on the industry by causing a serious reduction in sales volume.
4. It has substantially increased the cost of power lawn mowers to the general public by more than just the amount of the tax assessed, and is a tax on the individual homeowner's necessary equipment.
5. It has resulted in a serious loss of employment to the factory workers in the industry.
6. The imposition of this tax has seriously damaged the industry and its workers. The abolishment of this excise tax would result in increased revenues to the Government from corporate and individual income taxes, more than sufficient to offset the revenues now being received by the Government from this 10 percent manufacturers' excise tax on power lawn mowers.

STATEMENT OF VINCENT R. SHIELY, MINNEAPOLIS, MINN.

My name is Vincent R. Shiely. I am secretary of Toro Manufacturing Co., Minneapolis, Minn., a manufacturer of power lawn mowers. Our company is a member of the Lawn Mower Institut, Inc., which is the national trade association of the lawn mower industry in whose behalf I appear before this committee. The membership of the Lawn Mower Institute numbers 41 companies producing approximately 85 percent of the industry total sales. However, it is important to note that in this effort we are supported by nonmember companies as is evidenced in the survey figures presented in the attached copy of a petition to this committee presented earlier this year by the Institute.

We are not going to take the committee's time to go into the details covered by the petition for repeal of the 10-percent Federal manufacturers' excise tax on power lawn mowers, but will simply summarize for you the highlights of the serious situation confronting our industry.

From a careful reading of the attached petition you will find that the Internal Revenue Service claims to have no accurate figures on the revenue received from the levying of this tax on our industry. However, a comprehensive industry survey indicates that this tax brought into the United States Treasury approximately $8½ million in revenue in the first year of its operation. There is no indication that this level of revenue will be maintained, rather, it should decrease.

The levying of this 10 percent Federal excise tax has caused a substantial reduction in sales volume in the industry. As a matter of fact, in the first year's operation under this 10 percent Federal exise tax the industry's sales decreased by 86,000 units amounting to some $11,000,000, or about 9 percent, as shown by a market study reported by McGraw Hill Publishing Co. in the January 1953 issue of Electrical Merchandising. This, for the first time, reversed an upward sales trend in our industry at the very time we had every reason to expect further expansion on the basis of other economic factors. It is our belief that this was the result of sales resistance to increased prices resulting from the imposition of the excise tax.

Unit selling price has always been recognized as a key factor in developing the sales of power lawn mowers. From the end of World War II up to the imposition of the excise tax the manufacturers had consistently lowered prices on power lawn mowers in the face of increases in material, labor, and other costs. This tax, while assessed on manufacturers' sales, is actually a tax on the ultimate customer which results in his paying from 16 percent to 17½ percent more for his power lawn mower. This increase in the unit selling price has curtailed what had been an expanding market for our product.

The net effect of this decrease in sales volume has been reduced production and a consequent loss of wages for factory workers and a reduction in manufacturers' profits in the industry. We do not feel that it is necessary to dwell on this point, but call the committee's attention to page 4 of our petition covering this subject, which indicates the extent of the loss in employment.

The basic problem confronting our industry is the increased level of prices and the consequent sales resistance resulting from this 10 percent levy. Our petition also covers other increases in costs and inequities resulting from the assessment of this tax which have been harmful to our industry, such as the cost of financing and collecting this tax for the Government in a highly seasonable business as shown on page 2 of our petition.

It has been already demonstrated that the excise tax has adversely affected industry sales volume. During the past year the Econometric Institute of New York City was engaged to develop a power lawn mower industry forecast for the period 1954 through 1959. This forecast shows a direct relationship existing in power lawn mower sales between rates of household formation, new housing starts and the price levels of power lawn mowers.

On the basis of the information contained in this forecast which used projections developed by the Department of Commerce on new housing starts and by the Bureau of the Census on rates of household formation, it is expected that unit sales of power lawn mowers and many other consumer durables will decline during the period 1954–59.

This being the case, the burden of the 10 percent Federal excise tax will become increasingly severe on our industry which is comprised of many small businesses and most certainly will be the difference between the survival or failure of many of these companies in the not too distant future.

Therefore, Mr. Chairman, we respectfully request that the committee act favorably on H. R. 4900 and recommend the repeal of the 10 percent Federal excise tax on power lawn mowers as shown in section 3406 (a) (3) of the Internal Revenue Code, for the following reasons as shown in our petition:

1. This tax was originally imposed without consultation with the industry and without due regard to the economic factors involved in this industry of small businesses.
2. It is full of inequities, ignores the economics of the power lawn mower industry, and places an unnecessary burden of collection and financing on the industry.
3. It is working an undue hardship on the industry by causing a serious reduction in sales volume.
4. It has substantially increased the cost of power lawn mowers to the general public by more than just the amount of the tax assessed, and is a tax on the individual homeowner's necessary equipment.
5. It has resulted in a serious loss of employment to the factory workers in the industry.
6. The imposition of this tax has seriously damaged the industry and its workers. The abolishment of this excise tax would result in increased revenues to the Government from corporate and individual income taxes, more than sufficient to offset the revenues now being received by the Government from this 10 percent manufacturers' excise tax on power lawn mowers.

I thank the committee for permitting us to testify in this matter.

NAMES OF MEMBER COMPANIES OF THE LAWN MOWER INSTITUTE, INC.

Aircapitol Manufacturers, Inc., Wichita, Kans.
Barnes Manufacturing Co., Inc., Kansas City, Mo.
Beazley Power Mower Co., St. Petersburg, Fla.
Bolens Products Division, Food Machinery & Chemical Corp., Port Washington, Wis.
Bunton Co., Louisville, Ky.
Weber Engineered Products, Inc., Cincinnati, Ohio
Clemson Bros., Inc., Middletown, N. Y.
Cooper Manufacturing Co., Marshalltown, Iowa
G. W. Davis Corp., Richmond, Ind.
Durite Corp., Inc., Iola, Kans.
The Eclipse Lawn Mower Co., Prophetstown, Ill.
Falls Products, Inc., Genoa, Ill.
Farm and Ranch, Inc. Kansas City, Mo.
Foley Manufacturing Co., Minneapolis, Minn.
Goodall Manufacturing Corp., Warrensburg, Mo.
Granite State Mowing Machine Co., Hinsdale, N. H.
Giz-Mow, Inc., Tampa, Fla.
Heineke & Co., Springfield, Ill.
The Haughton Co., St. Petersburg, Fla.

Jacobsen Manufacturing Co., Racine, Wis.
Johnston Lawn Mower Corp.; Brookhaven, Miss.
King Pneumatic Tool Co., Chicago 14, Ill.
Midwest Mower Corp., St. Louis, Mo.
Monark Silver King, Inc., Chicago, Ill.
The Moto-Mower Co., Detroit, Mich.
Pioneer-Gen-E-Motor Corp., Chicago, Ill.
Reo Motors, Lansing, Mich.
R. P. M. Manufacturing Co., Lamar, Mo.
Roto-Hoe & Sprayer Co., Newbury, Ohio
Root Manufacturing Co., Inc., Baxter Springs, Kans.
E. T. Rugg Co., Newark, Ohio
Savage Arms Corp., Chicopee Falls, Mass.
Sensation Mower, Inc., Ralston, Nebr.
Starbrand Corp., Indianapolis, Ind.
E. C. Stearns & Co., Syracuse, N. Y.
Temco Products, Inc., Lynwood, Calif.
Toro Manufacturing Corp., Minneapolis, Minn.
The Vollrath Co., Sheboygan, Wis.
Whirlwind, Inc., Milwaukee, Wis.
Worthington Mower Co., Stroudsburg, Pa.
Yazoo Manufacturing Co., Jackson Miss.
Henderson Manufacturing Co., Decatur, Ill.
National Metal Products Co., Kansas City, Mo.
Southern Saw Works, Inc., East Point, Ga.
Hiller Manufacturing Co., Redwood City, Calif.

[H. R. 4900, 83d Cong., 1st sess.]

A BILL To repeal the manufacturers' excise tax on power lawn mowers

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That effective June 30, 1953, section 3406 (a) (3) of the Internal Revenue Code is amended by striking out, "and power lawn mowers", and that the manufacturers' excise tax on power lawn mowers be, and is hereby repealed.

NATIONAL ASSOCIATION OF PHOTOGRAPHIC MANUFACTURERS, INC.,

New York, N. Y., March 15, 1954.

In the matter of the 20 percent manufacturers' excise tax rate on photographic apparatus (sec. 3406 (a) (4) I. R. C.)

COMMITTEE ON FINANCE,
The Senate of the United States, Washington, D. C.

GENTLEMEN: This association, whose member-companies, according to the best available information, produce more than 90 percent of the total dollar volume of photographic products of all kinds and types manufactured in the United States, respectfully presents this information and requests in response to the opportunity afforded by the committee.

The purpose of this statement is to request your favorable action in approving the much needed relief as to the 20 percent excise tax rate on photographic products now provided in the House-passed bill which is before you, namely, a reduction to 10 percent. In support of our request please permit us briefly—

(1) To remind you of the inequitable and undesirable nature of the present rate.

(2) To show from actual experience the extensive damage, including loss of employment, and net loss of revenue to the Government, which a high excise rate can cause in any period of slackening business activity such is currently occurring.

(3) To point out the vital importance of the taxed photographic products as the "bread-and-butter" items which in peacetime are the only means of maintaining key defense plants and their specialized skilled labor at reasonably satisfactory levels.

1. PROBLEM OF HIGH RATE

We have, as you know, carried the burden of extremely high rates more than a year and a half longer than any other industry, since our heavy increases were

made in the Revenue Act of 1942, and, as you have characterized them, were the first of the wartime penalty regulatory increases.

As of today, the 20 percent photographic excise tax rate is the highest of all manufacturers' excise per centum rates, this unenviable position being shared only by electric-light bulbs.

There are now only 6 other manufacturers' excise per centum taxes which are at rates greater than their 1941 rates. Of these 6, three (auto, truck, and parts) are at or below 10 percent, and in addition are scheduled in the House measure for automatic reduction to prewar rates on April 1, 1955, namely, from 8 percent and 10 percent to rates of 5 percent and 7 percent.

We remind you of these facts for two reasons:

(1) Because, only specific action by the Congress will provide that the present 20 percent rate on photographic products will revert to the 1941 rate of 10 percent on April 1, 1954 (or on any other date).

(2) Because we have been longest burdened with the highest rates of any industry, we submit that in fairness we should receive rate reduction at least as soon, and to as favorable a level, as is accorded any other manufacturers' excise tax.

2. HAZARDS OF HIGH RATES

This industry knows the costly damage which excessive excise tax rates can cause. When such a high rate of tax exists in other than boom times, or those of artificial shortages, it means loss of sales, loss of employment, and business failures. These losses occur at a much accelerated rate as contrasted with other industries having no excise tax or taxed at much lower rates.

Our industry's experience has proven that any minor business recession produces a serious depression in such a heavily taxed area. You may remember our testimony 2 years ago, namely, that:

(1) In 1949, what was a mild recession for business in general, was a deep depression for the photographic manufacturing industry. The 25-percent-taxed area suffered a loss of nearly 45 percent in employment and sales, as contrasted with only 9 percent for manufacturing in general.

(2) A number of small and medium-sized concerns largely or wholly dependent upon photographic markets either failed or were in serious financial difficulties.

High excise tax rates in such circumstances also caused substantial loss of total tax revenue to the Government. You may recall that we provided a composite profit-and-loss and tax statement, of companies subject to the 25-percent rate, comparing 1949 with 1948. It showed a drop of 104 percent (namely, to a refund position) in company Federal income taxes, as well as a very heavy decline in payroll and withholding taxes.

Just the amount of reduction itself in total Federal income and payroll tax payments by these companies was greater than their total excise tax payments in 1949. In other words, the total amount of excise taxes which they paid was not sufficient to offset the decline in their Federal income and payroll taxes.

It was our conclusion that the 25 percent rate had caused a direct loss of Federal tax revenue of at least $16 million and that this loss exceeded the total photographic excise tax collections at the 25 percent rate. In other words, it appears that the Government was actually a net loser as a result of the 25 percent rate.

Going now to the present, as you know, there has been a moderate decline in business which in most industries became evident in the fall of 1953. Current data just released by the Department of Commerce shows sales by manufacturing industries as follows:

Month	*Million dollars*
January 1954	22,857
December 1953	23,929
January 1953	24,006

In the photographic manufacturing industry, reports of companies whose payments of excise taxes reflect about 85 percent of the total photographic excise tax collections, show the following changes in sales volume at manufacturers' level of 20 percent taxed items in contrast with changes shown by the above data:

Decline in sales volume, 20 percent-taxed items versus all manufacturers

	Decrease January 1954 from year ago (January 1953)	Decrease January 1954 from last month (December 1953)
	Percent	*Percent*
All manufacturers	4.8	4.5
20-percent-taxed photographic products, all categories	18.2	33.4
20-percent-taxed photographic products "hard goods" only	43.2	67.2

A point of interest and deep concern about the group of companies involved in the above report is that 70 percent of these companies are key producers of some specialized wartime photographic product, upon whom in the last war not only our own Armed Forces, but those of our allies, placed principal reliance.

3. IMPACT OF TAX IN RESPECT TO DEFENSE POTENTIAL

The photographic manufacturing industry is relatively small. Because of the very highly specialized nature of its products and their exceptional essentiality in wartime, it is one of the top key strategic industries, according to military and defense agency officials. Its photographic products in tremendous volume are essential to successful military operations in modern warfare, before, during, and after combat, for industrial uses in the production of other war materiel, and for many essential noncombat military needs.

Most of the companies in the industry are small, but their continued success is of the greatest importance to the strength of the industry and to its ability to serve in both peacetime and wartime.

As you may recall from our previous testimony, the so-called amateur or recreational market is of great importance to the photographic manufacturing industry. It represents about 36 percent of the total business of the industry and up to 100 percent of the business of many companies which specialize in such goods. In fact, certain plants which are key precision plants in wartime depend largely or entirely upon this market for their peacetime operation.

For these companies, the products now taxed at 20 percent are their means of livelihood and continued existence in peacetime, and therefore the only means of providing for their availability to serve promptly and effectively in the event of war.

In this connection may we emphasize:

(1) That these precision photographic manufacturers with their highly skilled and specialized personnel and machinery are a major national asset which cannot be expanded rapidly to meet a national emergency.

(2) That most photographic products can be made during wartime only by the photographic industry, because of the highly specialized skills and facilities required for their manufacture.

(3) That most wartime photographic products are the same as or are modifications of regular peacetime photographic products.

CONCLUSION

In conclusion, may be again especially emphasize the known regressive and destructive nature of high excise tax rates. We plead with you, therefore:

(1) To remove the 20-percent rate on photographic products, reducing it to the 10-percent level generally prevailing for other manufacturers' excise or to such lower level as may be generally adopted.

(2) As quickly as conditions permit to eliminate entirely the excise tax on photographic products, for the important reasons set forth herein.

We urge the importance of favorable action by your committee with respect to our requests. Please accept our deep appreciation for your consideration of our serious situation.

Respectfully submitted.

NATIONAL ASSOCIATION OF PHOTOGRAPHIC MANUFACTURERS, INC.
By WILLIAM C. BABBITT, *Managing Director.*

SUMMARY OF STATEMENT OF NATIONAL ASSOCIATION OF PHOTOGRAPHIC MANUFACTURERS, INC., WHICH STATES THAT ITS MEMBER COMPANIES PRODUCE MORE THAN 90 PERCENT OF THE DOLLAR VOLUME OF ALL TYPES OF PHOTOGRAPHIC PRODUCTS MADE IN THE UNITED STATES

1. The 20 percent photographic excise tax rate is the highest of all percent manufacturers' excises, is regressive, hazardous, and inequitable.

2. Photographic equipment has been subjected to high rates more than a year and a half longer than any other product.

3. In previous testimony factual data was provided to the committee showing that such high rates plunge the taxed products into a deep depression when United States manufacturing industries in general are experiencing only a moderate recession. For example, in 1949, general manufacturing was off 9 percent; the 25 percent taxed photographic manufacturing industry's sales were down almost 45 percent, as was employment also.

4. The following table shows the present loss of sales volume of the 20 percent taxed photographic goods, as contrasted with the moderate decline in manufacturers' sales in general as reported by the Department of Commerce:

Decline in sales volume

[Percent]

	Decrease, January 1954 from year ago (January 1953)	Decrease, January 1954 from last month (December 1953)
All United States manufacturers	4.8	4.5
20-percent-taxed photographic goods, all categories	18.2	33.4
20-percent-taxed photographic "hard goods" only	43.2	67.2

5. The photographic manufacturing industry is one of the very top key strategic industries according to military and defense agency officials. Its products in tremendous volume are essential to successful military operations and to defense production including aircraft. It is not a large industry.

6. About 70 percent of the companies whose data are reflected in the above table and study (items 3 and 4) are key producers of some specialized wartime photographic product, upon whom in the last war not only our own Armed Forces but also those of our allies placed principal reliance.

7. The products now taxed at 20 percent are the only means of livelihood and continued existence in peacetime of these key facilities. They are thus the only practicable means of providing for the availability of these plants, their highly specialized skilled personnel and equipment, to serve promptly in the event of war.

8. Request are made that the committee—

(1) Approve the rate reduction to 10 percent provided in H. R. 8224; and

(2) As quickly as conditions will permit, eliminate entirely the excise tax on photographic products, for the reasons stated.

Photographic excise taxes by collection months

[November quarterly Government data converted to monthly; December-March Government data estimated from actual data representing about 75 percent of total collections]

Collection month:	
September 1953	$2, 958, 000
October 1953	2, 469, 000
November 1953	2, 887, 000
Quarterly total (Government)	8, 304, 000
December 1953	2, 342, 000
January 1954	2, 813, 000
February 1954	1, 871, 000
March 1954	1, 250, 000
Quarterly total (Government)	5, 934, 000
January 1953	2, 352, 000
February 1953	3, 516, 000
March 1953	1, 901, 000
Quarterly total (Government)	7, 769, 000

First 3 collection months of 1954 show decrease of $1,835,000 from same months of 1953, representing a decrease of sales for the 3 months of 23.6 percent.
(Also please see table, pp. 86, 87, 88.)

Why the Admissions Tax on Baseball Should Be Removed

(Submitted by Ford C. Frick, Commissioner of Baseball; George M. Trautman, President-Treasurer, National Association of Professional Baseball Leagues)

1. INTRODUCTION

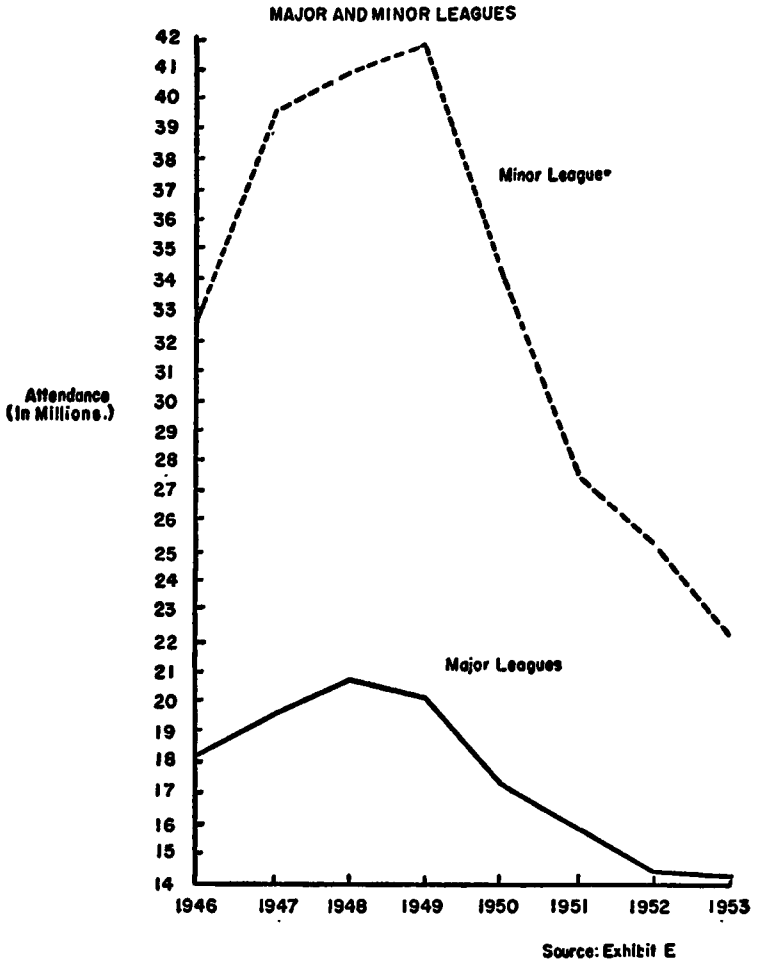
This memorandum is submitted on behalf of professional baseball in protest against the present admissions tax levied on the sport. This tax yields very little revenue and penalizes a basic national institution. Continuation of the tax is unfair to major league baseball and threatens the life of the minor leagues.

At the time the present rate was imposed, the House committee, which initiated it, stated that it could only be justified "in view of the wartime emergency." [1] The tax had as its purposes, among others, the "curtailment of inflationary spending." [2] The tremendous change in economic conditions which has taken place since the present rate was fixed has converted it from a brake on inflationary spending into a crushing burden on a sport which like all other entertainment is feeling the effect of television on its audiences. Attendance figures at baseball games have dropped sharply since 1949. In 1953, the total attendance at baseball games was only a little more than half what it had been in 1949 (Exhibit E, infra, p. 13). In 1949, nearly 62 million people attended major and minor league games; in 1953, only 36½ million people did. The following graph strikingly shows the steady decline in baseball attendance at both major and minor league games in the last 5 years.

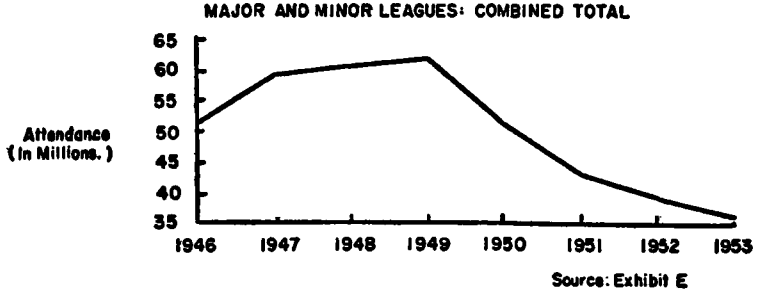
[1] H. R. Rept. No. 871, 78th Cong., 1st sess., p. 26.
[2] *Id.*, p. 25.

EXHIBIT A

PAID ATTENDANCE AT ORGANIZED BASEBALL, 1946–1953



Source: Exhibit E



Source: Exhibit E

Unless this decline in attendance can be halted, the very existence of professional baseball as the national pastime will be imperiled. Some stimulus is needed to reverse the downward trend in attendance, if the sport is not to be liquidated. Many minor league clubs have already been forced to close because of baseball's declining market. Since 1949, the number of minor leagues and clubs have been reduced more than a third; the number of leagues has dropped from 59 to 38; the number of clubs from 448 to 287. Continuation of the present trend will force many more clubs to suspend.

Elimination of the admissions tax would be invaluable in halting, or even reversing, the downward trend in attendance. Elimination of this tax would make it possible for many clubs to lower admission prices.[3] An economic study has shown that attendance rises when admission prices drop. When the cost to the family budget of viewing a game at the stadium is less, more fans turn out. Lower prices, therefore, might halt or even reverse the downward course of baseball attendance.

Even if not all clubs because of increased costs will be in a position to pass on the entire tax relief to the consuming public, they will be placed in a better position to withstand the decline in attendance since their net return, even from a reduced attendance, will be substantially greater. Regardless of whether elimination of the tax spells lower prices and higher attendance or a greater net return on a lower attendance, if could mean the survival of many clubs. Therefore, in the interest of preserving a basic national institution, the admissions tax on baseball must be eliminated.

2. THE ADMISSIONS TAX IS THREATENING CONTINUATION OF MINOR LEAGUE BASEBALL

A. Minor league baseball as a whole is not a profit-making enterprise

The admissions tax, which is imposed regardless of profit or loss, hits minor league baseball hardest. This is the natural consequence of the fact that minor league baseball is generally a civic activity.[4] Most minor league clubs derive their impetus from civic spirit. Clubs in the lower classifications "are maintained and financed by public-spirited citizens who take a civic pride in having a baseball team represent their community for the purpose of providing wholesome recreation for the men, women and children of the community".[5] The deficits sustained by these clubs are made up by local civic-minded individuals.

B. Minor league baseball has been losing money on its admissions for the last 2 years. This loss has been aggravated by the admissions tax

Figures gathered by the National Association of Professional Baseball Leagues (the minor leagues) from a representative number of clubs in each classification for the years 1951, 1952, and 1953 show an average loss per paid admission for clubs in every category in each of these years, with one minor exception.[6] (Exhibits C; H, *infra*, pp. 12, 16.) The admissions tax bears a large share of responsibility for this average loss. By forcing higher prices, it has contributed to the decline in attendance and it has cut the club's return from its diminished attendance.

Even upon the basis of a reduced attendance, the average loss experienced by the minor league clubs would have been entirely eliminated, or at least substantially reduced, if the club had been permitted to keep all, or a portion of, the average Federal tax per paid admission.[7] For example, as the table on page 16 shows, the clubs in the "open" category, which show an average loss per ticket for each of these years, would have had a substantial profit in 1951, and a smaller

[3] Of course, in some cases rising costs may make it impossible to reduce prices. Elimination of the tax however, will make it possible, at the very least, for the club owner to preserve the present level of prices, and avoid further discouraging attendance by raising prices to meet higher costs.

[4] Minor league clubs are divided into different categories upon the basis of the population of the city in which they have their franchise. AAA clubs are located in cities with a population of 3 million or over; AA clubs in cities of 1,750,000 or over; A clubs in cities of 1 million or over; B clubs in cities of 250,000 or over; C clubs in cities of 150,000 or over; and D clubs in cities with a population of up to 150,000. The "open" classification is a special one, established in 1952 for cities on the Pacific coast.

[5] Statement by Mr. Trautman, president of the National Association of Professional Baseball Leagues to the House Subcommittee on a Study of Monopoly Power of the Committee on the Judiciary, quoted with approval in the Subcommittee's report. (H. Rept. No. 2002, 82d Cong., 2d sess., p. 92.)

[6] In 1951, clubs in the AA category showed a profit on the average paid admission.

[7] No suggestion is intended that the clubs will retain for themselves the amounts now being paid as an admissions tax if the tax is eliminated. As stated elsewhere herein, this is a policy decision which will be made by the local clubowner on the basis of local conditions. The figures in the text of the memorandum are cited only to show the impact of the tax.

profit in 1953, had they not paid an admissions tax. Clubs in the "B" category would have had their loss per ticket in 1951 and in 1952 cut almost in half; clubs in the "C" category would have come much closer to breaking even; clubs in the "D" category would have had their losses cut a third in 1951 and a fifth in 1952.

Whereas in 1951, there was an overall loss of $0.1787 per paid admission in the minor leagues, this loss would have been virtually eliminated by retention of the average Federal tax during that same period of $0.1779. And in 1952 and 1953, although retention of the Federal tax would not have converted the losses sustained per paid admission into profits, it would have very substantially reduced such losses. See table, infra, page 16.

The bite taken by the tax out of a club's receipts from its admissions is extremely important because of the reliance on such receipts for the bulk of a club's income. Studies show that 71 percent of the operating income of a minor league club is derived from its admissions.

Furthermore, the admissions tax, by discouraging attendance, also cuts income from sources other than admission receipts since most club income in the last analysis rests on attendance. The income from concessions fluctuates directly with the volume of attendance.

C. Losses on admissions cannot be cured by raising prices

In practice, it is difficult for a minor league club to raise its admission prices in order to increase its income from admissions. Baseball admission prices are fairly well standardized in the mind of the consuming public and increases in such prices would encounter considerable resistance. Clubs in the class A classification and higher have been able to raise their admission prices, exclusive of tax, only 20.6 percent in the period between 1940 and 1953, despite the tremendous increase in the cost of almost all other items. (See exhibit M, infra, p. 19.)[8]

The stickiness of baseball admission prices is shown most clearly in the cost of major league admissions. Admission to the bleachers, which was generally raised from 55 cents to 60 cents at the time the extra wartime tax was imposed, has stayed at that figure regardless of economic fluctuations. Similarly, general admission has stuck at around $1.25. (Exhibit N, infra, p. 20.)

Despite the vast changes in all other prices during the last quarter of a century, bleacher and others admission prices have remained almost constant. Baseball fans have been conditioned to regard these prices as proper, and any upward change in them would encounter far more consumer resistance than would be met by businesses whose prices are known to fluctuate.

Furthermore, as a comprehensive study of baseball indicated,[9] when the cost of seeing a baseball game takes a bigger share of the family budget, fans tend to stay at home. Consequently, any increase in admission prices would not only encounter substantial public resistance because of the historically fixed nature of such prices, but would only encourage the existing decline in baseball attendance.

D. Professional baseball is experiencing a declining market

There can be no question that the minor league clubs, as well as the major league clubs, are in a declining market. Regardless of what indicia are employed—annual attendance, gross receipts, or profit and loss figures—the picture is the same: a more or less steady decline since the years immediately following the end of World War II.

The most revealing figure is, of course, paid attendance. Whereas in 1949 almost 42 million people attended minor league games, by 1953 the total paid attendance had fallen to 22 million, a drop of almost 50 percent. The decline in paid attendance has been a steady one since 1949. Each year fewer persons have attended games than the previous year.

Although gross admission receipts are not available for minor league clubs alone, the figures for minor league and major league games combined parallel, as can be expected, the figures on attendance. In 1949, gross admission receipts including all admission taxes,[10] were in the neighborhood of $68 million, by 1952 they had fallen to $49 million, a drop of approximately 25 percent. Here, too, the decline has been a steady one. (Exhibit F, infra, p. 14.)

[8] This figure is based on the three most popular types of admissions: box, unreserved grandstand, and bleachers. It would probably be even smaller if it included the various other types of admission charges, many of which are substantially lower in price, such as, servicemen, students, children, ladies, and "service charges".

[9] Craig, Peter S., Organized Baseball: An Industry Study of a $100 Million Spectator Sport (unpublished thesis for a B. A. degree presented to the department of economics, Oberlin College, 1950, p. 210).

[10] In addition to the Federal tax, baseball clubs pay a variety of local admission taxes. The bite of such taxes has also increased substantially in the last decade.

While the minor leagues have been experiencing this decline in paid attendance and receipts, they have also been faced with higher costs. Supplies, players' salaries, transportation costs, printing costs, and salaries of office and maintenance personnel, have increased for baseball clubs, just as they have for all business enterprises during the past decade. More recently, in a period of diminishing gross income, the minor league clubs have been experiencing sharply rising costs.

E. Minor league baseball is in a loss position

As pointed out earlier, minor league clubs are primarily a civic enterprise. Consequently, they rarely rise above the break-even point and normally operate at a small loss. The effect of the admissions tax, however, has been to increase substantially this normal loss. Civic-minded individuals who are willing to make up small deficits are not prepared to meet losses of the present magnitude. Minor league clubs in every category are now operating at a loss. (Exhibit G, infra, p. 15.) Although complete figures are lacking, figures reported by a representative group of minor league clubs to a House subcommittee and more recently to their own organization show the general picture. These figures show that in 1946, clubs in every category were operating at a nominal profit; in 1947, clubs in two categories had begun to show a loss; by 1950, only clubs in the two AA leagues showed a profit, and during the last 2 years the overall figures for every category have shown a substantial loss.

F. Minor league clubs are being forced to suspend activities

The inevitable result of the fact that minor league baseball is now in a loss position has been a steady diminution in the number of minor leagues and in the number of clubs. Whereas in 1949, there were 59 minor leagues, by 1953, there were only 38. (Exhibit I, infra, p. 17.) The most recent figures show a loss of 2 more leagues, 1 in the "B" classification and 1 in the "D" category. As of February 1954, there were 17 fewer clubs in existence than at the close of the 1953 season. As could be expected leagues in the lower classification which consist of clubs operated primarily as civic enterprises have been hardest hit. The number of "D" leagues today is less than half the number in existence in 1948 and 1949. There are one-third fewer "B" and "C" leagues. Unless relief is given these leagues, a further decline in their number is inevitable.

G. Elimination of the admissions tax will help preserve minor league baseball at little cost to the revenue

The disappearance of the small minor league club would represent an irreparable loss to the sport and to the community. Minor league baseball is indispensable to professional baseball. The major leagues look to the minor leagues as their chief source of new players. Almost 90 percent of the players employed in professional baseball are employed in the minor leagues. Almost twice as many people see minor league games as major league games. Furthermore, the minor league club in our smaller cities is a source of civic pride. The decline in minor league games means the disappearance of a source of community pride, of employment for athletes, and of a valuable type of entertainment.

Minor league baseball would be substantially assisted by the elimination of the admissions tax. Civic-minded citizens who desire to support a local baseball club would not have to pay tribute to the Federal Government for the privilege of doing so. The loss of revenue from the elimination of this tax on minor league baseball would be small. Less than $4 million was realized from this source in 1953. (Exhibit D, infra, p. 96.)

3. MAJOR LEAGUE BASEBALL ALSO REQUIRES RELIEF FROM DISCRIMINATORY TAXATION

The figures on major league baseball parallel closely those on the minor leagues. The major leagues have experienced the same decline in paid attendance and in gross receipts from admissions, the same increase in costs, and the same resulting diminution in income as the minor leagues. As a survey made by the two major leagues of their membership showed, more than half the major league clubs—like the bulk of the minor league ones—experienced losses in 1951 and 1952. By 1953, the financial positions of these clubs had further deteriorated.

Attendance at major league games, exclusive of World Series and All Star games, declined from a high of 20½ million in 1948 to 14 million in 1953 (exhibit A, supra, p. 2, and exhibit E, infra, p. 13). As in the case of the minor leagues, this decline in attendance has been a steady one. It has reflected itself in the margin of profit on gross operating income. The most recent figure available, which is for

1950, a substantially better year than 1953, shows a margin of profit of 2.2 as compared to one of 7.8 in 1944, when the war tax first went into effect, and of 17.8 in 1946. Exhibit J, infra, p. 17. See also exhibit K, infra, p. 18. If the figures for 1953 were available, the margin of profit might be shown to be negligible or even to be a minus quantity since more than half of the clubs experienced losses in that year. This decline in profits is the result of the fact that, while admission prices have necessarily remained stationary, because of the considerations discussed earlier in connection with the minor leagues, costs have risen, and attendance has dropped. As the graph on page 11 shows, players' salaries, to name only one item of expense, have risen steadily since 1943. Exhibits B, L, infra, pages 11 and 18.

The decline in attendance at major league games has necessarily reflected itself in the revenue from the admissions tax. Whereas in 1949, the admissions tax on major leagues yield more than $5½ million of income, less than $4½ million was secured in 1953. Should the downward trend in baseball attendance continue, a further decline in tax revenue from this source can be anticipated.

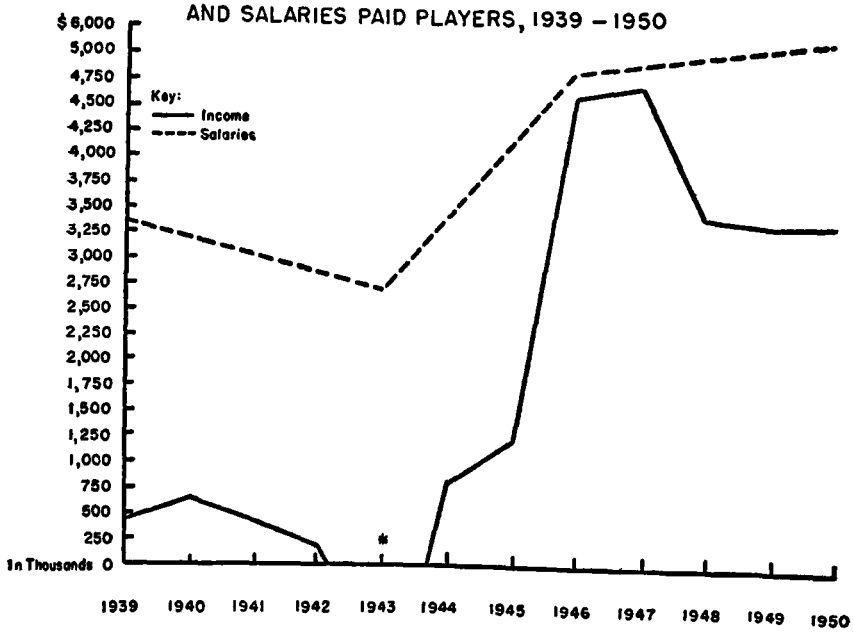
The siphoning off of the admissions tax from the gross receipts of the major league clubs, many of which are in a loss position, discriminates against them in comparison with other businesses which are taxed on net and not gross income. As was pointed out earlier in this memorandum, the stickiness of admission prices makes it difficult if not impossible, for the club owner to compensate for diminished attendance with higher prices. The consumer attitudes toward baseball prices fix a ceiling on the admission prices which can be charged. The admissions tax reduces the return to the club owner from these ceiling prices. As costs rise and attendance drops, the squeeze on him is intensified. Although his income is cut, the tax remains constant.

4. ELIMINATION OF THE ADMISSIONS TAX ON BASEBALL WOULD DECREASE TAX REVENUES AN INSIGNIFICANT AMOUNT

The tax on baseball admissions currently yields very little revenue. The total revenue in 1953 from this source was approximately $8¼ million (exhibit D,

EXHIBIT B

NET INCOME OF MAJOR LEAGUE CLUBS
AND MINOR LEAGUE AFFILIATES
AND SALARIES PAID PLAYERS, 1939 – 1950



* Loss of $113,000 in 1943

Source: Exhibits K and L

infra, p. 96). Should the steady decline in attendance continue, the revenue in 1954 will be even less. Such loss of revenue as would be experienced by elimination of the admissions tax would be compensated for by the higher income taxes payable by the clubs in a profit position. To the extent their profits were increased by the elimination of the tax, their taxable income would be greater. The loss of revenue involved, therefore, by the elimination of the tax is clearly de minimis.

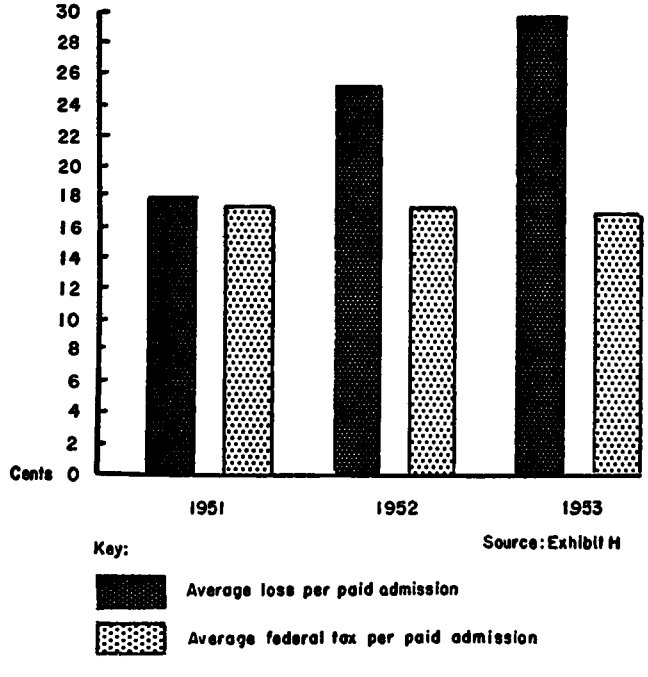
5. BOTH BASEBALL FANS AND CLUBS WOULD BENEFIT BY ELIMINATION OF THE TAX

Elimination of the tax on baseball admissions would be to the advantage of both the consuming public and the baseball clubs. While some clubs undoubtedly will retain all or part of the tax to cover increased costs since 1944, many others will undoubtedly elect to improve their profit position by boosting attendance through lower prices. Club owners recognize that attendance at baseball games is a social and family affair. The family budget is diminished not by 1 admission, but generally by 2 or 3, and in these days of larger families, 4 or 5. One way of stopping the steady decline in baseball attendance is by reducing the cost of admission.

What each club will do will undoubtedly depend upon local conditions and the best judgment of the club owner as to the most advantageous use which can be made of the relief afforded by the elimination of the admissions tax. Whichever election is made, however, there can be little question that the elimination of the admissions tax will substantially improve the financial position of all baseball clubs. It could mean the difference in many cases whether individual clubs or entire leagues can continue to operate. The closing of a single club may force the discontinuance of an entire league. The progressive contraction of professional baseball and of the minor leagues must be arrested.

EXHIBIT C

COMPARISON OF AVERAGE FEDERAL TAX WITH AVERAGE LOSS PER PAID ADMISSION TO MINOR LEAGUE GAMES, 1951 - 1953



6. CONCLUSION

The admissions tax on baseball, which was imposed in a period of inflation, unfairly discriminates against baseball. If baseball is viewed as a sport, participation in it should not be discouraged. If it is viewed as a business, it should not be taxed differently from other businesses and required to pay a tax regardless of net income. The admissions tax on baseball should be removed.

Submitted by:

FORD C. FRICK,
Commissioner of Baseball.
GEORGE M. TRAUTMAN,
President-Treasurer,
National Association of Professional Baseball Leagues.

EXHIBIT D

Annual yield from admission tax on organized baseball, 1951–53

	Major leagues [1] (a)	Minor leagues [2] (b)	Total majors and minors (a) plus (b)
1951	$4,771,797.46	$4,825,000	$9,596,797.46
1952	4,187,247.93	4,376,900	8,564,147.93
1953	4,401,352.50	3,829,500	8,230,852.50

[1] Figures supplied by major league teams. They do not include any figures for the American League Baseball Co., of St. Louis.

[2] Approximate figures arrived at by multiplying the average Federal tax per paid admission to minor league games, as calculated by the National Association of Professional Baseball Leagues on the basis of reports from an representative number of clubs (exhibit H) by the total paid attendance at minor league games (exhibit E).

EXHIBIT E

Paid attendance, organized baseball, 1946–53

	Major league games, exclusive of World Series and All-Star games [1] (a)	Minor league games [2] (b)	Total majors and minors (a) plus (b)
1946	18,131,007	32,704,000	50,835,007
1947	19,620,288	39,685,000	59,305,288
1948	20,708,282	40,922,000	61,630,282
1949	20,026,838	41,895,000	61,921,838
1950	17,307,443	34,533,000	51,840,443
1951	15,935,267	27,519,000	43,454,267
1952	14,248,153	25,301,253	39,549,306
1953	14,218,428	22,183,821	36,402,249

[1] Figures supplies by major league teams. They do not include any figures for the American League Baseball Co. of St. Louis.

[2] Figures for 1952–53 supplied by the National Association of Professional Baseball Leagues directly. Figures for the other years are those given the Subcommittee on Study of Monopoly Power of the Committee of the Judiciary by the National Association of Professional Baseball Leagues, and reproduced in the hearings of this subcommittee, Serial No. 1, pt. 6, Organized Baseball, 82d Cong., 1st sess. (hereinafter referred to as hearings), p. 1616.

EXHIBIT F

Gross admission receipts, major and minor leagues, 1948–53

Year	Number of minor leagues	Number of major leagues	Total leagues	Gross receipts, including admission taxes [1]
1948	58	2	60	$68,000,000
1949	59	2	61	66,000,000
1950	58	2	60	55,000,000
1951	50	2	52	51,000,000
1952	43	2	45	49,000,000
1953	38	2	40	[2]

[1] U. S. Commerce Department.
[2] Not available.

EXHIBIT G

Profit and loss, minor league clubs, 1946–53

	1946 [1]		1947 [1]		1948 [1]		1949 [1]	
	Number of clubs reporting	Net profit or (loss)	Number of clubs reporting	Net profit or (loss)	Number of clubs reporting	Net profit or (loss)	Number of clubs reporting	Net profit or (loss)
Open								
AAA	24	$884,911	24	$923,560	24	$598,549	24	$574,997
AA	15	207,363	15	741,899	15	398,581	15	237,749
A	10	44,925	18	(82,600)	19	(20,541)	21	147,786
B	17	40,899	21	58,649	25	(74,408)	31	(51,897)
C	13	49,201	22	32,512	27	(10,907)	32	(124,716)
D	19	48,774	24	(28,880)	30	(84,454)	33	(144,774)
	1950 [1]		1951 [2]		1952 [2]		1953 [2 3]	
Open			8	($39,411)	8	($592,649)	6	($298,695)
AAA	24	($1,413,002)	12	(1,139,319)	12	(730,395)	10	(772,270)
AA	15	120,410	13	193,203	13	(131,240)	10	(417,831)
A	23	(535,143)	16	(281,173)	16	(461,317)	14	(491,765)
B	38	(656,745)	25	(569,597)	30	(908,019)	23	(672,301)
C	44	(470,656)	37	(473,845)	36	(360,598)	26	(277,253)
D	41	(334,353)	38	(467,514)	48	(546,391)	24	(375,655)

[1] These figures are taken from a table compiled by the staff of the Subcommittee on Study of Monopoly Power of the Committee of the Judiciary of the House of Representatives. Hearings, p. 1625.
[2] These figures were supplied by the National Association of Professional Baseball Leagues.
[3] In comparing the columns for each year it should be borne in mind that the total loss shown 1 year may be smaller than in another year because although the average loss has increased, the total number of clubs reporting is less.

EXHIBIT H

Comparison of average federal tax per paid admission and average profit or loss per paid admission to minor league games, 1951–53 [1]

Classification	Number which answered questionnaire	Year	Average profit (+) or loss (−) per paid admission	Average Federal tax per paid admission [2]
Open	8	1951	−$0.0169	$0.2194
	8	1952	−.2551	.2009
	6	1953	−.1930	.2263
AAA	12	1951	−.5777	.2416
	12	1952	−.4061	.2389
	10	1953	−.5026	.2264
AA	13	1951	+.0705	.2309
	13	1952	−.0466	.2057
	10	1953	−.1946	.1998
A	16	1951	−.1453	.1663
	16	1952	−.2339	.1581
	14	1953	−.3253	.1592
B	25	1951	−.2692	.1429
	30	1952	−.5749	.1905
	23	1953	−.4101	.1324
C	37	1951	−.1706	.1244
	36	1952	−.1416	.1208
	26	1953	−.1765	.1276
D	38	1951	−.2846	.1024
	48	1952	−.2827	.1002
	22	1953	−.4597	.1006
Total	149	1951	−.1787	.1779
	163	1952	−.2492	.1730
	111	1953	−.2964	.1725

[1] Based on information compiled by the National Association of Professional Baseball Leagues.
[2] These figures do not include other admission taxes imposed by local taxing authorities. These taxes are also substantial.

EXHIBIT I

Number of minor leagues in operation, 1946–53 [1]

	A		B		C		D		Total	
	At start	At finish	At start	At finish	At start	At finish	At start	At finish	At start	At finish
1946	7	7	8	7	11	11	17	17	43	42
1947	8	8	9	9	15	15	20	20	52	52
1948	9	9	9	9	15	15	25	25	58	58
1949	9	9	11	11	14	14	25	25	59	59
1950	9	9	10	9	16	16	23	23	58	57
1951	9	9	9	9	13	12	19	19	50	49
1952	9	9	8	8	11	11	15	15	43	43
1953	9	9	7	7	10	10	12	12	38	38

[1] The figures for the years up to and including 1951 are taken from a table reproduced in hearings, p. 1394. The figures for 1952 and 1953 have been supplied by the National Association of Professional Baseball Leagues.

EXHIBIT J

Margin of profit (loss) on gross operating income, major-league clubs, 1942–50 [1]

1942	2.9
1943	(2.2)
1944	7.8
1945	8.0
1946	17.8
1947	16.2
1948	9.6
1949	9.8
1950	2.2

[1] Excerpt from table reproduced in hearings, p. 1636.

EXHIBIT K

American League teams combined, National League teams combined, American and National League teams combined, net income (loss) for the years 1939 through 1950 [1]

	American League teams combined (a)	National League teams combined (b)	American and National League teams combined (a) and (b)
1939	$68,000	$384,000	$452,000
1940	427,000	202,000	629,000
1941	359,000	81,000	440,000
1942	134,000	34,000	168,000
1943	(106,000)	(7,000)	(113,000)
1944	738,000	61,000	799,000
1945	726,000	516,000	1,242,000
1946	2,865,000	1,793,000	4,658,000
1947	2,328,000	2,378,000	4,706,000
1948	2,064,000	1,427,000	3,491,000
1949	1,629,000	1,702,000	3,331,000
1950	1,744,000	1,594,000	3,338,000

[1] These figures include both major league clubs and minor league affiliates. They were assembled without audit by Arthur Andersen & Co., from data supplied by the major leagues, and submitted to the Subcommittee on Study of Monopoly Power of the Committee of the Judiciary, 82d Cong., 2d sess.

EXHIBIT L

American League teams combined, National League teams combined, American and National League teams combined, salaries paid players for the years 1939, 1943, 1946, and 1950 [1]

Year	American League teams combined (a)	National League teams combined (b)	American and National League teams combined (a) and (b)
1939	$1,750,000	$1,524,000	$3,274,000
1943	1,356,000	1,387,000	2,743,000
1946	2,661,000	2,212,000	4,873,000
1950	2,981,000	2,909,000	5,890,000

[1] These figures include both major league clubs and their minor league affiliates. They were assembled without audit by Arthur Andersen & Co., from data supplied by the major leagues, and submitted to the Subcommittee on Study of Monopoly Power of the Committee of the Judiciary, 82d Cong., 2d sess.

EXHIBIT M

Comparison of admission prices charged in 1940 and 1953 by minor league clubs of class A and higher [1]

[Mean of box, unreserved grandstand, and bleacher seats figured to nearest full cent. Other types of admission not included]

	1940	1953
Total number of clubs in United States in class A and higher	38	67
Number of clubs supplying data	16	40
Mean established price [2]	$0.74	$0.93
Mean Federal admissions tax	$.075	$.186
Mean other admission tax	$.009	$.02
Mean total price	$.82	$1.13
Changes between 1940 and 1953:		
Mean increase in total price		$.31
Mean increase in established price		$.19
Mean increase in Federal tax		$.11
Percentage increase in total price		37.8
Percentage increase in established price		[3] 20.6

[1] The National Association of Professional Baseball Leagues.

[2] Calculated by multiplying mean figures by number of reporting clubs in each classification, and by dividing sum of all figures by total number of reporting clubs.

[3] Other types of admission are not included because of the wide variety of practices, including promotional activities followed by the clubs. If such types as, for example, ladies, children, students, servicemen, and service charges were included, the percentage increase would be even lower.

EXHIBIT N

Ticket prices for representative years at major league games

Name of team	1942	1944	1950	1953
Dodgers: [1]				
Box	$2.20	$2.40	$3.00 2.50	$3.00 2.50
Reserved	1.65	1.80	1.75	1.75
Grandstand	1.10	1.20	1.25	1.25
Bleacher	.55	.60	.60	.60
Chicago Cubs: [2]				
Box	1.65	1.80	2.00	2.50
Grandstand	1.10	1.25	1.25	1.25
Bleacher	.55	.60	.60	.60
Cincinnati Reds: [3]			2.25	2.25
	2.00	2.20	2.00	2.00
Box and reserved grandstand	1.75	1.90	1.75	1.75
	1.50	1.70	1.50	1.50
General admission	1.10	1.20	1.25	1.25
Bleacher	.60	.65	.65	.65
Milwaukee Braves: [4]				
Box	2.40	2.40	2.40	2.50
Grandstand reserved	1.80	1.80	1.80	1.85
General admission	1.25	1.25	1.25	1.25
Bleacher	.60	.60	.60	.80
Giants: [5]				
Box	2.20	2.40	2.50	3.00
Reserved	1.65	1.80	1.75	2.00
Grandstand	1.20	1.20	1.25	1.25
Bleacher	.55	.60	.60	.60
Phillies: [6]				
Box	1.71	2.00	2.50	2.75
Reserved			2.00	2.00
Grandstand	1.14	1.25	1.30	1.30
Bleacher	.57	.65	.75	.75
Pittsburgh Pirates: [7]				
Box	2.20	2.40	2.75	2.75
Reserved	1.65	1.80	2.20	2.20
Bleacher	.80	.90	1.00	1.00
Admission	1.10	1.20	1.40	1.40
Cardinals: [8]				
Box	1.75	1.90	2.25	2.25
Reserved	1.45	1.65	1.85	1.85
Grandstand	1.15	1.25	1.35	1.35
Bleacher	.60	.60	.75	.75
Red Sox: [9]				
Box	1.65	1.80	2.40	2.40
Reserved grandstand	1.40	1.60	1.80	1.80
Grandstand	1.10	1.20	1.20	1.20
Bleacher	.55	.60	.60	.60
White Sox: [10]				
Box	1.65	1.80	2.00	2.50
			1.50	1.75
Grandstand	1.10	1.20	1.25	1.25
Bleacher	.55	.60	.60	.60
Cleveland Indians: [11]				
Box	1.60	1.80	2.00	2.25
Reserve	1.35	1.50	1.50	1.65
Grandstand	1.10	1.20	1.20	1.25
Bleacher	.55	.60	.60	.60
Detroit Tigers: [12]				
Box	1.65	1.80	2.50	2.50
Reserved	1.40	1.50	1.50	1.75
Grandstand	1.10	1.20	1.20	1.25
Bleacher	.55	.60	.60	.75
New York Yankees: [13]				
Box	2.20	2.40	3.00	3.00
			2.50	2.50
Reserved	1.65	1.80	2.00	2.00
			1.75	1.75
General admission	1.10	1.20	1.25	1.25
Bleacher	.55	.60	.60	.60
Philadelphia Athletics [14]	1.71	2.00	2.50	2.75
	1.14	1.25	2.00	2.00
	.57	.63	1.30	1.30
			.75	.75

[1] Brooklyn National League Baseball Club, Inc.
[2] Chicago National League Ball Club.
[3] The Cincinnati Baseball Club Co.
[4] National League Baseball Club of Milwaukee, Inc. (1942-52 [Boston] 1953 [Milwaukee]).
[5] National Exhibition Co.
[6] Philadelphia National League Club.
[7] Pittsburgh Athletic Company, Inc.
[8] St. Louis National Baseball Club, Inc.
[9] Boston American League Baseball Co.
[10] American League Baseball Club of Chicago, Inc.
[11] The Cleveland Baseball Corp.
[12] Detroit Baseball Co.
[13] New York Yankees, Inc.
[14] American Baseball Club of Philadelphia.

NOTE.—It was not possible to secure the ticket prices for either the American League Baseball Co. of St. Louis or the Washington American League Baseball Club.

EXHIBIT O

Minor league admission prices, 1953 [1]

Classification	Total clubs in United States	Number supplying data	Average established price [2]	Average Federal admission tax [2]	Average other admission tax [2]	Average total price [2]
Open	8	6	$1.06	$0.21	$0.01	$1.28
AAA	13	10	1.00	.20	.01	1.20
AA	16	10	.90	.18	.02	1.10
A	30	14	.84	.17	.03	1.04
B	50	22	.75	.15	.02	.91
C	62	28	.73	.15	.01	.88
D	89	21	.63	.12	.02	.78
Total			.786	.157	.017	.957

[1] Figures supplied by the National Association of Professional Baseball Leagues.
[2] Average of 3 most popular types of admissions—box, unreserved grandstand, and bleacher. Does not include other types of admissions, such as reserved grandstand, United States servicemen, children, ladies, students, service charge, etc.

W. A. SHEAFFER PEN CO.,
Fort Madison, Iowa, March 15, 1954.

Hon. EUGENE D. MILLIKEN,
Chairman, Committee on Finance,
Senate Office Building, Washington, D. C.

MY DEAR CHAIRMAN: On behalf of the W. A. Sheaffer Pen Co., I am attaching for the record and for consideration by the Senate Finance Committee, a brief statement supporting our request that H. R. 8224 be amended to put an April 1, 1955, termination date on the manufacturers' excise tax on writing instruments—the same termination date that H. R. 8224 puts on all the other Korean war excises imposed on various products by the Revenue Act of 1951.

I am also taking the liberty of suggesting a simple amendment to H. R. 8224 that will, I believe, accomplish the objective requested. This suggested amendment is attached to the accompanying statement, and the added wording is underscored for your convenience.

Respectfully yours,

W. A. SHEAFFER PEN CO.
R. O. THOMAS.

STATEMENT OF R. O. THOMAS, LEGAL COUNSEL AND DIRECTOR, W. A. SHEAFFER PEN CO., FORT MADISON, IOWA

1. H. R. 8224, passed by the House of Representatives on March 10, 1954, places a termination date of April 1, 1955, on all Korean war excise taxes imposed on products by the Revenue Act of 1951, except that this bill places no such termination date on the manufacturers' excise tax imposed on fountain pens, mechanical pencils, ball-point pens, and cigarette lighters, which were lumped together and were taxed, for the first time, by the 1951 Revenue Act.

2. All of the excises imposed by the 1951 act were levied for the sole purpose of helping finance the Korean war, which has since ceased. The existence of that war was the only reason for imposing a manufacturers' tax on writing instruments. Had it not been for that war no such tax would ever have been levied.

3. If all the other Korean war excises imposed by the Revenue Act of 1951 are permitted to expire on April 1, 1955, the same treatment should be accorded writing instruments, which were taxed for the same reason and yet, to school children and to everyone else, are far more essential than other products—such as cigarettes, wines, liquors, and sporting goods—taxed by the 1951 act and given preference over writing instruments by H. R. 8224.

4. The termination on April 1, 1955, of these other Korean war excises imposed by the 1951 act will mean a loss of revenue of $1.1 billion. The same termination date for the tax on writing instruments would mean a loss of revenue of only about $9 million—less than 1 percent as much.

5. The W. A. Sheaffer Pen Co. asks no preferred treatment for itself and for the writing instrument industry. It merely asks that it and its industry be given the same treatment—the same termination date—given the other companies and industries taxed by the Revenue Act of 1951 to help finance the Korean war.

SUGGESTED AMENDMENT

Section 303 of H. R. 8224 is amended to read as follows:

"SEC. 303. TAX ON MECHANICAL PENCILS, FOUNTAIN AND BALL-POINT PENS, AND MECHANICAL LIGHTERS FOR CIGARETTES, CIGARS, AND PIPES.

"Section 3408 (a) (relating to tax on mechanical pencils, fountain and ball-point pens, and mechanical lighters for cigarettes, cigars, and pipes) is hereby amended by striking out '15 per centum' and inserting in lieu thereof '10 per centum,' *and by striking out the period at the end thereof and adding the following ', but this tax shall not apply to such articles sold by the manufacturer, producer, or importer on or after April 1, 1955.'*"

SUMMARY OF STATEMENT BY THE FOUNTAIN PEN AND MECHANICAL PENCIL MANUFACTURERS' ASSOCIATION

1. Relief sought is an amendment to section 3408 of the Revenue Act of 1951 to provide either for immediate repeal of the 15 percent manufacturer's excise tax levied on fountain and ball-point pens and mechanical pencils or for a termination date of no later than April 1, 1955, the same expiration date provided by H. R. 8224 for other levies imposed by the Revenue Act of 1951.

2. The excise imposed under section 3408 was an extension of an earlier jewelry tax. Fountain and ball-point pens and mechanical pencils are erroneously classified as jewelry; they are functional mechanical writing instruments and should in no sense of the word be considered as luxury items.

3. The excise is discriminatory because it is the only such tax levied upon a tool used by millions of people to earn their living. Other tools by which people earn their livelihoods but which are not so taxed are the carpenter's hammer, the mason's trowel, the toolmaker's micrometer, the painter's brush, the machinist's gage, the plumber's wrench, etc. None of these are more essential than mechanical writing instruments. Thus the tax discriminates against large masses of working people who must use mechanical writing instruments to earn their living.

4. Ninety percent of those of school age purchase mechanical writing instruments and thus the tax applies to a tool of compulsory education. Taxes on luxury items, such as cigarettes and liquor, can be avoided by not smoking or drinking, but a tax on a necessity can not be avoided.

5. The revenue of approximately $8½ million derived from the excise levied on pens and pencils annually is not real in fact. This is because many manufacturers have been forced, for competitive reasons, to absorb all or a part of the tax, thus reducing their corporate taxable income. The $8½ million collected by the Internal Revenue Service does not reflect the true net increase of revenues to the Federal Government.

6. The removal of bread from every store and pantry shelf would have a less damaging effect on the Nation's economy than would the elimination of mechanical writing instruments, because there is no substitute for the latter.

STATEMENT OF ROBERT N. WOOD, PRESIDENT, AND FRANK L. KING, EXECUTIVE VICE PRESIDENT, ON BEHALF OF THE FOUNTAIN PEN AND MECHANICAL PENCIL MANUFACTURERS' ASSOCIATION, INC.

A manufacturer's excise tax of 15 percent on certain functional fountain pens, ball pens, and mechanical pencils, was enacted in the Revenue Act of 1951 (26 U. S. C. A. 3408), there already having been a retail excise tax of 20 percent on ornamented items imposed under title 26, United States Code Annotated, section 2400. The law as it presently stands, makes no provision for a termination date of the later tax.

The relief sought is specifically an amendment to section 3408 which will provide either for immediate repeal of this 15-percent manufacturer's excise tax or for a definite fixed time for the expiration thereof. It is earnestly requested that the removal of this tax be accomplished at as early a date as possible. The basic concept of excise taxes has taken a strange twist to include purely functional mechanical writing instruments as subject to its burdens. It is a tax on one of the fundamental necessities of everyday living and, for the reasons outlined below, it is urged that provision be made for its immediate or early termination.

BACKGROUND OF IMPOSITION OF THE TAX

The first information received by the industry that fountain pens, ball pens, and mechanical pencils were subject to a proposed manufacturer's excise tax was through a news bulletin, dated May 14, 1951, which reported the action of the House Ways and Means Committee. In paragraph 10 of that bulletin that committee was reported to have made the following recommendations:

"10. Make no change in the rate of tax on jewelry but to extend the base to include cigarette and cigar lighters, fountain and ball pens, and all mechanical pencils. Estimated revenue, $38 million. Reject a proposal to tax silverplated flatware."

The industry, through its association, had no opportunity to appear before the House Ways and Means Committee. Hearings had been held prior to the proposal to tax mechanical writing instruments and the proposal was not recommended by the Treasury Department but was made from within the committee because, it is believed, of a misconception of the nature of the article.

Consequently, this association is requesting, on behalf of the mechanical writing-instrument industry, that the section imposing the tax on mechanical writing instruments be amended by inserting therein a section providing for immediate repeal of the tax. The alternate request we make of this committee, if this is not done, is that this industry be accorded the same treatment as that given by the House Ways and Means Committee to other industries, i. e., an April 1, 1955, termination date for the tax on mechanical writing instruments similar to the date set for the termination of the excise tax increases imposed at the same time the tax on pens and pencils was enacted.

WRITING INSTRUMENTS ARE NOT LUXURY ITEMS

There is nothing in the utilitarian character of the mechanical writing instrument which has anything at all in common with, or even vaguely resembles, a luxury item such as jewelry. This is so obvious that it hardly requires comment. However, the bulletin quoted above refers to the tax on mechanical writing instruments as an extension of the jewelry tax. The industry believes that it is this erroneous classification of mechanical writing instruments which led to their being included in the excise-tax statutes in the first place. Classification of pens and pencils as jewelry is totally wrong, and if there are any doubts about it we will try to dispose of them at once.

The products of this industry are necessary. There is not one single important commercial function which can be carried through without some kind of writing instrument. Freight does not move without a written order or consignment. Production stops if the administrative and clerical staffs have nothing with which to write. Conceive of a military operation without written orders or communications. Paperwork in all kinds of operations—civilian or military—is basic. Some kind of writing instrument is essential.

Mechanical writing instruments are the most efficient, portable, all-purpose writing instruments ever conceived. They are durable—their utility is measured in years, not in days or weeks. They are efficient. A fountain pen, whether conventional or ball type or a mechanical pencil carry their own reservoirs of ink or supplies of lead for continuous use.

For a while, during the Korean war emergency, there was a serious materials scarcity for industrial use. Metals in short supply were parceled out by the National Production Authority in accordance with the necessity of the end product—as a direct defense or a defense supporting industry. There was never any question in the minds of the administrators of the NPA that a steady source of supply of mechanical writing instruments must be maintained by the country. Metals were allocated to this industry to allow ample production to continue. Attached is a press release of the Department of Commerce which shows the recognition that the mechanical writing instrument received during the Korean war emergency.

It can safely be said and it is here respectfully urged that there is no other item of comparable utilitarian value and universal use which is the subject of an excise tax.

In the educational field independent surveys have been made which show that over 90 percent of school children and college students use mechanical writing instruments. The American Council on Education and the National Education Association estimate that 85 percent of all students personally purchase mechanical writing instruments. Excerpts of letters written by these two associations

to the Senate Finance Committee are attached. There use by the services and in industry is likewise extensive and essential.

Children are required in all parts of the country to attend school. Fountain pens, ball point pens, and mechanical pencils are necessary equipment for modern schools as we have shown before. It is a strange thing to tax these implements in the same way that liquor and cigarettes are taxed. No one has to smoke or drink—such items are luxuries. But children must go to school and their implements, the pen and pencil, are necessaries and are subject to an excise tax.

LUXURY LINE OF MECHANICAL WRITING INSTRUMENTS ALREADY SUBJECT TO TAX

For many years the Congress, the Treasury Department and the industry have recognized the fairness of a taxability test based upon the presence or absence of ornamentation on fountain pens, ball point pens, and mechanical pencils. Title 26, United States Court of Appeals, section 2400, imposes a retail sales tax on such articles made of or ornamented with precious metals or imitations thereof. The section expressly exempts from the tax fountain pens or mechanical pencils if the only parts of the pen or pencil which contain precious metals are the essential parts not used for ornamental purposes.

The tax just referred to above imposes a retail sales tax of 20 percent, such tax being acceptable to the industry so long as jewelry items generally are taxed.

This newly imposed manufacturers' excise tax, however, is levied on the great bulk of functional, nonornamented pens and pencils.

Because a writing instrument is carried on the person, it is desirable for it to be pleasing to the eye and as such must not be considered an ornament for purely decorative purposes. However, if the ornamental part is not functional or does not serve a utilitarian purpose, it is taxed under section 2400 of the Internal Revenue Code at 20 percent of its retail sales price.

If the instrument is actually utilitarian in character, even though pleasing to the eye, there should be no excise tax of any kind on it or at any level unless and until all articles of lesser essentiality or utility are taxed at the same or at a higher rate. A good example of a similar line of products is silverware.

The House Ways and Means Committee rejected a proposal to tax silverplated flatware and in the same breath (par. 10 of the May 14, 1951, bulletin) extended the jewelry tax to include all fountain and ball-point pens and mechanical pencils. Sterling silver, that is, tableware made out of solid silver, is subject to tax under section 2400 as are ornamented pens and pencils. The plated ware has a plating of silver to protect against corrosion, the process producing a high finish which has sales appeal. Thus, the plating is both functional and pleasing to the eye. As above stated, the committee rejected a proposal to tax silverplated flatware but approved the proposal to tax purely functional pens and pencils. The functional character of the mechanical writing instrument is at least equal to that of silverplated flatware. To tax one industry and thus make it bear a costly time-consuming burden without taxing the other, when the industry taxed produces articles at least as useful and essential to everyday living, is the clearest sort of discrimination. There are many other industries not taxed which manufacture items of lesser utility than the nonornamented mechanical writing instrument. For example, neckties and other similar articles of personal adornment are not taxed; neither are toys or pins or nonornamented picture frames. Until such items are all taxed it is unfair to this industry to keep it subject to an excise tax.

REVENUE ACT CONTEMPLATED TERMINAL DATES FOR 1951 EXCISE TAXES

The drastic increases in excise taxes imposed by the Revenue Act of 1951 were not intended to be permanent. Congress was faced with the necessity of raising additional revenue to meet a crisis of unknown gravity. It turned to excise taxes as one means of increasing revenue. By that act liquor taxes were increased. Beer and wine, cigarettes, trucks, passenger cars, gasoline, and sporting goods were all raised in rates. In all of these taxes, the Revenue Act provides that the increases shall terminate as of April 1, 1954. The tax on mechanical writing instruments was imposed at the same time that these increases were placed into effect. The rate was set at 15 percent, higher than all items except photographic equipment at 20 percent and sporting goods which are scheduled to be reduced to 10 percent on April 1, 1954, and equal only to cigarette lighters which were taxed by the same section. H. R. 8224 now proposes to terminate these levies on April 1, 1955.

Surely it was not the intention of Congress permanently to tax fountain pens and mechanical pencils, nonornamented, at a higher rate than most other items subject to a manufacturers' excise tax when it is so obvious that mechanical writing instruments are among the most useful tools of the average citizen in this country. If Congress did consider all of the facts and still came to the conclusion that it was necessary to tax pens and pencils, it certainly must have meant to provide for a termination date the same as for the other tax increases. That no termination date was included must have been due to oversight. This industry should receive, at least, the same treatment that is received by sporting goods, or liquor, or cigarettes and it is respectfully urged that section 3408 be amended to provide for a termination of the tax immediately or at least by April 1, 1955, at which time the new taxes imposed by the Revenue Act of 1951 are scheduled to expire under the provisions of H. R. 8224.

CONCLUSION

This manufacturer's excise tax is imposed on an item essential to the conduct of everyday business in every phase of modern life. As a subject of taxation these writing instruments—tools in the hands of most users—do not qualify under the principles upon which excise taxes were imposed in the acts of 1941 and 1943. Those taxes were intended to place a premium on luxuries, to discourage the acquisition of articles and things not essential in a state of war and to be levied on those best able to bear the burden. The Internal Revenue Code contains a section which levies a retail sales tax on those writing instruments ornamented with gold or other precious metals. The present manufacturer's excise tax is on all other fountain pens, ball point pens and mechanical pencils and is a tax on a strictly utilitarian item which can properly be classified as a necessity, and is recognized as essential by the defense control agencies.

It is a tax on the manufacturers' level. This means it is a hidden tax and the ultimate consumer not only pays an increased price equal to the amount of the tax, but also must pay in many instances the dealer markup on the tax. It must be borne by millions of students, by workers and members of the armed services most of whom are least able to bear additional burdens and against whom the imposition of these newly imposed taxes must fall.

Senator Flanders of Vermont in debate over the advisability of this manufacturer's excise tax raised the point that a tax on neckties is more justified than on pens and pencils. He pointed out that neckties are purely objects of adornment. Pens and pencils are necessities. A tax on neckties was considered ridiculous and was rejected by the Senate Finance Committee. It is indeed startling that Congress should see fit to tax an article of necessity, such as a mechanical writing instrument, and at the same time reject as ridiculous an excise tax on an article of personal adornment such as a necktie.

The Fountain Pen and Mechanical Pencil Manufacturers' Association respectfully urges that this committee amend section 3408 so as to provide for an immediate termination of the manufacturer's excise tax on pens and pencils.

UNITED STATES DEPARTMENT OF COMMERCE

NATIONAL PRODUCTION AUTHORITY

WASHINGTON 25, D. C.

[For Immediate Release Monday, April 30, 1951]

FOUNTAIN PEN AND PENCIL MEETING

The Fountain Pen and Mechanical Pencil Industry Advisory Committee reported today at a second meeting with the National Production Authority, United States Department of Commerce, that the industry had cut its use of nickel to a minimum.

Through conversion to less critical materials—carbon and chrome steels—and elimination of nickel in all parts except those coming in contact with corrosive inks, the industry has saved 42,045 pounds of nickel, the committee stated. The industry's minimum current requirement for nickel is 38,282 pounds, the committee said.

There is no corrosive resistant steel that can be used as a substitute for nickel-bearing stainless steel in the manufacture of fountain pen points, industry repre-

sentatives said. However, approximately 50 percent of the nickel used in producing points is returned to the total supply as scrap, it was explained.

The committee urged that the industry be allowed continued use of nickel under a proposed nickel allocation program.

Conservation and simplification proposals of the industry will be considered in formulation of such a program, NPA officials said.

The committee reiterated the industry's claim to consideration under the controlled materials plan on the basis of essentiality to military operations and defense production, and recommended allocation of controlled materials to their industry with no limitation on unit production.

NPA officials explained that CMP is not intended to cut production of any item. They also pointed out that the essentiality of the fountain pen and mechanical pencil industry is recognized.

Continued shortage of castor oil (used in certain inks, including ink for ball-point pens) and increasing defense demands for the material was reported by a representative of the Department of Agriculture.

Producers of inks containing castor oil are studying possible substitutes, it was reported.—G. Irving Baily, of NPA's Consumer Goods Division, presided.

Excerpts From Letters of American Council on Education and National Education Association

"It is our understanding that the contemplated income from this tax is estimated at $26 million a year. While it is impossible accurately to determine the percent of purchase of pens and mechanical pencils by children and young people in schools and colleges, it may well amount to nearly half of the total purchases. Certainly fountain pens are essential equipment in schools and colleges. Although the actual increase in the cost of education for any one individual appears relatively small, in the total it becomes a real tax upon the educational system at a time when all other educational expenditures for students are also increasing.

"In the light of the importance of pens and mechanical pencils as educational tools, it is hoped that you will not include these items under the luxury tax."—American Council on Education.

"We are writing in the interests of 32 million students in our public and private schools of the country. About 85 percent of these students purchase personally fountain pens, ball pens, and mechanical pencils for use in their schoolwork. School administrators encourage this at least indirectly because the days have passed when it is practical and even economical to place ink in school desks for the use of students. In your day, this ink was placed and often spilled when pupils moved the desks and thereby disfigured books in the desks. In addition, ink in such small quantities soon evaporates or becomes unfit for use because of its exposure to the air. It is more practical and at the same time economical to school communities to have students purchase fountain pens, ball pens, and mechanical pencils for their personal use and also for their work in school.

"We believe it was not the intent of the act to impose this burden on such a large number of our students in the schools. We, therefore, hope that you can give some consideration to eliminate this tax on fountain pens, ball pens, and mechanical pencils that are used by school youth in their educational work. This association strongly urges you to consider this element in a consideration of the Revenue Act of 1951."—National Association of Secondary-School Principals, a department of the National Education Association.

Statement of Jacob Reck, Washington Representative, Beauty and Barber Industry Legislative Committee

My name is Jacob Reck. I am executive vice president of the National Beauty and Barber Manufacturers' Association. I make this statement on behalf of the beauty and barber industry legislative committee in support of H. R. 8224, the Excise Tax Reduction Act of 1954, and urge the Senate Finance Committee to report favorably H. R. 8224, as approved by the House, and recommend that the Senate pass H. R. 8224, without amendment. The beauty and barber

industry legislative committee is composed of officials of the following organizations:

The National Hairdressers' and Cosmetologists' Association, the national organization representing beauty shop owners and operators;
The Associated Master Barbers and Beauticians of America, the national organization representing barbershop owners and beauty shop owners and operators, and
The National Beauty and Barber Manufacturers' Association, the national organization representing manufacturers of toilet preparations used or resold by beauty salons or barbershops.

On August 6, 1953, I appeared before the Committee on Ways and Means of the House of Representatives at hearings on excise tax revisions and stated the reasons why the beauty and barbershop industry felt the high 20 percent retailers' excise tax on toilet preparations should be reduced. In this statement, I will summarize the principal arguments which were fully developed in my appearance before the Committee on Ways and Means since my complete statement is set forth in the report of the hearings before the Committee on Ways and Means (83d Cong.) on general revenue revision, part 4 (topic 40), starting on page 2588.

The beauty and barbershop industry supports the provision of H. R. 8224, reducing the retailers' excise tax on toilet preparations to 10 percent for the following reasons:

1. The retailers' excise tax rate of 20 percent on toilet preparations is among the heaviest now imposed and is undesirable in any but a wartime economy. A 20 percent retailers' tax can be justified only during war because its regulatory effect, in diverting materials and manpower from production of civilian goods to war materials, discourages the purchase of taxed items and, therefore, curtails their production.

2. The regulatory effects of high excise taxes are indefensible in peacetime since, to maintain prosperty and employment and to promote our economic growth through an increase in the national total demand for goods and service, consumers must be encouraged to buy items, and not discouraged from buying some as they are today by high retail excise taxes.

3. The selection of some, but not all, less essential items for high, 20 percent retail taxation and the exclusion of others, no more indispensable that those taxed at such high rates, creates inequities and discriminations by regimenting the buying habits of the people. Such regimentation belongs in a socialist or planned economy, the basic assumption of which is that the people are not competent to handle their own affairs or allocate the spending of their own money. High retail excise taxation, the purpose of which is revenue and not regulation, has no place in our free economy since it makes the Government a party to a system of unfair competition through its inequities and discriminations.

4. Since the passing of the peak wartime employment, sellers of items, bearing high retail excise taxes, have been at a disadvantage in competing with sellers of nontaxable articles for their fair share of the consumer's dollar. For some years, some of the taxable toilet preparations had little or no increase in sales volume. This stagnation of the market brought about fierce and costly competitive practices on the part of those who sought to increase or merely maintain their volume in a constant market. Small companies, producing 1 or 2 cosmetic products, have not been able to increase their promotional expenses and, thus, have lost a significant part of their volume to larger competitors. Since 1946, the toilet preparations industry has had more than its share of small companies who either went out of business or were forced to merge with larger companies because the high 20 percent retail excise tax on toilet preparations stagnated the market.

While the beauty and barbershop industry holds that toilet preparations have been established, because of their continued and wide usage, as essential items which should not be subjected to Federal excise taxation, it, nevertheless, realizes that the present fiscal situation does not permit Congress, at this time, to eliminate the retail excise taxes. For that reason, it supports the formula provided by H. R. 8224, in reducing all excise tax rates above 10 percent to that level, as an important step in bringing fair play to the market place and in minimizing the inequities and discriminations inherent in a selective system of excise taxation.

However, if your committee should consider giving greater tax relief to some articles or services beyond that provided for in H. R. 8224, our industry will feel it has not received fair treatment unless equal relief is also granted from the

excise tax on toilet preparations. Any tax relief beyond that accorded by the House should be granted to all articles or services whose tax rates are reduced by H. R. 8224 in order not to further aggravate the inequities and discriminations inherent in a selective system of excise taxation. Your committee is, therefore, respectfully urged to preserve the fair formula providing excise tax relief in H. R. 8224 by disapproving any amendments thereto.

The daily press has carried news items to the effect that the Treasury Department will urge your committee to reduce excise taxes to 15 percent, instead of 10 percent, as provided for by H. R. 8224. Representatives of industries whose products are subjected to the 20 percent retailers' excise taxes were heartened by the prediction of the chairman of your committee that the Senate will enact H. R. 8224, as approved by the House. However, in the event the Treasury Department should press for consideration of its proposal to reduce the retailers' excise taxes to 15 percent, instead of 10 percent, your committee is urged to recognize that such a proposal is utterly impracticable and will bring further confusion and added costs to retailers selling items, subject to a retail excise tax. It must be remembered that, in most instances, the retail tax is computed at the point of sale. The purchase by the consumer of a taxable item is usually accompanied by purchases of other articles, nontaxable. Under a 10 percent retail tax, the retail clerk, a person of average intelligence but, generally, not a mathematical genius, need do no multiplying but merely adds one-tenth of the price of the taxable articles to the bill and collects the same. Since 15 percent cannot be evenly fractionated, the retail clerk would have to do considerable multiplying, if a 15 percent retail excise tax is adopted. This would be a costly, time-consuming proposition which would try the patience of seller and purchaser alike and, more than likely, bring irritations to both arising out of the question of whether the right amount of tax was being charged. Can you picture the scene at a retail counter where a clerk is computing a 15 percent excise tax on an 89-cent lipstick or a 59-cent bottle of nail polish?

We urge your committee to report favorably H. R. 8224, as approved by the House, without amendment.

STATEMENT OF VICTOR PAUL, CHAIRMAN, RETAIL JEWELERS TAX COMMITTEE, INC.

The retail jewelers tax committee appreciates the opportunity to file with the Senate Finance Committee a statement setting forth its position with respect to H. R. 8224, a bill to reduce excise taxes, which was passed by the House of Representatives last week.

Our statement relates to the jewelry excise tax in particular, and is made on behalf of the entire jewelry industry—43,378 retailers, wholesalers, and manufacturers of jewelry, watches and silverware, and allied products in the United States and several hundred thousand workers and salesmen.

The companies for whom this statement is made, with very few exceptions, come under the Government's classification of small business. They are distributed widely across the country—in every county of the Nation, in nearly every city and town.

This statement is filed with your committee at this time for one main purpose—to emphasize that the reduction in excise taxes to 10 percent proposed by the House bill if approved by the Congress will be passed on to the consumer directly in the form of an equivalent reduction in prices.

We think this is important for your committee to know at a time when it is considering tax problems which are complicated by rapidly changing developments in the economic outlook—when unemployment is increasing rapidly according to the latest Government statistics, and when sales in some industries are tottering and in others are in substantial decline.

The retail excise tax on jewelry, silverware, and watches was born of the urgency and necessity of war. When it was imposed, prices went up by the amount of the tax. This was no accident. It was contemplated that retail prices should reflect the tax—obviously without increasing the quality or usefulness of our products. When the tax is reduced, prices will be reduced—both as a matter of right for the consumer and because of competitive forces.

The reduction in the price of jewelry items as a result of a drop in the tax will stimulate consumer purchasing in jewelry stores throughout the country. Once again, jewelry will be permitted to take a better competitive place in the scheme of consumer preferences. Jewelry inventories will move off of retailers' shelves

and jewelry artisans will be reemployed to manufacture again those articles of jewelry and silverware whose production has been depressed in the postwar period.

It is seldom realized outside the industry that the tax created inflation of the retail price of jewelry by 20 percent placed the industry in a terrific competitive disadvantage in the postwar period. This has been no small or inconsequential matter. Quite the contrary. It has been a substantial and easily discernible disadvantage for our products, a disadvantage to the employees who work in jewelry stores and factories, and a disadvantage to the firms and businessmen who produce, process, assemble and distribute watches, silverware and allied jewelry products and their component parts. The discriminatory tax has impeded and is still impeding the sales, growth and stability of the entire jewelry industry.

Jewelers have long believed that the power to tax involves the power to destroy, as was asserted by Chief Justice Marshall 135 years ago. The truth of that statement has been borne out by the experience of our industry since the end of the war.

Since 1946—the first full year of operation after World War II for example—and through 1952, the national economy has been enjoying a rapid expansion.

	Percent
National income increased	62
Personal consumption expenditures increased	48
The BLS Consumers Price Index increased	36
Population increased	11

Naturally, these trends were reflected in an expansion of the economy and increased sales. For example, total retail sales increased 60 percent. However, sales of jewelry and watches increased less than 1 percent. These figures are for the 7-year period through 1952. Our opinion is that the 1953 figures when they become available for all of the above items will emphasize the disparity. They will emphasize even more the competitive disadvantage to jewelry in the postwar period.

Prior to the imposition of the 20 percent tax, the experience of the jewelry industry was that our expansion paralleled that of the rest of the economy. We feel that it is logical to assume that except for the effect of the discriminatory 20 percent tax, our industry would have maintained a trend of expansion in the postwar period comparable to that of the rest of the economy. But the imposition of this repressive tax dramatically distorted the historical relationship. As a result, sales of approximately $500 million were lost in 1952.

Lost sales mean lost production. Lost production means lost employment—in the costume jewelry factories of Massachusetts, Rhode Island, and California; in the watch factories in Massachusetts, Illinois, Pennsylvania, New York, Ohio, and Nebraska; in the fine jewelry production centers in New Jersey and New York and in the silverware production centers in Maryland, Connecticut, Rhode Island, Massachusetts, and New Jersey. And the loss in employment is not in small numbers either, for the loss for the country as a whole may be measured in thousands of workers annually.

Nor is this all. This freezing of sales at 1946–47 levels has taken place during a period when the number of jewelry establishments has increased from 34,000 to 43,000 as more stores and processing and wholesaling establishments were opened to serve the expanded and redistributed population in many areas of the country.

It was accompanied also by rising costs of doing business and intensified competition. As a result, the net operating profit of retail jewelry stores has been scaled down to 3 percent of sales before income taxes, according to figures submitted by us to the Ways and Means Committee last year. This 3 percent figure compares with 9 percent before taxes in 1947; and it represents a critical situation for the typical jewelry store, which is a small business operation. According to the survey, a typical store did $70,000 worth of business in 1952 on which excise tax payments would approximate $12,000. The net operating profit margin was only $2,200 before the payment of Federal and State income taxes. This can hardly be considered a satisfactory operation during a year which witnessed a peak level in the Nation's business activity.

The dangers to the typical jeweler are highlighted by the fact that this represents a downward trend that has persisted for the past 7 years. Do not be misled by the fact that collections of jewelry excise taxes were a little higher in 1953 than in 1952 and the Treasury Department estimates that they will be still higher in 1954 and 1955. Jewelry tax collections do not provide a reliable barometer

of the condition of the industry. The pressure of doing business under the burden of the 20 percent excise tax results in cut-throat competition, dumping of merchandise and distress sales. These practices produce tax payments, but do not, by any means, produce a profitable, healthy business for the industry.

Moreover, the figures reported by the Treasury are not the relevant figures because they are "gross" rather than "net" revenue items. A study which was submitted to the Ways and Means Committee by us last fall showed that there would be substantial offsets to gross revenue collections if the tax was eliminated or reduced. There is no doubt but that a reduction in the jewelry excise tax to 10 percent would stimulate business activity to such a degree that there would be an increase in corporate and individual income taxes for the Federal Government from jewelry firms and employees. As a result there may well be little, if any, overall loss in Federal revenue.

Jewelers believe this to be true because they witness daily how the 20 percent tax deters sales. They know that tax relief would give jewelry sales a crucially needed "shot in the arm." Moreover, jewelers the country over know that the high rate of tax, coupled with its discriminatory nature, has bred efforts to evade collecting it as well as disrespect for the law among unscrupulous people.

The failure of these sellers of our products to collect the tax provides unfair competition to the jeweler who is conducting his business honestly and fairly. These facts have been called to the attention of the Internal Revenue Service many times by members of the industry. The Service is powerless however to correct the situation because of an inadequate enforcement staff. Meanwhile, the scrupulous seller of jewelry losses business from two directions—to sellers of other merchandise, and to those who sell our products tax-free.

One more point: In the past there have been those who have attempted to justify tax discrimination against jewelry, silverware, and watches on the basis that these items are nonessential. What is a nonessential? Does an item become nonessential merely because of what is costs?

To much of the world's population, the true necessities of life consist of no more than a loin cloth and a bowl of rice. A tax on nonessentials might well exempt only these two products. Of all the many products which our people desire and which our high-level economy depends on for its very existence—who can grade them as to their relative degree of importance for tax purposes?

Any commodity or service must be presumed to be essential to our peacetime economy:

(*a*) If it satisfies the healthy needs and desires of consumers in a democratic society enjoying the precious right of freedom of choice;

(*b*) If its production provides employment and income to individuals, to business firms, and to communities; and

(*c*) If its consumption on an unrestricted basis is not obviously detrimental to the public interest.

To accept any other basis for public policy is to expose certain elements of our economy to unwarranted discrimination, to invite unjustifiable restriction of our freedom of choice and to jeopardize, through ignorance, the good health, stability, and the future of our economy.

Finally, our industry submits that the nature of the excise on jewelry, as on furs, luggage and toilet preparations, is doubly oppressive. It may be said that all taxes are discriminatory. But the tax on jewelry products, and on these other 3 commodity groups, does more than inflate the price by 20 percent. Even worse, the fact of the tax is apparent to the consumer who knows that the increase of 20 percent in price does not carry with it any rise in the quality, utility or desirability of our products, and thereby it reduces their appeal to the consumer in the competition with other commodities.

These two facts explain the disparity in our industry's growth and that of retailing generally since World War II.

They also provide compelling, persuasive reasons for the repeal of the balance of the excise on jewelry products and on furs, luggage, and toilet preparations at the earliest possible moment.

A reduction now to 10 percent will provide much-needed relief from the price inflation—but the remaining 10 percent will retain the same unique discriminatory effects under which our industry and its consumers have been burdened since World War II.

For these reasons our industry urges that the balance of the tax be repealed—next year, if at all possible, when the Ways and Means Committee has indicated it will review the subject of excises again.

To sum up:

1. The jewelry industry respectfully requests the Senate Finance Committee to reduce the jewelry excise tax to 10 percent as proposed in H. R. 8224 as the first step toward outright repeal.

2. The industry feels that the 20-percent rate, a rate which favors certain industries, workers, and consumers at the expense of others, and which pernits some to advance and others to be retarded, is repugnant to our national ideals. This tax has had during this postwar period precisely the effect that it was designed to have during the war. It has discouraged consumer expenditures on jewelry, one of a selected group of commodities and services. It has imposed on the consuming public a highly contradictory and totally unjustified distinction between products. It has denied to a domestic industry producing useful goods the climate of free competition to which every American industry is entitled in a peacetime American economy. The net amount of Federal revenue which this tax produces is highly dubious. We ask that this glaring inequity in our tax laws be rectified.

3. It is clear that reduction of the 20-percent excise tax to 10 percent on jewelry would mean a reduction in jewelry prices. The tax reduction would be passed on to the consumer. This would increase business, stimulate employment and sales and would result in a greater return to the Government from income and payroll taxes. This would contribute toward economic stability for the Nation.

SUMMARY OF THE STATEMENT OF VICTOR PAUL, CHAIRMAN, RETAIL JEWELERS TAX COMMITTEE, INC.

1. The jewelery industry requests that the excise-reduction provision of H. R. 8224, cutting the tax on jewelry products to 10 percent, be approved, and that the balance of the discriminatory excise be repealed in 1955, if at all possible.

2. The jewelry industry wants the committee to know that if the reduction in the excise tax to 10 percent, as proposed by the House bill, is approved by the Senate, it will be passed on to the consumer directly in the form of an equivalent reduction in price.

3. The inflation of retail prices of jewlery by 20 percent placed the industry in a terrific competitive disadvantage in the postwar period. As a result sales were smaller by 500 million in 1952 than they would have otherwise been. Lost sales means lost production. Lost production means lost employment in many States and communities throughout the country.

4. Do not be misled by the fact that jewelry excise collections are estimated to be higher in 1954 and 1955 than in previous years. They do not provide a reliable barometer of the condition of the industry. The pressure of doing business under the burden of the 20 percent excise tax results in cutthroat competition and dumping of merchandise and distress sales. These tactics produce tax payments but do not by any means produce a profitable, healthy business for the industry.

5. Moreover the collection figures are not relevant ones because they are gross rather than net revenue items. A study submitted to the Ways and Means Committee last fall shows that there would be substantial offsets in revenue collections if the tax were eliminated or reduced. A reduction in the excise tax to 10 percent would stimulate business activity to such a degree that there would be an increase in corporate and individual income tax which would return little if any overall loss in Federal revenue.

6. In the past attempts have been made to justify tax discrimination against our products on the basis that they are nonessential. Our industry asserts that such a concept is illogical and that instead all commodities which satisfy human needs and desires, which provide employment and purchasing power, and the consumption of which is not detrimental to the public interest, must be considered as equally essential to our Nation's growth, stability, and well-being.

NEW YORK, N. Y., *March 15, 1954.*

Hon. EUGENE D. MILLIKIN,
Senate Office Building,
Washington, D. C.:

We respectfully urge your favorable consideration of the complete repeal of excise tax on handbags. A ladies' handbag is a necessity, this tax was originally placed on handbags during World War II to discourage sales. It has not only put a brake on sales but has caused a loss of revenue to Government, unemployment, and loss of business due to excise tax and general conditions causing undue hardship to entire handbag industry. Business is at a standstill. This inequitable and oppressive tax should have been removed 6 months after World War II.

All retail excise taxes, except handbags, being considered for 10 percent under H. R. 8224 were 10 percent before World War II, not handbags. Before 1943, there was no tax on handbags.

Please lend your hand toward complete elimination now.

Respectfully yours,

MAX BERKOWITZ,
Director, National Authority for the Ladies' Handbag Industry.

SUMMARY OF STATEMENT BY THE WESTERN UNION TELEGRAPH CO.

The Federal excise tax on telegrams is a discriminatory impost that places the Nation's telegraph system at a serious disadvantage with its direct competitor—the airmail. Telegrams bear a 15-percent Federal excise tax; the airmail service is not only tax-free—it is Government-subsidized. It is not alone a question of an inequity between two competing services and of only general concern to the public interest—rather the serious decline in the volume of telegraph business poses a problem of critical importance involving a question of fundamental national policy—the preservation of the Nation's telegraph system under a competitively unfair tax policy.

Progress by the Nation's telegraph service, which is essential to the civilian economy and vital to national security, is arrested by the steady attrition of telegraph volume. How serious this threat is may be judged by the fact that the number of public telegraph messages handled by Western Union declined from 194 million in 1945 to 140 million in 1953, a drop of 54 million, or 28 percent. That the decline in the level of the general economy that began in the latter part of 1953 has already had further unfavorable effects on telegraph volume, is evidenced by the fact that public telegraph revenue, for January 1954, the last month for which complete information is available, dropped over a million dollars, a reduction of 9 percent compared with January 1953.

At hearings in 1947 before the House of Representatives Ways and Means Committee, the representative of the telephone system, while advocating the repeal of all communications taxes, expressed the preference, if complete elimination were not possible, for primary relief in the local field. In discussing at that time the question of selective treatment for the telegraph business in the event overall elimination was not contemplated, the representative of the telephone company frankly recognized the problems of Western Union as warranting special consideration.

The necessity for providing an excise tax differential for telegraph service, in comparison with long-distance telephone service, has long been recognized by Congress, and repeatedly included in tax legislation. This principle has prevailed for more than 20 years, save for the period between 1944 and 1951, when wartime tax rates were in effect.

It seems clear that the competitive tax differential historically applied by the Congress to telegraph service, as outlined in the foregoing, was designed to recognize the unique competitive problems confronting the telegraph industry, including the tax-free and Government-subsidized airmail service, and the selective telegraph services of the telephone company.

A reduction of the telegram tax to a total of 5 percent (5 percent below the level proposed in H. R. 8224) which would retain at least a 5 percent differential between telegraph and telephone service, would involve a total of only $9 million. Taxes on telegrams represent less than one-half of 1 percent of all excise tax collections.

It is respectfully submitted that it is in the public interest that relief from the volume-destroying excise tax on telegrams be granted, in a degree that would

exceed the 5 percent reduction proposed in H. R. 8224. Such action would reduce the cost of telegraph service, so that the volume of business done can be increased and the position of this vital public service improved. It would provide relief also from the discriminatory impost that places the Nation's telegraph system at a serious disadvantage with its direct competitor, the airmail.

STATEMENT OF THE WESTERN UNION TELEGRAPH CO.

The Western Union Telegraph Co. appreciates this opportunity to present for the consideration of your committee this statement on a matter that is of vital importance to the Nation's telegraph system.

The Federal excise tax on telegrams is a discriminatory impost that places the Nation's telegraph system at a serious disadvantage with its direct competitor, the airmail. Telegrams bear a 15 percent Federal excise tax; the airmail service is not only tax-free—it is Government subsidized. An ironical fact is that Western Union, in addition to its own Federal income tax payments, is compelled to collect from telegraph users the excise tax that aids its competitor, the airmail. The money thus collected represents a large part of the airmail subsidy.

Western Union respectfully submits that this grave competitive tax inequity between the Nation's telegraph service on the one hand and the airmail service on the other is a serious discrimination that should be ended in the public interest. It is not alone a question of an inequity between two competing services and of only general concern to the public interest; rather the serious decline in the volume of telegraph business poses a problem of critical importance involving a question of fundamental national policy—the preservation of the Nation's telegraph system under a competitively unfair tax policy.

Western Union, the only company providing a nationwide telegraph service, in so doing maintains hundreds of deficit offices. Yet, at the same time, millions of dollars in telegraph revenues needed to support this nationwide telegraph system are being drained off by the Federal excise tax on an essential utility service, which discourages the use of telegrams by increasing their cost to the public.

TELEGRAPH VOLUME CONTINUES TO DECLINE

Progress by the Nation's telegraph service, which is essential to the civilian economy and vital to national security, is arrested by the steady attrition of telegraph volume. How serious this threat is may be judged by the fact that the number of public telegraph messages handled by Western Union declined from 194 million in 1945 to 140 million in 1953, a drop of 54 million, or 28 percent.

Even in normal times, this drastic decline in telegraph volume would be of major consequence. But the past several years have not been normal, since the accelerated requirements of national defense following Korea kept the general level of production and business activity at an abnormally high mark. The decline in telegraph volume, occurring as it has in a period of unprecedented general business activity, raises problems of major concern as to the further effects on telegraph volume of any continuance of the drop in the general level of economy that began in the latter part of 1953.

That the decline in the general economy has already had further unfavorable effects on telegraph volume is evidenced by the fact that public telegraph revenue, for January 1954, the last month for which complete information is available, dropped over a million dollars, a reduction of 9 percent compared with January 1953.

The Federal excise tax on telegrams is a factor contributing importantly to the declining telegraph volume, since it increases the cost of telegraph service to the public. This has long been recognized by the Federal Communications Commission, the Treasury Department, and by various congressional spokesmen.

It should be noted that the continuing decline in telegraph volume, aside from its far-reaching and ever more serious consequence to the Nation's telegraph system, has already been a major factor in destroying the jobs of more than 23,000 telegraph workers.

OTHER REGULATED PUBLIC UTILITY SERVICES BEAR NO FEDERAL EXCISE TAX

The fact that the telegraph company provides the only service directly competitive with the tax-free and subsidized airmail cannot be overemphasized. In

addition, other services in the regulated public utility field, such as gas, electricity, and water, bear no Federal excise tax, unlike the telegraph service. In effect, Western Union users are providing a subsidy for one of the telegraph company's major competitors—the airmail—while at the same time the telegraph company is expected to compete with one of the world's largest corporations—the telephone company.

TELEPHONE COMPANY'S RECOGNITION OF NEED FOR TELEGRAPH TAX DIFFERENTIAL

At hearings in 1947 before the House of Representatives Ways and Means Committee, the representative of the telephone system, while advocating the repeal of all communications taxes, expressed the preference, if complete elimination were not possible, for primary relief in the local field. In discussing at that time the question of selective treatment for the telegraph business in the event overall elimination was not contemplated, the representative of the telephone company frankly recognized the problems of Western Union as warranting special consideration.

The necessity for providing an excise tax differential for telegraph service, in comparison with long-distance telephone service, has long been recognized by Congress, and repeatedly included in tax legislation. This principle has prevailed for more than 20 years (save for the period between 1944 and 1951, when wartime tax rates were in effect). From 1932 to 1941, a 5 percent tax was levied on telegraph service, while long-distance telephone service bore a tax varying from 10 to 20 percent. From November 1, 1942, to March 31, 1944, telegrams were taxed at a 15 percent rate, whereas long-distance telephone calls were subject to a 20 percent rate.

While the differential was suspended on April 1, 1944, when the Congress enacted a general increase in excise tax rates, the purpose of that wartime increase to 25 percent in the telegraph tax rate was to discourage civilian use of the telegraph and free the wires for essential war traffic. The Revenue Act of 1951 set the telegraph tax rate at 15 percent; this 15 percent rate may be compared with the 25 percent rate on long-distance telephone service which was in force in 1951 and thereafter.

It seems clear that the competitive tax differential historically applied by the Congress to telegraph service, as outlined in the foregoing, was designed to recognize the unique competitive problems confronting the telegraph industry, including the tax-free and Government-subsidized airmail service, and the selective telegraph services of the telephone company.

A subcommittee of the United States Senate Committee on Interstate and Foreign Commerce on June 22, 1953, reported as follows in connection with the critical problems concerning Western Union:

"The domestic telegraph business must fight 3 powerful competitive services, 1 of which it has no hope of ever meeting on equal economic terms through no fault of its own. That service is the domestic airmail, which is subsidized by the taxpayers of which Western Union is one, and which has made heavy inroads on long-haul message service. The second competitor is the telephone system, the most direct and effective competition the telegraph industry has. * * *

"The third competitive operation which the telegraph company must meet is the private-line telegraph service and the teletypewriter exchange service, two record telegraph services available to and employed by volume telegraph users * * *." (These competitive services are furnished by the telephone company).

SUMMARY

Reduction in the telegraph tax to 10-percent, as proposed by H. R. 8224, would deprive telegraph service of the excise tax differential, in comparison with long-distance telephone service, which Congress has repeatedly recognized as essential.

A reduction of the telegram tax to a total of 5 percent (5 percent below the level proposed in H. R. 8224) which would retain at least a 5 percent differential between telegraph and telephone service, would involve a total of only $9 million. Taxes on telegrams represent less than one-half of 1 percent of all excise tax collections.

Reduction of the telegram tax to 5 percent (or even total elimination of this tax) would by no means represent an equivalent loss to the treasury. Of the total of $18 million that would be paid in domestic telegram taxes by telegraph users in 1954, based on current volume trends and the tax rate proposed in H. R. 8224, nearly 80 percent would represent taxes on business telegrams. Consequently,

$14 million of these excise taxes paid by telegraph users in 1954 would represent deductible costs of doing business reflected in the users' income-tax returns. Assuming these users had taxable income, and using the 52 percent tax rate applicable to corporations, as proposed by H. R. 8224, more than $7 million would be payable by these business telegraph users in additional Federal income taxes if telegram taxes were not applicable.

It is clear, too, that the prospect of larger Federal income tax payments by Western Union would be an important consideration with the improved volume likely to result from a significant reduction in the cost of telegraph service to the public.

It is respectfully submitted that it is in the public interest that relief from the volume-destroying excise tax on telegrams be granted, in a degree that would exceed the 5 percent reduction proposed in H. R. 8224. Such action would reduce the cost of telegraph service, so that the volume of business done can be increased and the position of this vital public service improved. It would provide relief also from the discriminatory impost that places the Nation's telegraph system at a serious disadvantage with its direct competitor, the airmail.

HOWARD MILLER CLOCK CO.,
Zeeland, Mich., March 13, 1954.

Hon. CHARLES E. POTTER,
United States Senate Office Building,
Washington, D. C.

DEAR SENATOR POTTER: I would like to bring to your attention an inconsistency in the tax bill now under consideration in the United States Senate.

Enclosed are photographs of two items which we manufacture. One is an electric clock and the other a barometer. Kindly note that the cases of each are the same, the only difference being in the mechanism used. The clock is subject to 20 percent excise tax under the old law and 10 percent under the new. The barometer is not subject to any tax either under the old law or the new.

Clocks are a part of home decoration just as pictures, lamps, lighting fixtures, fireplace accessories, tables, etc. and it seems as though it is rather unfair that clocks should be subject to an excise tax whereas other articles mentioned are not. Furthermore, the importance of the function of a clock would place it more so in the class of a nceessity than a luxury.

Kindly give this your careful consideration and we will appreciate anything you can do to eliminate this inequality in the classification of clocks as a taxable item as it means a great deal to us.

Yours truly,

H. C. MILLER.

STATEMENT OF FULLER HOLLOWAY, COUNSEL, THE TOILET GOODS ASSOCIATION, WASHINGTON, D. C.

The Toilet Goods Association, an association of manufacturers producing more than 90 percent of the toilet preparations sold in America, urges the Committee on Finance to approve the provisions of H. R. 8224 without amendment.

H. R. 8224 terminates the additional 10 percent excise tax on toilet preparations which was imposed during World War II for regulatory and emergency revenue purposes. The existing rate of 20 percent of the retail sales price has long been recognized to be excessive, unfair, and discriminatory. All other ad valorem excise tax rates in excess of 10 percent are also reduced to that level. Thus, the bill introduces consistency in, and removes much of the discriminatory and unfair features of, the existing excise tax structure. The consumer is given long-deserved and needed relief from the excessively high excise taxes and will certainly appreciate the congressional action in providing for this significant reduction in rate of tax. Spendable income left in the hands of consumers will stimulate the entire economy.

The toilet preparations industry does not ask for, or expect, special excise tax consideration though most of its products be used for health, cleanliness and comfort, and the remainder are the essentials of feminine personal appearance. The industry does ask for, and expects, equal opportunity for competitive position in the market place—whether the competition be from other products of general usage, from so-called luxury goods, or from entertainment. Consumer preference

should not be deviated by tax differentials. The bill simply removes the glaring inequities and discriminations now existing among the taxed products.

Excise taxes do have a depressing effect on sales of any and all products—including toilet preparations. When fiscal requirements of the Treasury are such as to permit a general reduction in excise taxes, then all products should be considered and the consistency in excise tax treatment, as promoted by H. R. 8224, preserved.

It is, therefore, respectfully submitted that the Committee on Finance should report the bill favorably and without amendment.

STATEMENT OF NATIONAL AVIATION TRADES ASSOCIATION, WASHINGTON, D. C.

My name is C. A. Parker, and I am executive director of the National Aviation Trades Association, representing some 1,400 commercial air services (sometimes called fixed base operators) in 40 States. Many of these operators conduct air taxi service, largely in single-engined 2- to 5-place small aircraft.

In connection with such air taxi operations, we have been concerned for some time over the 15 percent transportation tax requirement as applied to this class of service. We feel that basically we are no different from ground taxis, which were exempted from paying this tax, except that our equipment has wings and goes somewhat faster. The present requirement of paying this tax on such operations does not appear to have come about through any explicit language in the law, but rather to decisions from the Internal Revenue Department to the effect that an airplane is not a motor vehicle. We feel such decisions do not necessarily represent the intent of the original tax writing. What is now known as air taxi has only become established in recent years as a distinct segment of the air transportation field. It was recognized by the Civil Aeronautics Board in 1952 by the establishment of the "air taxi" category of operations, CAR, part 298. This replaced the former "small irregular air carrier" category and includes aircraft under 12,500 pounds gross takeoff weight and in which weight class is found almost entirely 2- to 5-place aircraft comparable to the average automobile taxi.

Some operators who did not believe they were included under this tax law made issue of it when they were later penalized, and the tax became further affirmed when it was ruled in several cases that an air taxi was not a motor vehicle and hence could not qualify under the exemption granted to vehicles engaged in ground-taxi operations. Operators of air taxis feel that their services are fully comparable to ground-taxi operations. We believe, therefore, that a real inequity exists in view of the exemptions of ground-taxi vehicles seating less than 10 passengers, as stated in section 130.58, under the title "Exemptions," found in regulation No. 42, page 5, Bureau of Internal Revenue, United States Treasury Department.

While these services parallel ground-taxi operations, there are several points which place them in a position whereby the imposition of an additional 15-percent requirement becomes an even more severe penalty than in other categories of transportation. In the case of air taxi, we have a service that does not enjoy the popular and unreserved acceptance of ground-taxi operations. Many people are actually afraid to fly in single-engined aircraft. In addition, it is a relatively expensive means of transportation, particularly for 1 person making a 1-way trip. Rates in currently used equipment run from 15 to 25 cents per mile flown. Even in short hauls air taxi represents a substantial dollar outlay—a trip of 50 miles from Washington at 20 cents per mile costing $20 plus the 15-percent tax. Operators of air-taxi services are also making a very great effort to bring this service to the point where proper financial returns can be made. We feel that with all the normal penalties attendant to air operations, and with an exception currently granted of the 15-percent tax to our ground-taxi competition, we are only asking for fair and equitable treatment through the removal of the tax on our air-taxi operations.

We might also add that no air-taxi operator is receiving any subsidy or grant-in-aid from the Government, which as you know is not the case of the feeder lines and certain helicopter operations. In addition, we also want to explicitly point out that we represent short-haul transportation and that removal of this tax would in no way lead to competitive discrimination against the scheduled airlines. In this we refer to the Civil Aeronautics Board's specific finding "that small aircraft cannot for practical purposes be regarded as competitive with large aircraft" (reference, CAB Economic Regulations, pt. 298, p. 4).

We, therefore, would like to request that your committee consider deleting this tax on air-taxi services in the excise tax reduction bill or amend the Internal Revenue Code, section 3469 (a) (2) subchapter C, by adding "aircraft" to the present section relating to motor vehicle exemption and establishing this section as follows (additions italicized):

"* * * Such tax shall apply to transportation by motor vehicles *and aircraft* having a passenger seating capacity of less than 10 adult passengers, including the driver *or pilot*, only when such vehicle is operated on an established line."

We are anxious to have your consideration on this as we believe that the deletion of the 15 percent tax on air taxi would mean only fair and equitable treatment for this service in comparison with ground taxis and, at the same time, go far to help stimulate the whole vast air-taxi development that is only now beginning to come into its own, but which still has a long way to go before it is established on a sound economic footing nationwide. Thank you.

(Whereupon, at 12:05 p. m., the committee recessed, to reconvene at 10 a. m., Tuesday, March 16, 1954.)

EXCISE TAX REDUCTION ACT OF 1954

TUESDAY, MARCH 16, 1954

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

The committee met, pursuant to recess, at 10:05 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) persiding.

Present: Senators Millikin, Carlson, Bennett, George, Hoey, and Frear.

The CHAIRMAN. The meeting will come to order.

Mr. Fort, will you take a seat and make yourself comfortable and identify yourself to the reporter, please?

STATEMENT OF J. CARTER FORT, ASSOCIATION OF AMERICAN RAILROADS

Mr. FORT. Mr. Chairman and gentlemen of the committee, for the record, my name is Carter Fort. I am general counsel and vice president of the Association of American Railroads, and I speak here for that association.

As your committee knows, I believe, that is a voluntary, unincorporated organization of railroads, including in its membership railroads operating more than 95 percent of the mileage of the country and having operating revenues greater than 95 percent of the total operating revenue.

I shall address myself only to the transportation excise-tax provisions of the bill. I realize the limitations of time which are upon you, and my statement will be a very short one.

The CHAIRMAN. How much revenue does your 3-percent tax produce?

Mr. FORT. Something over $300 million. I can give you the exact figures, and I will.

Senator GEORGE. I believe it was $420 million last year. You are speaking of the transportation on property?

Mr. FORT. Yes.

Senator GEORGE. The tax on freight receipts?

Mr. FORT. Yes.

Senator GEORGE. $420 million last year, I believe.

Mr. FORT. It was a little under $420 million last year. Revenues are running about 14 percent under last year, so the tax would be running less than last year, at this time.

The taxes under the existing law, as you know, are 15 percent on passengers, and 3 percent on freight. This bill, as it passed the

House, put a ceiling of 10 percent on all excise taxes with certain exceptions in the bill, and that has the effect of reducing the passenger tax to 10 percent, making a 5-percentage point cut in the passenger tax, but granting no relief at all on the freight tax.

As I understand it, the oral presentation to your committee is to be restricted to those taxes with respect to which no relief is granted in the House bill.

The CHAIRMAN. That is right.

Mr. FORT. That being so, I am constrained to limit my remarks at this time to the freight tax. I understand, however, we will be permitted to file for the record a written statement dealing with both the passenger and the freight tax.

The CHAIRMAN. That is correct.

Mr. FORT. And I suggest to your committee, with respect to the passenger tax, that if it not be repealed entirely, it at least be reduced to its initial percentage of 5 percent, since the moves up from 5 to 10 and from 10 to 15 were designed to discourage travel during the wartime conditions and it had that effect, and it is still having that effect, much, we now think, to the detriment of the interests of the country.

Coming back, then, to the 3 percent on freight——

The CHAIRMAN. Have you, in your possession, that statement to which you referred?

Mr. FORT. It has been made a number of times, and we can refer to it.

The CHAIRMAN. Have you a written statement you want to put in the record?

Mr. FORT. No, sir; we will file it later today, if we may, or tomorrow.

The CHAIRMAN. Very well.

(Mr. Fort's supplementary statement follows:)

STATEMENT ON BEHALF OF THE ASSOCIATION OF AMERICAN RAILROADS SUPPLEMENTARY TO THE ORAL PRESENTATION BY J. CARTER FORT, VICE PRESIDENT AND GENERAL COUNSEL OF THE ASSOCIATION

1. *Introductory.*—By reason of limitation upon the permissible scope of oral presentation, Mr. Fort was constrained in making his appearance before the committee on March 16, 1954, to confine his remarks to the 3 percent excise tax upon amounts paid for transportation of property. However, leave was granted to file a supplementary statement dealing with both the 15 percent excise tax upon amounts paid for transportation of persons and the 3 percent freight tax, with the understanding that the supplementary statement would be reduced to the briefest practicable dimension. Accordingly, this statement is filed with the request that it be incorporated in the record of the hearings with respect to H. R. 8224.

2. *H. R. 8224 as it affects the transportation excise taxes.*—H. R. 8224, if enacted in the form in which it passed the House, would reduce to 10 percent all excise taxes presently imposed at a higher percentage rate. It would thus reduce from 15 to 10 percent the excise tax upon amounts paid for the transportation of persons; but it would afford no relief whatever from the 3 percent tax upon amounts paid for transportation of property.

3. *The transportation excise taxes are wartime exactions and have no proper place in today's economy.*—The tax on amounts paid for the transportation of persons was initially imposed, effective November 1, 1941, at the rate of 5 percent. The rate of this tax was increased from 5 to 10 percent on November 1, 1942, and further increased to 15 percent on April 1, 1944. Whatever may be said of the initial exaction of 5 percent, it is unquestioned that the successive increases, first to 10 percent and then to 15 percent, were imposed for the deliberate purpose of discouraging civilian travel under the conditions of World War II. Eight years after the end of the war, the tax continues to operate as

an effective deterrent and at a time when the passenger operations of the railroads are resulting in deficits in excess of half a billion dollars per annum. The tax currently operates to weaken the national transportation system in contravention of the national transportation policy declared by Congress and in derogation of adequate preparation for national defense. It should be repealed outright, or at least reduced at this time to its initial rate of 5 percent.

The tax on amounts paid for the transportation of property became effective December 2, 1942. This 3 percent exaction upon freight charges offers a direct inducement to the diversion of traffic to private means of transportation, such private transport being subject to no corresponding levy, and the same is true of the passenger tax.

4. *The transportation excise taxes increase consumer costs and retard production.*—The transportation excise taxes operate to increase the cost to the consumer of practically every article or commodity dealt in on the American market. The tax is pyramided many times in the cost to the ultimate consumer. As to the passenger tax, it has been estimated that at least 60 percent of common-carrier travel is for commercial purposes. It is evident, therefore, that this tax likewise operates to increase production and consumer costs. Repeal of these taxes would effect an across-the-board measure of relief to the consumers of the country and would stimulate business in all its ramifications.

5. *The transportation excise taxes are discriminatory.*—The transportation excise taxes are plainly discriminatory as between common carriage, which is subject to the tax, and private carriage, which is exempt. These taxes offer a direct, and often a compelling, inducement to the substitution of private carriage for the services of the public for-hire agencies of transportation. They thus have the effect of weakening the public transportation system upon which the country must rely for its peacetime requirements and without which it could not hope to meet a national emergency.

Additionally, and particularly with respect to the freight tax, there is involved a discrimination within a discrimination, in that the big shipper with the requisite capital at hand can avoid the tax by supplying his own means of transport, but the little shipper must for the most part rely upon public means of transportation and cannot escape the burden of the tax.

Furthermore, these taxes are discriminatory as between long-haul and short-haul carriage to common markets, and thus tend to disrupt normal market relationships.

6. *The national transportation policy.*—The transportation policy declared by Congress in the Interstate Commerce Act calls for the development and preservation of a national transportation system adequate to meet the needs of commerce, the postal service, and the national defense. To this end, the policy declares for regulation designed to foster sound economic conditions in transportation. The transportation excise taxes, by diminishing carrier revenue (through their effect in diverting traffic to private carriage), and by increasing the cost of carrier operation (through their effect upon prices), make for unsound economic conditions in the transportation industry. Thus, the transportation taxes are in derogation of the transportation policy. Congress ought not to retain wartime taxes which tend to defeat its declared policy with respect to transportation.

In wartime, excise taxes upon common-carrier transportation had the intended effect of discouraging unnecessary use of the overburdened transportation system of the country. Particularly was this true of passenger transportation, which as already stated was subjected to tax at a rate successively increased for the avowed purpose of discouraging civilian travel. By reason of gasoline and other restrictions, there was no question of diversion to private carriage. In peacetime, with no restriction upon the use of private vehicles, the effect of the taxes is simply to divert traffic from the for-hire carriers and to encourage the substitution of private transportation.

7. *Conclusion.*—It should be borne in mind that transportation differs from other services or commodities subject to excise taxes in that it can, in peacetime at least, be provided in substantial measure by the taxpayer for himself, and this the transportation taxes directly invite him to do. The railroads, and other common carriers as well, are thus required, at large expense, to collect from their patrons and remit to the Government taxes which operate at one and at the same time to increase carrier costs and reduce revenues.

These taxes may have been well enough in wartime and the carriers interposed no objection to their imposition. But in peacetime their retention produces a re-

sult which is unfair and unwise, and plainly in derogation of the declared policy of Congress with respect to transportation. For this reason, as well as by reason of their repressive effect upon the economy in general, these taxes should be repealed in their entirety.

Mr. FORT. The 3-percent freight tax is paid by the shipper or the consignee, and the railroad or other carrier merely acts as an uncompensated tax collector. The fact that the tax is paid by the shipper, or consignee, has the effect, of course, of making that tax an ingredient of the cost of production of every commodity that moves in the United States by common carrier, or by carrier for hire.

The impact on the price which the consumer pays cannot be measured merely by the 3 percent. The tax is exacted with respect to each successive movement in the entire process of conversion from raw material to finished product. It is, thus, in many instances multiplied over and over again—its impact on the ultimate cost to the consumer.

In its aggregate impact, this 3-percent tax, as a result of the multiplying process, may easily exceed the ceiling prescribed by H. R. 8224, as passed by the House, but the bill takes no account of this. In the whole field of excise taxes, it would be difficult, I think, to find one, relief from which, would so directly and immediately result in the reduction of consumer costs, and the stimulation of demand and production.

Wholly aside from the dragging effect which we believe this freight tax has upon production and the economy of the country, we believe it to be a peculiarly obnoxious tax because of its discriminatory character. It has many discriminatory features.

It should never be forgotten that this tax does not apply to transportation by private means. The tax thus offers a direct and often a compelling inducement to the substitution of private carriage for the services of public for-hire agencies of transportation. It has, thus, the effect of weakening the public transportation system upon which the country, as a whole, must rely, not only for peacetime requirements, but to meet a national emergency, and upon which the general public must rely.

Moreover, there is involved what might be called a discrimination within a discrimination, in that a big shipper, with the requisite capital. can avoid the tax by supplying his own means of transport, either fleets of trucks or barges on the river, but the little shipper, as a rule, is forced to rely upon the public means of transport and cannot escape the burden of the tax.

Still another discriminatory feature of the freight tax is immediately apparent. It bears more heavily on long-haul shipers than upon short-haul shippers. It bears more heavily on shippers remote from a common market, as compared with shippers near to the common market. Thus, the tax imposes an artificial handicap upon those shippers already confronted with a natural disadvantage of remoteness from the market in which he seeks to sell his goods. But from the railroad point of view—and, of course, I speak, here, for the railroads—the overriding consideration is the inducement which this tax offers to its avoidance by mean of private carriage. The railroads are hard put to it to find the means for adequate maintenance and expansion of their plant. You know our experience from the financial standpoint has not been a happy one during the postwar periods, and

our prospects for 1954 are more unfavorable than they have been in recent years.

The Congress has declared a policy looking to the encouragement of a national transportation system which will satisfy the needs of the peacetime economy and be adequate to meet the overwhelming demands of a national emergency. This 3 percent excise tax upon freight charges operates to drive to private trucks and barges traffic which would otherwise move by rail. It thus counters the declared policy of Congress. It is contrary, we think, to any purpose to stimulate the economy and it tends to weaken the national defense by weakening the general transportation system.

It ought, therefore, to be repealed outright. May we suggest, therefore, that this committee should look beneath the 10 percent umbrella of H. R. 8224 and should consider relief from the transportation tax upon freight charges in the front rank of excises with respect to which immediate relief is required in the public interest.

Mr. Chairman, I thank you very much, and I hope I didn't take too much of your time.

The CHAIRMAN. Are there any questions? If not, thank you very much.

Mr. Canelli; make yourself comfortable and identify yourself to the reporter.

STATEMENT OF JOHN CANELLI, NATIONAL BOWLING COUNCIL

Mr. CANELLI. Mr. Chairman and members of the committee, my name is John Canelli. I am from Toledo, Ohio. I am past president of the National Bowling Council, and of the American Bowling Congress.

The National Bowling Council is composed of representatives of the three integers of the bowling game, the proprietors, the manufacturers, and the 16 million bowlers—the consumers, in this case. Any and all taxes on any one of these integers affects all three.

The Revenue Act of 1943 provided for a $10 per annum increase in excise or occupancy taxes on bowling alleys and billiard and pool tables, such increase to end on June 30 next following the first day of the first month which began 6 months or more after the termination of hostilities in World War II.

Although, technically, this provision of the act would have gone into effect by virtue of the declaration of the President of the United States, on December 31, 1946, that "hostilities had ended," the Congress, on January 3, 1947, immediately reinstated, without a termination date, all of the existing excise taxes at their wartime levels.

Such promised reduction back to $10 has not only not been kept in the bill, H. R. 8224, but such increase from $10 to $20 which was not fought by us when we were told it should continue for a temporary period, so as to help our Government finance defense preparations for the Korean conflict, has now been made permanent—and this in the face of substantial cutbacks of other excise taxes imposed at the same time and under the same conditions. Taxes on bowling alleys and billiard and pool tables went up along with other taxes; as those other taxes come down, so should the tax on bowling alley beds and billiard tables.

As though this inequity and breaking of a promise were not enough, the relief given by various excise tax reductions at this time and in this bill are of the kind that can either be paid or not, meaning the would-be purchaser has an option of buying the article which is so taxed or not, thus having the option of spending money for tax or not.

The CHAIRMAN. Let me ask you, would it be feasible to translate your tax into terms of 10 percent? You are paying 20, are you not?

Mr. CANELLI. Yes, we want it down to 10. It would be 50 percent.

The CHAIRMAN. Perhaps there is some way to translate it into a 10 percent tax. For example, if you knew what the income from each alley was, that might provide a way of doing it.

Mr. CANELLI. We were faced with that at one time, Mr. Chairman. That would be a killing tax on us because that, in turn, would go directly to the person we choose to call the consumer, and inasmuch as we are entirely different in bowling from any other, such as you call amusement, being charged admission taxes, we have always had the pleasure of your committee and also the corresponding opposite number in the House, of seeing that the tax should be an occupancy tax instead of a tax on the volume of business done by the bowling proprietor.

The only tax we have at this time is the one we have under discussion here, and that is the occupancy tax of the units, and we think that, having been imposed at the same time these other unit taxes were, we should have a corresponding decrease.

The CHAIRMAN. We will probably—I don't know whether we will or not, but we may—translate some taxes into a reference frame to bring them down to 10 percent, and I was just wondering whether your business could be one of those businesses and do that. I assume it would have to be on a basis of revenue per alley.

Mr. CANELLI. That would be more than we are paying now, sir.

The CHAIRMAN. Mr. Stam, how could you get them to 10?

Mr. STAM. The point is, if you translated that into—you see, all these other taxes were reduced, based on the manufacturers price, you see, and the question is, if you took the total receipts per alley and found out whether that would be in excess of this $10 per alley that you have now.

Senator BENNETT. Twenty dollars.

Mr. STAM. Twenty dollars per alley that you have now—you say it would be?

Mr. CANELLI. Oh, yes, much more.

Mr. STAM. So you are really below the 10-percent reduction in the bill.

Mr. CANELLI. We have no reduction facing us at all. You mean if the present tax would continue as it is, instead of putting a 10 percent tax on the volume of business, this is lower in its present scale; that is correct.

The CHAIRMAN. Then we have no problem.

Mr. STAM. That is right.

The CHAIRMAN. We can't do that.

Senator HOEY. What you want to do is reduce it from $20 to $10?
Mr. CANELLI. That is right, Senator Hoey.
Shall I continue, sir?
The CHAIRMAN. Go ahead.
Mr. CANELLI. The tax on bowling alleys and billiard tables is entirely different. Here this small-business man, faced with substantial decrease in his volume of business on account of unemployment—because the worker and his family are the bowling proprietor's customers—must pay a tax on his alleys and tables, whether he does business or not.

In short, the one least able to pay is taxed without recourse, and the people who have money enough to belong to golf clubs and to buy furs and jewelry, and have enough of valuables to pay for a safety deposit box, can either pay or not pay, as they choose. None of the 3½ million unemployed, or the "small-business men" who make up the major part of our industry, are going to benefit from the reductions in excise taxes on golf and country club dues, jewelry, furs, et cetera.

But they would benefit by a deserved reduction in the present tax of $20 per alley bed and billiard table to a $10 per unit basis, and thus be in line with other reductions passed by the House of Representatives in its present bill.

Now, what we choose to try to show at this time in the following numbers that I am going to give will prove my point. Most of these people who are bowling proprietors—and I am not referring to the large establishments in our cities, I am speaking of the smaller ones of 6, 8, and 10 alleys—are managed, owned, and operated by a single man. So, if he has a 10-alley establishment, and he is reduced from $20 to $10, you are, in effect, giving him an increase in his volume of business, or rather, his wages, of $100 a year. That is what it would amount to.

In view of the expressed desire of the administration to accord relief to the small-business man, we respectfully submit these facts: A factual tabulation of the bowling establishments of the country shows that the average number of bowling alley beds per establishment is 8.5; that 70 percent of all bowling establishments are of 10, 8, and 6 beds, individually owned and operated, and billiard and pool parlors are in the same relative category; that the owners of these establishments are small-business men, struggling to maintain in operation, recreation facilities in not only the large city, but in far greater numbers in the smaller towns and villages throughout the country, in order that the 16-million bowlers, and the millions of billiard players, may continue to participate in these healthful and beneficial recreations.

We, therefore, sincerely and earnestly urge your honorable committee to adjust the inequity apparent in House bill, H. R. 8224, and reduce the $20 per annum tax on bowling alley beds and billiard and pool tables to $10 per year.

This is respectfully submitted, Senator Millikin, by the National Bowling Council.

The CHAIRMAN. Thank you very much for appearing.
Mr. Ott, please. Sit down and identify yourself to the reporter.

STATEMENT OF WILLIAM H. OTT, JR., CHAIRMAN, LEGISLATIVE COMMITTEE, THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE

Mr. OTT. Mr. Chairman, and gentlemen of the committee, my name is William H. Ott, Jr. My residence is Des Plaines, Ill., and I speak, here, for the National Industrial Traffic League.

The league, as you gentlemen probably know, is a voluntary trade association, national in scope, made up of large and small business organizations throughout the country interested in the movement of property, particularly, but also of passengers. It has a membership of some 1,700 throughout the country and in that membership there are many suborganizations such as chambers of commerce and other trade associations. It is purely a shipper organization, not a carrier organization, made up of those who pay the transportation charge on the property.

The league here, today, urges serious consideration on your part of the feasibility and desirability of the entire elimination of the tax on property. I have a short written statement which I will file in which there is also mention made of the passenger transportation tax.

The CHAIRMAN. It will be included in the record.

(Mr. Ott's statement follows:)

STATEMENT OF WILLIAM H. OTT, JR., ON BEHALF OF THE NATIONAL INDUSTRIAL TRAFFIC LEAGUE

My name is William H. Ott, Jr., my residence is Des Plaines, Ill. I am chairman of the legislative committee of the National Industrial Traffic League whose office is in Washington, D. C., and I present this statement in behalf of the membership of that league.

The National Industrial Traffic League, as its name implies, is a national organization of firms and corporations actually engaged in the shipment and receipt of commodities, also of chambers of commerce, boards of trade and commercial, trade and traffic organizations dealing with general traffic and transportation matters. The league membership is distributed throughout the entire United States and represents practically every line of industry. Its members use all forms of transportation, that is, rail, highway, water, air, pipeline, and freight forwarders. It is interested in the development and maintenance of an adequate and efficient national transportation system, privately owned and operated, and in the free and unrestricted flow of commerce.

The league urges that the Congress give serious consideration to the desirability of early repeal of the taxes on transportation, both of persons and of property, in their entirety. The league has considered this subject matter at its annual membership meetings each year since at least 1941. In 1945 the membership went on record urging the repeal of the transportation tax on property and in 1946 that action was extended to the transportation of passengers also. That action has been reaffirmed each subsequent year, including most recently at the November 1953 meeting in New Orleans.

The tax on the transportation of property is objectionable because—

(1) It is a tax which is compounded with its reassessment on repeated movements of the same property or the products of such property. In each of such movements, the transportation tax is an element of cost which ultimately is passed on to the consuming public in an amount which is greater than that of the tax itself.

(2) The tax on the transportation of property is a tax on a necessity, not on a luxury. Transportation service and the flow of commerce which it represents are indispensable in the life of the Nation. They should not be made a vehicle for tax assessment except under emergency conditions.

(3) Since the amount of the tax is measured by the amount of the transportation charge rather than by the value or the character of the commodity transported, the spread in the amount of tax assessment varies greatly with the length of haul and increases as the length of haul increases. This spread

places an additional burden upon the long-haul shipper, decreasing his ability to compete in common markets, perhaps being the determining factor in his ability to so compete at all. The spread in the transportation tax, as well as in the transportation charge itself, can be a determining element in the relocation of business enterprises.

(4) Since the tax applies only on charges paid to for-hire transportation companies and not upon the costs of private transportation, it is an element in determining the method by which transportation services are performed, this to the competitive disadvantage of those transportation agencies in the for-hire field, whether air, water, highway, or rail.

(5) The measure of the tax on the transportation of property is an element in determining the rate levels of for-hire transportation systems. In recent years, such systems have required substantial general increases in their levels of charges, with resulting question as to the ability of some traffics to pay those increased levels. The transportation tax, in effect, has increased the level of for-hire carrier charges by its own amount.

The tax on transportation of passengers was enacted under wartime emergency conditions, not for revenue purposes but to discourage the use of passenger transportation facilities for civilian travel and to lessen the burden on an already overburdened group of transportation agencies. Those conditions have long since passed. The tax structure should today, if possible, stimulate passenger travel rather than discourage it. In so doing not only would the welfare of the for-hire transportation agencies to be furthered, but the passenger deficit of those agencies would be lessened, to the benefit of the users of property transportation who now carry that deficit.

Mr. OTT. The league has considered this subject at least since 1941. In 1945, it first went on record as in favor of the elimination of this transportation tax, and it has reiterated that position annually, the last time in New Orleans in November 1953.

We believe that the transportation tax on property is undesirable, briefly, for five different reasons, some of which have been explained at great length by Mr. Fort, who preceded me.

First, it is a tax that is compounded. It applies repeatedly on subsequent movements for the same property, so that the end result, as to any particular piece of property, may be a tax substantially in excess of 3 percent of the transportation charge.

Secondly, we regard it as a tax on a service which is a necessity, not a tax on a luxury. Transportation services are vital to the country; they cannot be eliminated, and we doubt that they should be a vehicle of taxation, except in emergency situations.

Third, it is an inequitable tax in that it is measured by the amount of the transportation charges. Certain commodities move short distances and other competing commodities move long distances. The cost varies with the length of haul, and its inevitable effect is to have an influence on the location of business by seeking to reduce the amount of the tax, and perhaps on the very conduct of business. Movement of certain commodities which must move long distances find the tax an onerous burden and seek to escape it by moving shorter distances.

The CHAIRMAN. Is there any evidence of that?

Mr. OTT. As a league member, I can't point to any specific commodity or any particular situation, but I can give an illustration. For example, peaches move from California to Chicago, and they also move from Michigan to Chicago. They compete in the same market and have to have common selling prices. The difference in transportation charges is very substantial, and, therefore, the difference in the tax is very substantial.

The CHAIRMAN. Peaches move into Chicago from Michigan and California?

Mr. OTT. They do, and they pay the transportation tax.

The CHAIRMAN. And Colorado?

Mr. OTT. Colorado, yes; I am sorry.

The CHAIRMAN. And Utah?

Mr. OTT. Probably many other States; Georgia.

The CHAIRMAN. Georgia is a great peach State.

Mr. OTT. And particularly with regard to some of the basic commodities, that situation is probably more influenced than in highly manufactured articles—lumber, for example.

A fourth point we make was stressed by Mr. Fort, the competitive situation between for-hire agencies and private——

The CHAIRMAN. I can see how a thing might have a tendency—and I assume you are arguing a tendency——

Mr. OTT. That is correct.

The CHAIRMAN. It would be interesting if we had specific examples of businesses that have moved to mitigate the 3 percent tax.

Mr. OTT. I can't document that. If we could point to businesses which have moved, it would probably be impossible to indicate how much of the movement was influenced by tax and how much was influenced by the basic transportation charge.

The CHAIRMAN. I think I understand. You are talking in terms of tendency.

Mr. OTT. That is correct.

Mr. Fort addressed himself to the competitive relationship between private and for-hire transportation. That element may be overemphasized, but undoubtedly it exists. There are large amounts of private transportation performed in the country. The cost of for-hire transportation is at least 3 percent higher than private transportation, all other cost elements being equal, and that situation is pointed to strenuously by for-hire carriers, as a handicap on their operation.

A fifth relates to the measure of the rate, itself. For-hire carriers in recent years have been compelled to seek and receive substantial percentage increases in their transportation charges, repeatedly. In the cases before the Commission where those subjects were heard, the taxes in general, but including also the transportation tax, were pointed to as having just the effect of 3-percent increases in the transportation level, itself, making more difficult the problem of the for-hire carrier in obtaining an adequate revenue from its overall operation. Those points could be elaborated and probably could be broken down further but I think they set forth the essential objections to the transportation tax on property and we hope you will consider them.

Mr. Chairman, I believe the next gentleman on your list is a Mr. Culler, of the National Conference for Repeal of Tax on Transportation, and I have here a short statement which I wish to file for him, and I can say in a couple of words what he would wish to put in.

(The prepared statement of the National Conference for Repeal of Tax on Transportation follows:)

STATEMENT ON BEHALF OF THE NATIONAL CONFERENCE FOR THE REPEAL OF TAXES ON TRANSPORTATION

The National Conference for Repeal of Taxes on Transportation was formed on February 5, 1954, for the purpose of affording a means through which shippers, travelers, and carriers who pay the taxes imposed by the Federal Govern-

ment on amounts paid for the transportation of persons and property, may unify their efforts to promote actions for relief. The conference and its activities shall continue until the taxes are repealed.

It is our feeling that the transportation taxes are taxes on necessities, not luxuries. They are taxing the flow of commerce, not the goods; they undermine the for-hire transportation industry—the lifeline of our economy. They discriminate against for-hire transportation in competition with private transportation, and finally they increase the cost of living by adding to the transportation costs at successive stages of manufacturing, marking, and distribution.

The conference would like to go on record as favoring the reduction of taxes on travel from 15 to 10 percent, however, will here serve notice that their efforts wil continue until such time as transportation taxes are completely repealed.

The conference is of the firm belief that if the sums now being paid into the Treasury for transportation taxes could be used by the taxpayers themselves for other purposes, the Nation's economy would be stimulated and strengthened to a much greater extent.

The conference is governed by an executive committee with the following representation:

D. G. Ward, chairman, Mathieson Chemical Corp., Baltimore, Md.
W. F. McGrath, vice chairman, American Society of Travel Agents, New York City, N. Y.
J. D. Durand, treasurer, Air Transport Association of America, Washington, D. C.
A. G. Anderson, American Petroleum Institute, New York City, N. Y.
W. W. Belson, American Trucking Associations, Inc., Washington, D. C.
J. L. Bossemeyer, National Association of Travel Organizations, Washington, D. C.
F. F. Estes, National Coal Association, Washington, D. C.
Leif Gilstad, Transportation Association of America, Washington, D. C.
F. T. Greene, American Merchant Marine Institute, Washington, D. C.
R. S. Henry, Association of American Railroads, Washington, D. C.
G. C. Locke, Committee for Pipeline Companies, Washington, D. C.
Giles Morrow, Freight Forwarders Institute, Washington, D. C.
Wm. H. Ott, Jr., the National Industrial Traffiffic League, Washington, D. C.
M. O. Ryan, American Hotel Association, Washington, D. C.
J. G. Scott, National Association of Motor Bus Operators, Washington, D. C.
G. H. Shafer, Weyerhaeuser Sales Co., St. Paul, Minn.
C. C. Thompson, American Waterways Operators, Inc., Washington, D. C.

The firms and organizations who have indicated their approval of the conference's objectives and their desire to cooperate in accomplishing these objectives are:

Brotherhood of Locomotive Firemen & Enginemen, Cleveland, Ohio.
Railroad Yardmasters of America, Chicago, Ill.
Switchmen's Union of North America, Buffalo, N. Y.
American Train Dispatchers Association, Chicago, Ill.
Order of Railway Conductors of America, Cedar Rapids, Iowa.
Brotherhood of Railroad Signalmen of America, Chicago, Ill.
Association of Team & Truck Owners, St. Louis, Mo.
Brotherhood of Railroad Trainmen, Cleveland, Ohio.
Western Traffic Conference, Inc., San Gabriel, Calif.
United Brick & Tile Co., Kansas City, Mo.
National Grange, Washington, D. C.
Niagara Alkali Co., Niagara Falls, N. Y.
Casket Manufacturers Association of America, Cincinnati, Ohio.
Associated Industries of New York State, Rochester, N. Y.
Railway Employees' Department, Chicago, Ill.
Brotherhood of Maintenance of Way Employees, Detroit, Mich.
National Car Rental System, Inc., St. Louis, Mo.
California Manufacturers Association, Los Angeles, Calif.
Los Angeles Chamber of Commerce, Los Angeles, Calif.
West Coast Lumbermen's Association, Portland, Oreg.
Mississippi Valley Association, St. Louis, Mo.
American Meat Institute, Chicago, Ill.
American Coke & Coal Chemicals Institute, Washington, D. C.
Hunter Thomas Associates, Cleveland, Ohio.
Association of Western Railways, Chicago, Ill.
National Cotton Compress & Cotton Warehouse Association, Memphis, Tenn.

United Fresh Fruit & Vegetable Association, Washington, D. C.
Association of Cotton Yarn Distributors, Philadelphia, Pa.
American Veneer Package Association, Orlando, Fla.

Mr. OTT. The National Conference for the Repeal of Taxes on Transportation was formed in February, this year, as a voluntary organization through which shippers, travelers, and carriers who are opposed to the transportation tax could work in expressing that opposition.

The statement which I filed will list the executive committee, which I won't attempt to read here; it is too long, indicating what type of organization is active, and it also lists the present 46 members who collaborate with or take part in the activities of the conference.

It sets forth, briefly, more briefly than I have stated here, the basic objectives to the transportation tax, both passenger and property, and we request that it be considered by the committee.

Thank you, sir.

The CHAIRMAN. We are very glad to hear your testimony. I want to say that personally I regard it as a bad tax, but it has a revenue-producing incident which can't be overlooked at the present time, and I would like to remind you, representing, as you do, businessmen, we hope that during the whole course of tax reduction this year, that there will be many advantages come to the citizens, including businessmen. You already have the abolition of the excess-profits tax; we have reduced income taxes. You will benefit from the excise-tax reductions here, and then we have a gigantic bill coming which I hope also will give you some relief. You may go out of here shirtless so far as the particular excise is concerned, but generally speaking, you will not be left shirtless when we get through with all these tax bills.

Mr. OTT. Thank you, sir. I realize there are some $735 million involved in this tax and I have attempted to set out what I think are the particular objections to this particular tax.

The CHAIRMAN. Personally, I think it is a bad tax, and I think we should get rid of it as soon as we can, but you are a businessman yourself, and you never heard of a business yielding all of the millions that are involved when we need it so badly.

Thank you very much.

Mr. OTT. Thank you, sir.

The CHAIRMAN. Mr. Carlson, please.

Mr. Ott, my attention has been invited to the fact that the revenue is some $400 million, rather than the $700 million.

Mr. OTT. The figure I gave you covered passengers and property.

The CHAIRMAN. Identify yourself for the record.

STATEMENT OF CARL CARLSON, CIGAR MANUFACTURERS ASSOCIATION

Mr. CARLSON. Mr. Chairman and gentlemen of the committee, my name is Carl Carlson, and I am executive officer of Garcia y Vega, Inc., manufacturers of cigars since 1882.

I am also vice president of the Cigar Manufacturers Association of America, a trade association, national in scope, and whose members produce in unit and dollar volume, well over 80 percent of the total production of cigars.

The CHAIRMAN. What brand does your outfit make?

Mr. CARLSON. Garcia y Vega, a clear Habana cigar, sir, made in Tampa, Fla.

The CHAIRMAN. They are free of all harmful chemicals of every kind?

Mr. CARLSON. We feel that it is a very wholesome product, Senator. We come before your committee, pleading for tax relief, as a distressed industry. In 1953, we appeared before the Ways and Means Committee, and apparently demonstrated that the wartime excise tax imposed on this industry had and was still hampering its ability to keep pace with the changing economy.

The committee voted a tax reduction of approximately one-third in the existing rates, and in its report said:

> The rate reduction provided for cigars in your committee's bill will increase cigar sales relative to other tobacco products, or at least aid the cigar industry in maintaining its present relative position.

Action on that proposal was deferred by your committee because of the intervention of the Korean war. The reason which impelled the Ways and Means Committee to make its recommendation in 1950 still prevails today. One could almost believe that it was an oversight on the part of the Ways and Means Committee not to have included us in its recent recommendation, because we are as distressed an industry as many which were granted relief in the House bill before you.

The cigar industry has never been able to make a substantial recovery following the depression years, as a result of the imposition of a wartime tax which has not been modified since 1942.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. Go ahead.

Mr. CARLSON. Permit me to refer to the last report of the Federal Trade Commission concerning our industry. The rate of return after taxes on stockholders investments in the cigar industry has steadily declined since 1947. From a 10.2 percent rate of return in 1947, it dropped to 5.6 in 1951. The 9 reporting companies whose composite rate of return is reflected in these reports produced more than one-half of the industry's entire output so that it is a fair conclusion that these 9 companies represent the largest of the cigar manufacturers. More significantly, the Federal Trade Commission survey reveals that of the 9 reporting companies, the smaller ones have been the hardest hit during these postwar years.

The 5 smallest of these 9 reporting companies, with a return of only 4.5, in 1949, their best year, dropped to 3.1 and 2.9 percent, respectively, in 1950 and 1951. It must follow that the rest of the cigar industry, which is not included in this report, and which are predominantly small-cigar manufacturers, experienced a similar uneconomic rate of return, on their investments.

The CHAIRMAN. As I recall it, under the eloquent persuasions of Senator Hoey, we gave the cigar people some relief within the last year or so, I believe.

Mr. CARLSON. The last action of the Senate Finance Committee was in 1951, as I recall it, at which time no relief was given, but rather,

the Senate Finance Committee, recognizing that the industry was a depressed industry, did not elect to impose additional taxation upon it.

The CHAIRMAN. The question was additional taxation.

Mr. CARLSON. That is correct, sir, so your committee left it as it was. As further evidence of the depressed condition of the cigar industry, of the 10,000 or more cigar manufacturers in business in the continental United States in 1926, the Commissioner of Internal Revenue reports that only 1,559 remained by the end of 1952.

The CHAIRMAN. Where are the great cigar-making centers?

Mr. CARLSON. Pennsylvania is a principal one; Tampa, Fla.—in fact, Florida is. Jacksonville, Tampa, other sections in Florida. A good many cigars are made in New England. Some are made in Ohio.

The CHAIRMAN. The fellow who used to make them by hand, has he disappeared? I mean the fellow in the store window? Has he disappeared?

Mr. CARLSON. There are still some of those that one can see. I was going to say particularly in the larger cities. I don't know that that necessarily obtains. That is where I have seen them. They are dropping out of the picture, apparently, and yet there is still quite a number of them, New York, Chicago. You will see them still in those little store windows with anywhere from maybe 1 to 5 cigar-makers, and they sell the merchandise right there.

As further evidence of the depressed condition of the cigar industry—I am repeating.

The CHAIRMAN. Let me interrupt. I am bringing all kinds of irrelevancies in this; I am sorry. But I am interested in the testimony. What about the old-fashioned stogy that used to be made in West Virginia? Are they still making them?

Mr. CARLSON. They are still making them, sir. The stogy, as I understand it, is a product manufactured in and around the Pittsburgh area. As I understand it, also, the market for the stogy is predominantly a localized one. They ship some cigars outside of that area, but I would judge that the bulk of their production is sold within a reasonable area, as compared with the production of many of the other factories in the industry which are sold on a national basis from coast to coast.

The CHAIRMAN. Thank you.

Mr. CARLSON. I will repeat, just to get my sequence. As further evidence of the depressed condition of the cigar industry, of the 10,000 or more cigar manufacturers in the business in the continental United States in 1926, the Commissioner of Internal Revenue reports that only 1,559 remaind by the end of 1952.

A study of his report points up that the mortality has been greatest among the smallest manufacturers, that is, those with sales of less than $50,000 a year. Of these smaller manufacturers, of whom there wereover 3,000 in business in 1941, the year immediately prior to the enactment of the tax measure from which we now seek relief, over half had been forced to close their factories by the end of 1952. The depressed condition of the cigar industry is further indicated by the long-term downtrend in the par capita consumption of cigars.

The United States Department of Agriculture recently released figures for the years since 1920, and stated—and I quote:

During the past three decades, cigar consumption has not kept pace with the population growth.

These figures reveal that although cigar per capita consumption recovered slightly during the past 4 year, it was nevertheless lower in 1952 than it has been in any prewar year except the depression years of 1932 and 1933.

Gentlemen, we do not come before you asking for outright repeal of cigar excise taxes, nor have we at any time failed to recognize the necessity for our industry's sharing the burden of the expense of running the Government. But we do ask for an easing of the burdensome excise tax which for so many years has hampered our industry and prevented it from adjusting itself to a peacetime economy. We cannot adjust our price structure to the present economy if we must continue to pay overburdensome taxes. Although the revenue collected in 1952 from cigars was 241 percent greater than it was in 1941, the number of cigars sold in 1952 was only 3 percent more than 1942.

During the same period, our cigar leaf tobacco costs increased 169 percent, and our labor rates 138 percent. These rising costs of materials and labor, coupled with an excessive tax burden, continue to squeeze the industry's narrow margins, preventing any adjustment in its price structure.

Before I conclude, I should like briefly to point out the inequity of the present tax schedule. It was enacted without regard to the economic needs of this industry. It is an unrealistic schedule disregarding the pricing practices of the industry, with the result that the tax rates now imposed bear no relationship to the retail price of a cigar.

For example, the 3-for-25-cent cigar is taxed at a rate of 12 percent. the 20-cent cigar, at 7.5 percent, and the popular-priced 10-cent cigar at 10 percent.

We believe that the schedule proposed by the Ways and Means Committee in 1950 is a more equitable form of taxation. This schedule, which you will find attached to page five of our printed statement, will provide greater flexibility in the pricing of our product, and is the nearest approach to an ad valorem tax without imposing drastic changes in the industry's pricing practices. It provides a natural grouping of prices in each tax bracket.

For example, the 2-for-5 cents, and 3-for-10 cents cigars are taxed alike. The 5- and 6-cent cigars are included in a single tax class. Traditionally competitive price groupings are recognized and maintained throughout the entire proposed schedule.

Cigars are important to the economy of the Nation. Domestic cigar leaf tobacco is grown principally in the States of Connecticut, Pennsylvania, Florida, Georgia, Wisconsin, Ohio, and Massachusetts. The total gross value of cigar leaf tobacco is in excess of $77 million, grown on over 126,000 acres, employing in excess of 25,000 employees, exclusive of the farm families involved.

The cigar manufacturers employ in excess of 47,000 production workers, and in addition, approximately 10,000 administrative, selling, and distributing employees.

There are 14,500 cigar stores in the Nation, employing 16,500 persons, and 3,000 wholesale tobacco distributors employing 26,000 persons.

In addition, there are a number of subsidiary industries dependent on the cigar industry, employing a large number of persons. For example, cigar-box manufacturers, lithographers and producers of materials necessary for the production and packaging of cigars, such as cellophane, cigar machines, fertilizers, cloth for the tobacco shade crops, and many others.

Therefore, on behalf of all those concerned, we urge your serious consideration of our prayer for relief from the burden of a wartime-imposed taxload, which has stifled and impeded the recovery of a depressed industry.

We shall file a statement and supplementary data with the clerk.

The CHAIRMAN. It will be admitted in the record.

(The information referred to follows:)

CIGAR INDUSTRY'S EXCISE TAX STORY AT A GLANCE

1. The present tax on cigars is excessive.

(*a*) It has exacted revenues vastly in excess of that anticipated when enacted as a wartime measure in 1942.

(*b*) The Secretary of the Treasury in 1942, estimated his proposed revision would yield additional revenue of approximately $13 million annually; a doubling of the prewar revenue. Instead of doubling it has resulted in a tripling of the industry's tax burden—yielding approximately $43 million annually instead of the $26 million anticipated.

2. The cigar industry's heavy taxload has depressed its profit margins to uneconomic levels The rate of return on stockholders' investments in the cigar industry have declined steadily since 1947, according to the Federal Trade Commission. From 10.2 percent in 1947 to 5.6 percent in 1951 with the greatest burden falling on the smaller companies whose best year (1949) showed a return on invested capital of only 4.5 percent. And this has since declined to 2.9 percent in 1951.

3. Small business in the cigar industry has been hardest hit. Of more than 10,000 cigar manufacturers in business in 1926, only 1,763 remained by the end of 1951. In 1941 there were over 3,000 cigar manufacturers whose sales were less than $50,000 annually, but by the end of 1951 nearly half of them were forced to close their factories. (Internal Revenue Bureau.)

4. The cigar industry cannot adequately adjust itself to present conditions without a lessening of the taxload. Greater sales are required to obtain fair return on invested capital. Rising costs of materials, labor, transportation, etc., continue to squeeze the already narrow margins. Increased sales are impossible without a tax reduction

5. Tax revenue has increased more than any other major cost element in a cigar. Compared with 1941, tobacco increased 169 percent in 1952; labor rates increased 138 percent, and revenue taxes increased 241 percent. Despite these tremendous increases, the cigar industry has been unable because of consumer resistance to adjust its prices with the result that net earnings have diminished to uneconomic levels.

6. The cigar industry is not keeping pace with United States economy. Comparing 1952 with 1941 consumers' dollar expenditures for cigars increased 96 percent while expenditures for durable goods increased 174 percent, and nondurable goods 170 percent. Disposable income of consumers in the United States rose 155 percent, but a proportionate share of this income was not expended for cigars.

7. Present tax structure has resulted in serious dislocations. The present tax schedule now in effect is inequitable and has resulted in serious dislocations between price brackets. It has little relationship to the retail price of the product, the tax rates ranging from 4 to 25 percent.

8. A new tax schedule is necessary. Our proposal distributes the tax burden equitably and should yield approximately the revenue anticipated by the Government when the present tax law was enacted. It will permit greater flexibility in pricing of cigars since the tax rate is approximately the same throughout all classes and the tax breaks are just above normal retail price groupings.

CIGAR EXCISE TAXES MUST BE REDUCED—A NEW TAX SCHEDULE SHOULD BE ADOPTED

(Presented on behalf of the cigar industry by the Cigar Manufacturers Association of America, Inc., New York, N. Y.)

In May 1950 the House Ways and Means Committee approved a schedule-revising the tax brackets and reducing substantially the tax rates. The House approved the committee's recommendation. In its report to the House it said:

"Cigar sales have fallen off rapidly in the last few years, and it is anticipated that the rate reduction provided for cigars in your committee's bill will increase cigar sales relative to other tobacco products or at least aid the cigar industry in maintaining its present relative position."

Conditions in the cigar industry have not improved since the House voted a reduction in cigar excise taxes in 1950 nor since the House, in 1951, rejected the recommendation of the Secretary of the Treasury for increased cigar taxes. On the contrary, economic changes have occurred since 1951 resulting in a further impairment of the cigar industry's narrow margins.

THE CIGAR INDUSTRY'S PROFIT MARGIN IS DEPRESSED TO UNECONOMIC LEVELS

The rate of return on stockholders' investments has been declining steadily since 1947, according to a recent report of the Federal Trade Commission.[1] From a 10.2-percent rate of return in 1947, it fell to 5.6 percent in 1951, with the smaller companies experiencing the greatest decline. From a return on invested capital of only 4.5 percent in 1949 (the best postwar year for the smaller companies), these smaller companies showed a rate return of only 2.9 percent in 1951 and the indications point to a further decline.

SMALL BUSINESS HAS BEEN HARDEST HIT

The plight of the cigar industry is forcibly demonstrated by the mortality rate among cigar manufacturers, particularly among the smaller ones. Of the 10,000 or more cigar manufacturers in business in continental United States in 1926, the Commissioner of Internal Revenue reports that only 1,763 remained by the end of 1951 (see chart, p. 116). In 1941 there were 3,377 cigar manufacturers, of whom 3,113 were small manufacturers having sales of less than $50,000 per year. In 1951, of these small manufacturers, only half of them, or 1,562, were able to continue in business.

THE CIGAR INDUSTRY CONTINUES TO PAY EXCESSIVE WARTIME EMERGENCY TAXES

In 1942, as a wartime measure, excise taxes on cigars were increased in an amount which was then contemplated by the Secretary of the Treasury to yield an additional $13 million a year in revenue in addition to the prewar return of approximately $13 million—a doubling of the then existing tax revenue from the cigar industry. However, the wartime emergency tax schedule of 1942 resulted in additional revenues—not of $13 million—but of $30 million during each of the postwar years—a tripling of the prewar tax on cigars. Thus, instead of receiving approximately the $26 million per year in revenue expected from the cigar industry, the Government has been collecting more than $43 million per year since the end of World War II.

TAX REVENUE HAS INCREASED MORE THAN ANY OTHER MAJOR COST ELEMENT

In 1952 the revenue collected on cigars was 241 percent greater than it was in 1941, although the number of cigars sold in 1952 was only 3 percent more than 1941. During the same period, cigar leaf tobacco costs increased 169 percent and labor rates 138 percent. Despite these tremendous increases, the industry has been unable, because of consumer resistance, to adjust its price structure, with the result that its narrow profit margins have diminished to uneconomic levels.

CIGAR CONSUMPTION HAS NOT KEPT PACE WITH POPULATION GROWTH

The depressed condition of the industry is indicated by the long term downward trend in the per capita consumption of cigars. "During the past three

[1] Federal Trade Commission Report, September 3, 1952.

decades cigar consumption has not kept pace with population growth," according to the United States Department of Agriculture.[2] Although recovering slightly during the past 4 years, cigar per capita consumption was lower in 1952 than in any prewar year, except the depression years of 1932 and 1933.

EXCISE TAXES ON CIGARS MUST BE REDUCED TO INSURE THE ECONOMIC STABILITY OF THE CIGAR INDUSTRY

The cigar industry cannot adequately adjust itself to present economic conditions without a lessening of the taxload. It cannot adjust its price structure because of the present squeeze between consumer resistance to increased prices and rising costs of labor and materials. Its net earnings have diminished to uneconomic levels. Greater sales are required to obtain a fair return on invested capital which can only be realized through an adjustment of its price structure through tax reduction.

A NEW SCHEDULE OF CIGAR TAXES IS NECESSARY

The present tax schedule is inequitable and was enacted without regard to the economic needs of the cigar industry. The schedule is unrealistic and disregards the pricing practices of the industry, in that the tax rates bear no relation to the retail price of a cigar.

The cigar industry herewith submits a new tax schedule which has the endorsement of every segment of the industry.

This new schedule is an equitable means of taxation and the nearest approach to an ad valorem tax without imposing drastic changes on the cigar industry's pricing practices. It will provide flexibility in the pricing of cigars accomplished by a natural grouping of prices in each tax bracket. It establishes a direct and fixed relationship between tax rates and retail prices. The proposed schedule will yield the revenue expected when the present tax schedule was enacted.

CIGAR EXCISE TAX SCHEDULE PROPOSED BY WAYS AND MEANS COMMITTEE IN 1950

The schedule set forth below was proposed by the Ways and Means Committee and adopted by the House in 1950. Action by the Senate was deferred because of the intervention of the Korean war. The cigar industry is in just as great a need for tax relief as it was in 1950 and, therefore, urges the reinstatement of the 1950 proposed schedule of the Ways and Means Committee.

Price class	Retail price	Tax rate per thousand	Price class	Retail price	Tax rate per thousand
A	Up to 3.5 cents	$2.00	E	13.1 to 17 cents	$8.50
B	3.6 to 6 cents	2.50	F	17.1 to 23 cents	11.00
C	6.1 to 8.5 cents	3.50	G	23.1 to 30 cents	14.50
D	8.6 to 13 cents	5.50	H	Over 30 cents	20.00

THE SHADE TOBACCO GROWERS AGRICULTURAL ASSOCIATION, INC.,
July 16, 1953.

MR. EDWARD J. REGENSBURG,
Cigar Manufacturers Association of America, Inc.,
350 Fifth Avenue, New York, N. Y.

DEAR MR. REGENSBURG: Shade growers of the Connecticut Valley are cognizant of the efforts of cigar manufacturers to effect a reduction of Federal excise taxes on cigars. They also recognize the need and the value of friendly cooperation between all branches of the tobacco industry.

With these facts in mind, the executive committee of our association, at a recent meeting, unanimously adopted the following resolution:

"The Shade Tobacco Growers Agricultural Association is deeply interested in the efforts of the Cigar Manufacturers Association of America to effect a reduction in Federal excise taxes on cigars.

[2] The Tobacco Situation, October 1952, U. S. Department of Agriculture.

"Connecticut Valley shade growers are aware that excise taxes on cigars increased 286 percent in 7 years, and that this tax levy imposes a tremendous burden on the cigar industry at a time when economic conditions are far from favorable. Excessive taxation is a serious deterrant to healthy business, and the cigar trade and the cigar consumer are in need of immediate and adequate relief.

"It is the opinion of the Shade Tobacco Growers Agricultural Association that the Cigar Manufacturers Association, through its tax-reduction program, is performing a service of great value and importance to the entire tobacco industry, and the shade growers hereby go on record as heartily endorsing and encouraging the effort of the cigar manufacturers."

With it, we extend our very best wishes for the success of the manufacturers.

Sincerely yours,

NELSON A. SHEPARD, *President.*

WISCONSIN COOPERATIVE TOBACCO GROWERS ASSOCIATION,
Edgerton, Wis., July 30, 1953.

EDWARD J. REGENSBURG,
President, Cigar Manufacturers Association of America,
Empire State Building, New York City, N. Y.

DEAR MR. REGENSBURG: The members of the Wisconsin Cooperative Tobacco Growers Association are heartily in accord with proposals as set forth by the CMA regarding reduction in the excise taxes on cigars.

We and other grower associations feel that the onerous tax burden placed on cigars is unfair. There is a direct relationship between the amount of such tax and the price per pound the industry is able to pay for leaf tobacco from growers.

Sincerely yours,

CLIFFORD J. MASON, *Manager.*

THE LANCASTER LEAF TOBACCO BOARD OF TRADE,
Lancaster, Pa., July 28, 1953.

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA,
350 Fifth Avenue, New York 1, N. Y.

GENTLEMEN: The Lancaster Leaf Tobacco Board of Trade, located in Lancaster, Pa., is composed of all the leaf packers and dealers in Pennsylvania cigar leaf tobacco in Lancaster County, Pa. Collectively, we sell 50 to 60 million pounds of this type tobacco annually. Our warehouses are located in the vicinity of the farms where the tobacco is grown and we prepare this tobacco for market to the cigar manufacturer. We are dependent upon the cigar industry for our livelihood and are greatly concerned over the downward trend in cigar consumption. We are firmly of the opinion that a contributing cause in the inability of the cigar industry to adjust to the present economy is the great tax burden upon it.

Unlike farmers in all other tobacco-growing areas in the United States, the local farmers have repeatedly voted down Federal price supports which, we feel, has been and will be a compensating saving to the United States Treasury.

We have been requested to consider the proposal of the Cigar Manufacturers Association of America, Inc., for revision of excise taxes applicable to cigars.

We endorse and support the proposal of the Cigar Manufacturers Association of America, Inc., and do urge your committee to recommend its adoption by Congress.

Respectfully yours,

B. R. MANN.

THE LEAF TOBACCO BOARD OF TRADE
OF THE CITY OF NEW YORK,
July 23, 1953.

CIGAR MANUFACTURING ASSOCIATION OF AMERICA, INC.,
350 Fifth Avenue, New York 1, N. Y.

GENTLEMEN: The Leaf Tobacco Board of Trade of the City of New York is composed of dealers in all types of cigar leaf tobaccos. Collectively we sell a

major portion of all tobacco used by independent cigar manufacturers, particularly the smaller ones. Our warehouses are located in the vicinity of the farms where the tobacco is grown and in many instances we prepare this tobacco for market to the cigar manufacturers employing a large number of local workers. We are entirely dependent upon the cigar industry for our livelihood and we are greatly concerned with the depressed economic condition of the cigar industry.

We are firmly of the opinion that the contributing cause has been the inability of the cigar industry to adjust itself to a peacetime economy due to the great tax burden upon it.

We have given careful consideration to the new method of taxation proposed by the Cigar Manufacturing Association of America, Inc., and we strongly endorse it and recommend its adoption by Congress.

Very truly yours,

MORTON MORRIS, *President.*

NATIONAL ASSOCIATION OF
TOBACCO DISTRIBUTORS, INC.,
200 Fifth Avenue, New York 10, N. Y., July 23, 1953.

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA, INC.,
350 Fifth Avenue, New York, N. Y.
(Attention of Mr. Edward J. Regensburg, president.)

GENTLEMEN: This association supports and is entirely in accord with the proposals of the Cigar Manufacturers Association of America relating to: (*a*) Revision of the procedure prescribed in the Internal Revenue Code appertaining to the payment and collection of excise taxes on cigars weighing more than 3 pounds per thousand and to the outdated and gnawing regulations governing the packaging of cigars; and (*b*) proposed essential changes in the retail price categories of cigars and the tax rates applicable thereto.

We have accorded careful study to the recommended changes and it is our firm belief that these modifications are not only desirable and justifiable, but are inevitable for the sound health of an industry which has been engaged in a grim struggle for survival for more than a quarter century.

Despite the phenomenal expansion of the United States national product to $363 billion per annum, the unit production of cigars is virtually paralyzed at the level of the United States 1939 national product figure of $80 billion per annum.

The wholesale tobacco trade, represented by this association, provides the instrumentality needed for the nationwide distribution of cigars to more than 900,000 retail outlets. To a more noteworthy extent than any other product, cigars are a determining factor in the measure of success attainable practically by the wholesale tobacco distributor. We therefore have a major stake in the economic well-being of the cigar industry.

It is utterly inequitable to require the cigar industry to continue to shoulder the staggering burden of excise tax rates enacted in the emergency of World War II. These prohibitive and detrimental rates, augmented by rising production and distribution costs, have created a price squeeze predicament enveloping, and in numerous instances threatening the actual survival of, the manufacturer, wholesaler, retailer, and consumer. It is a matter of being priced out of business unless relief in the form of more realistic tax rates is provided.

Yours very truly,

JOSEPH KOLODNY,
Managing Director.

RETAIL TOBACCO DEALERS OF AMERICA, INC.,
26 Platt Street, New York 38, N. Y., July 22, 1953.

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA, INC.,
350 Fifth Avenue, New York 1, N. Y.

GENTLEMEN: Retail Tobacco Dealers of America, Inc., a national trade association having its principal office in New York and representing thousands of independent retail tobacconists throughout the United States, heartily endorse the proposal for reduction and revision of excise taxes as submitted by the Cigar Manufacturers Association.

From the retailers' standpoint, cigar sales constitute a most important part of our volume and we are dependent on the sale of this product for a profit which will enable us to continue in business. We are the first to know the consumer's reaction and are constantly striving to maintain volume in face of the comparatively high prices of cigars, largely due to the excessively high excise taxes.

Might we state that the cigar manufacturers have faced tremendous increases in the cost of leaf and labor, which in most cases they have absorbed, even though it tends to lead to a cheapening of the product. They realize that a further increase in the price of cigars would meet with consumer resentment and would be ruinous.

Our industry, saddled with exceptionally high excise taxes, cannot produce cigars at a price which will encourage the youth of the Nation to smoke them, thus threatening the continuance of the cigar store as an economic entity. The 1949 census figures show that there are 14,533 cigar stores throughout the country, which represents a drastic loss over the figures appearing in the 1939 census amounting to 22 percent.

It is the considered judgment of our association that unless the cigar industry receives relief from the present enormous tax burden imposed upon it, the investment of our members, amounting to hundreds of thousands of dollars in store locations throughout the country, will be seriously jeopardized.

Therefore, in the opinion of this association, the scale of taxes as proposed by the Cigar Manufacturers Association represents a fair and equitable adjustment, which would make for greater stability in the cigar industry and would enable the industry to return to the Government a substantial revenue.

Sincerely yours,

ERIC CALAMIA,
Managing Director.

CIGAR MANUFACTURERS ASSOCIATION,
Tampa, Fla., July 15, 1953.

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA,
350 Fifth Avenue, New York 1, N. Y.
(Attention of Mr. Leon Singer, general counsel.)

GENTLEMEN: The members of the Cigar Manufacturers Association of Tampa have been reviewing and studying your proposal for the revision of excise rates as applicable to cigars.

The Cigar Manufacturers Association of Tampa is a nonprofit trade association composed of 11 manufacturers located in Tampa, Fla. The membership manufactures cigars either entirely of Cuban tobacco or Cuban tobacco filler with a Connecticut shade wrapper and a Wisconsin binder or, in some instances, a Cuban tobacco binder. The cigars so manufactured retail from 7½ cents to above 20 cents each. In the last 3 years three factories have either moved from Tampa or closed due to adverse manufacturing conditions, including expense of operation in Tampa. Formerly the association factories employed from 6,000 to 6,500 employees in their production departments. The number now employed is approximately 3,500. Cost of manufacturing still continues to increase. The association is presently considering demands of the workers for increased compensation. The last increase in cigar prices was made in 1950 and the ceiling has been reached. Consumer resistance prohibits an increase in prices although manufacturing costs continue to spiral upward.

The present excise taxes were, as we all know, put on as an emergency measure and certainly the emergency should be considered past.

It is our considered judgment that your proposal for the revision of the excise taxes applicable to cigars and proposing the following rates:

Class	Retail price	Tax per 1,000 cigars	Class	Retail price	Tax per 1,000 cigars
A	Up to 3.5 cents	$1.00	E	13.1 to 17 cents	$7.50
B	3.6 to 6 cents	2.00	F	17.1 to 23 cents	10.00
C	6.1 to 8.5 cents	3.50	G	23.1 to 30 cents	13.00
D	8.6 to 13 cents	5.00	H	30.1 cents and over	20.00

is fair and equitable and distributes the excise taxes on cigars equitably upon the respective segments of the industry. Such will permit greater flexibility and proper pricing of cigars. The Tampa Association therefore endorses this and supports your proposal and requests that the committees of Congress in considering reduction of excise taxes give due consideration thereto and adopt the same and that the Congress pass legislation including the above proposed rates.

Yours very truly,

FRANCISCO GONZALEZ, *President.*

ASSOCIATED CIGAR BOX MANUFACTURERS OF AMERICA, INC.,
New York 1, N. Y., July 29, 1953.

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA,
350 Fifth Avenue, New York 1, N. Y.

GENTLEMEN: The members of this association and its thousands of workers are dependent upon the continued existence of the cigar manufacturing industry, its sole customer.

We are, therefore, deeply concerned with the adverse effect which the present heavy wartime excise tax has had on the sale and consumption of cigars. We believe that a reduction of such taxes is imperative and necessary to maintain the stability of the economy of the cigar industry and its allied industries.

Accordingly, we endorse and support the proposal of the Cigar Manufacturers Association for a reduction and revision of the present excise tax schedule.

Yours very truly,

J. O. GINTER, *President.*

STATES IN WHICH FACTORIES AND OFFICES OF CMA MEMBERS ARE LOCATED

Alabama	Louisiana	Ohio
California	Massachusetts	Pennsylvania
Connecticut	Michigan	Utah
Florida	Missouri	West Virginia
Illinois	New Hampshire	Wisconsin
Indiana	New Jersey	
Kentucky	New York	

CIGAR MANUFACTURERS ASSOCIATION OF AMERICA

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HARRY P. WURMAN, first vice president.
CARL CARLSON, second vice president.
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Dayton Osterweis, Lewis Osterweis & Sons.
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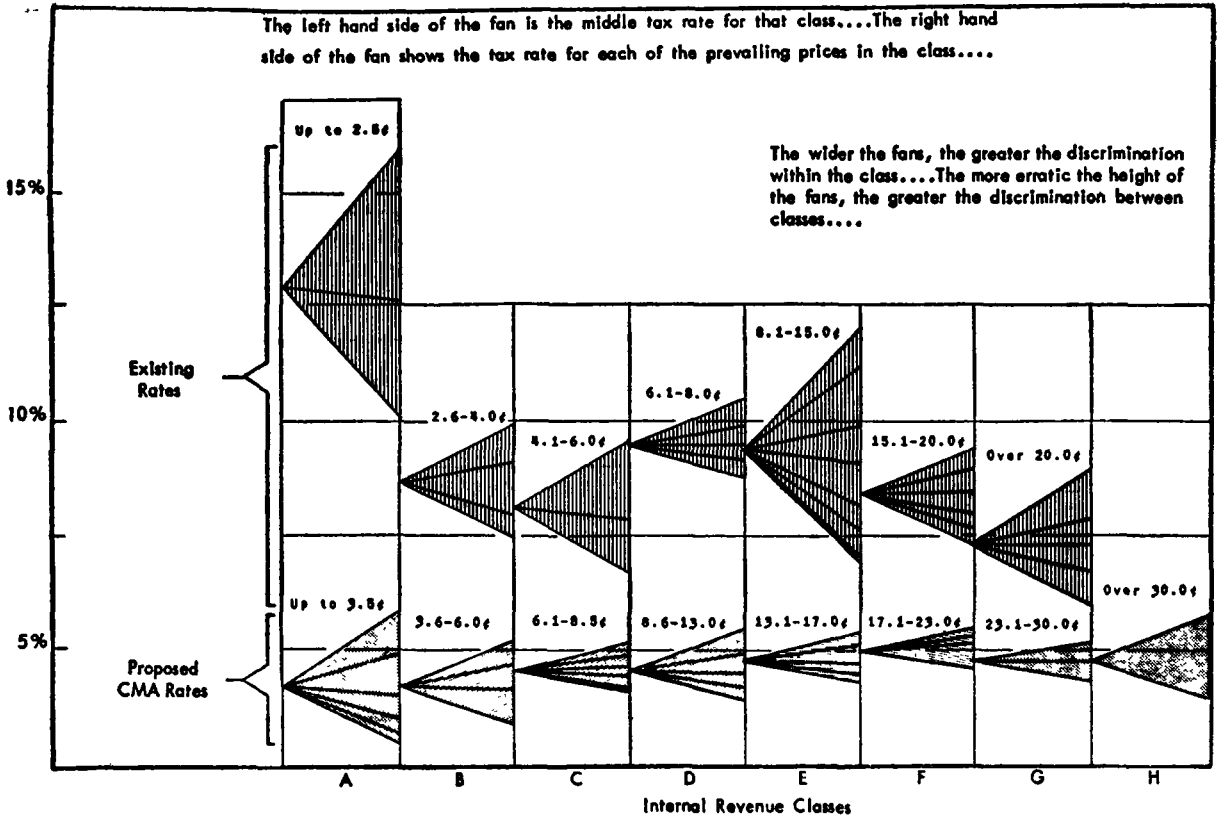
Norman Schwartz, D W G Cigar Corp.
August Sensenbrenner, A. Sensenbrenner Sons.
Samuel J. Silberman, Consolidated Cigar Corp
Peter F. Smith, F. X. Smith's Sons Co.
Julius Strauss, General Cigar Co., Inc.
Fred A. Thompson, E. E. Brooks & Co.
Frank P. Will, Consolidated Cigar Corp.
J. C. Winter, J. C. Winter & Co., Inc.
Harry P. Wurman, Bayuk Cigars, Inc.
George L. Yocum, Yocum Bros.

General counsel

Blumberg, Miller, Singer & Heppen.

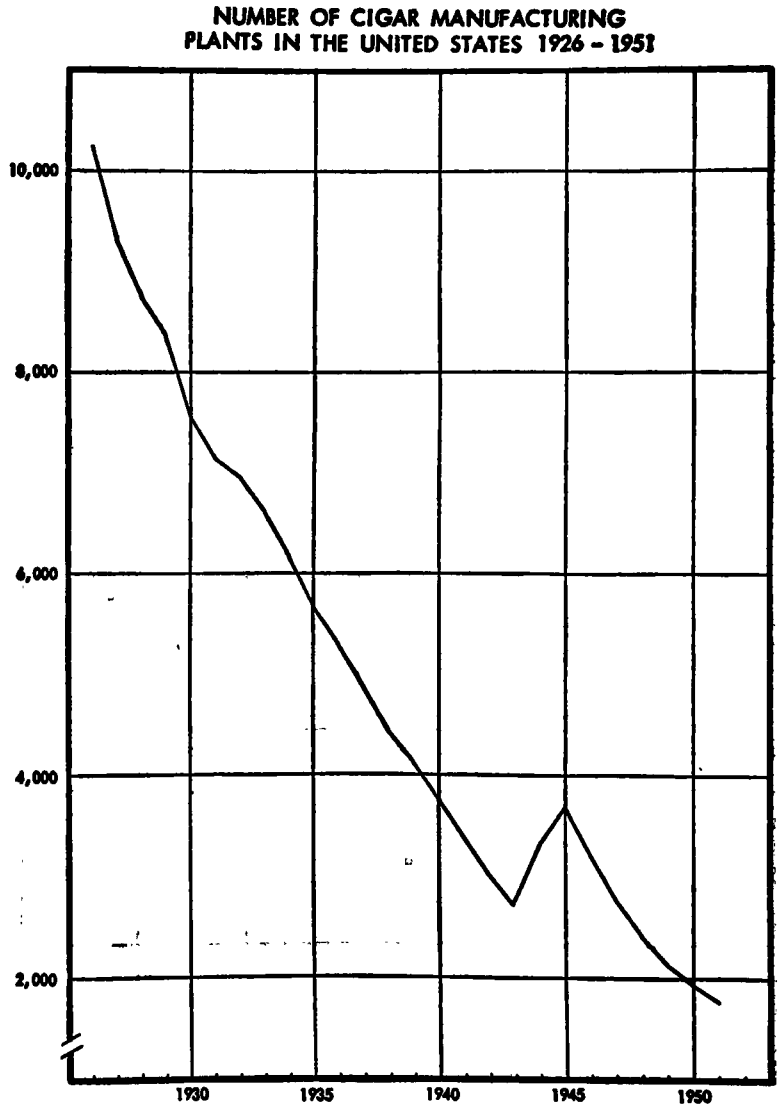
TAX RATE EXPRESSED AS A PERCENTAGE OF THE RETAIL PRICE



The CHAIRMAN. What tax do you want? I know you don't want any tax, but——

Mr. CARLSON. No, sir; we are not selfish. As I indicated in the statement, we are not seeking complete elimination of excise taxes, but we would like to see something which we feel would be more equitable. We are seeking a tax which would approximate somewhere between 9 and 10 percent, rather than a tax of today which approximates 14 percent.

The CHAIRMAN. Now, I notice the largest revenue producer are those cigars that sell between 8 and 15 cents. That produces



a tax of $10 a thousand, and it produces $25 million a year revenue. What, for example, would you do with that?

Mr. CARLSON. The 2-for-15 cent bracket, sir?

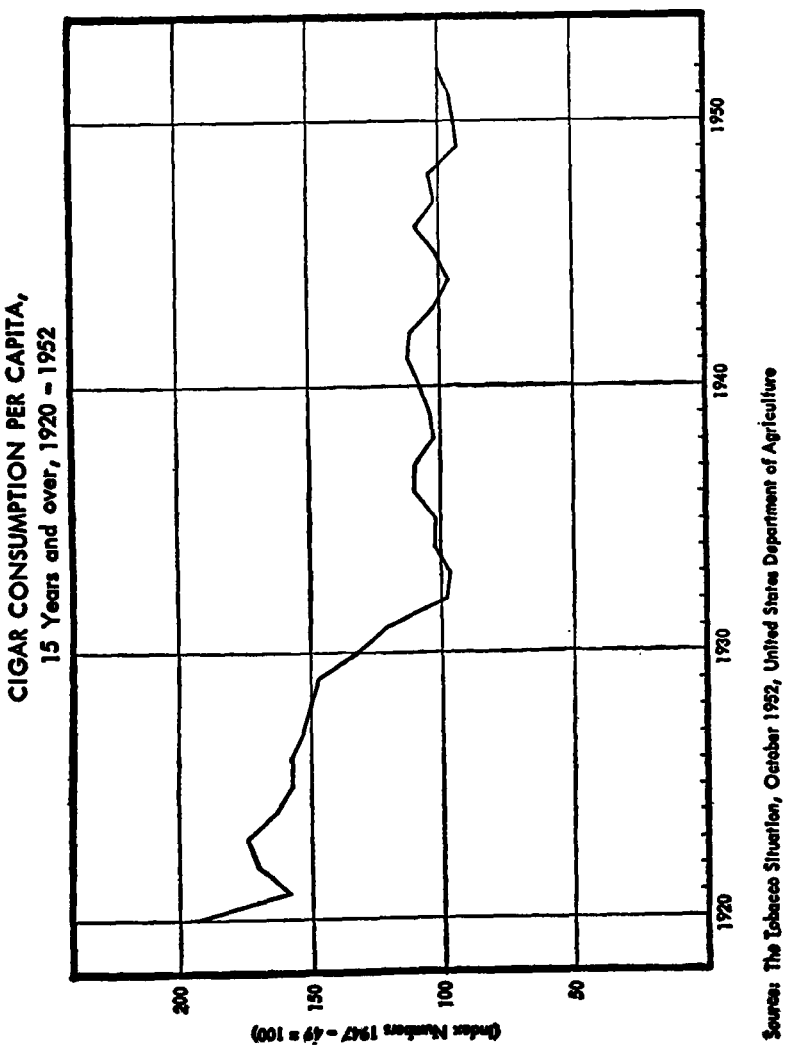
The CHAIRMAN. My table here says —"I am taking the largest revenue producer, which sells over 8 cents and not more than 15 cents."

Mr. CARLSON. Yes.

The CHAIRMAN. The tax on that, according to my table, is $10 a thousand.

Mr. CARLSON. That is correct, sir. That is right.

Now, the House Ways and Means Committee recommendation of 1950, which we are asking the adoption of, now, would place that cigar in a tax bracket paying $5.50 per thousand. The total revenue in 1952 was $45,700,000, based upon the present schedule.



The CHAIRMAN. Fiscal 1953, according to my figures, is $46.3 million.

Mr. CARLSON. That is correct. We are not too far off. We are pretty close.

The House Ways and Means Committee schedule, or proposed schedule, which we are asking the adoption of, would produce just under $28 million, which would be substantially greater than the revenue back in 1942 when the present tax schedule was adopted, and one even greater than the revenue that it was anticipated the current schedule was going to produce during a wartime economy.

The CHAIRMAN. Are there any questions?

Senator BENNETT. I am curious as to what percentage relationship $28 million bears to the total production of the cigar industry. Would you end up with an average 6 percent tax or 7 percent tax, or 10 percent tax?

Mr. CARLSON. That would produce a tax somewhere between 9 and 10 percent, sir.

Senator BENNETT. Then the product of the industry is about $280 million?

Mr. CARLSON. At the wholesale price for 1952, the wholesale price, after having deducted the tax, as I calculate it here, is approximately $325 million, with a tax of $44 million in 1952.

Senator BENNETT. Then it is nearer 8 percent than 10 percent.

Mr. CARLSON. I think I will have to buy that, sir.

Senator BENNETT. I just wanted to get the figures in my mind. Thank you.

Mr. CARLSON. One problem we have had in working up this schedule—I say "we have had"—I mean, that has been experienced in working up a schedule—is the fact that you have these breaks in price classifications and you are trying to compose a schedule that will be fairly equitable and still produce a certain revenue for the Government, without distorting the tax structure, and yet you can't just say, out of thin air, that you are going to increase sales in a certain market in order to produce more or less revenue. I think you understand that.

Senator BENNETT. I think I understand the complexity of the problem.

The CHAIRMAN. Thank you very much.

Mr. CARLSON. Thank you very much.

The CHAIRMAN. Mr. Robert M. Burr.

STATEMENT OF ROBERT M. BURR, NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION EXCISE TAX COMMITTEE

Mr. BURR. Good morning.

The CHAIRMAN. Identify yourself to the reporter.

Mr. BURR. I am Robert M. Burr, representing officially, the excise tax committee of the National Electrical Manufacturers Association.

The appliance manufacturers who are members of this association account for 75 to 80 percent of the total United States domestic sales of electric appliances taxed under section 3405 and section 3406 (a) (3) of the Internal Revenue Code—the taxes on refrigerators, freezers, and air conditioners and on electric, gas, and oil appliances.

We are more appreciative that your committee has granted us the opportunity to present this oral testimony. After the considered attention which the House and its Ways and Means Committee has given to H. R. 8224, we hesitate to raise questions regarding the bill. Nevertheless, we feel impelled to state that we recommend that the Senate Finance Committee carefully weigh the advisability of revising H. R. 8224 to:

1. Provide relief to the taxpaying American housewife in her purchase of essential household appliances, and

2. Provide relief to taxpayers generally for their purchase of a wide range of consumer durable goods and some nondurable goods for which no immediate excise tax relief is offered under the bill.

APPLIANCES TAXES

In 1953, American taxpayers purchased approximately $4,587,000,000 worth of excise taxed refrigerators, freezers, air conditioners, and electric, gas, and oil appliances. In fiscal year 1952–53, the tax collections on these sales was $201 million. Therefore, if for that tax year, the tax on these appliances had been repealed, the consumer would have saved about $201 million in excise taxes. If, for the same fiscal year, the tax on radios and television sets had been repealed, the consumer would have saved an additional $159,400,000 in excise taxes.

Generally, repeal or reduction in manufacturers' excise taxes offers the taxpayer another saving beyond the actual tax reduction.

The American Retail Federation has appeared before your committee and the House Ways and Means Committee a number of times over the last several years and has spoken on the subject of pyramiding of excise taxes imposed at the manufacturer level. Before the Ways and Means Committee in 1951, the American Retail Federation testified that, since a manufacturers' excise tax is an item of cost—

> and must be financed at each stage of distribution, the tax is of necessity pyramided and produces additions to retail price far in excess of the tax imposed. Thus, the impact upon the price level is far greater than the amount of revenue produced by the tax. Because it is hidden in the price at various levels of trade, it has an impact on the cost of living and the consumer price index greater than that of the tax itself.

In testimony before the House Ways and Means Committee, on Topic 40, in July 28, last year, Mr. T. H. David, of Hotpoint Co., estimated that for every $10 in taxes that the Government collects in manufacturers' excise taxes, the consumer pays approximately $18—$10 in tax and $8 in markup of tax.

The CHAIRMAN. Who estimated that, please?

Mr. BURR. Mr. T. H. David, of Hotpoint Co., in testimony before the Ways and Means Committee, July 28, on Topic 40.

If taxes on refrigerators, freezers, and air conditioners, electric, gas, and oil appliances, radios and television sets had been repealed for fiscal year 1953, consumers would have received $360,400,000 in tax relief, plus $288,320,000 in markup of tax, or a total increased purchasing power of $648,720,000.

If the Congress decided to reduce the manufacturers' excise taxes on refrigerators, freezers, electric and gas and oil appliances, radio

and television from 10 to 8 percent, a 20-percent reduction in the excise tax rate, based on fiscal year 1953 figures, the Congress would increase the consumers' dollars by $129,744,000. The net loss to the Government, however, would still be only $72,080,000, a 7.9-percent increase in tax relief proposed under H. R. 8224.

If this substantial purchasing power were put in the hands of consumers the total excise tax reduction would still be less than $1 billion. That is $984,080,000.

At this point I should like to call attention to a letter attached as exhibit A, which was written by Mr. J. C. Sharp, president of Hotpoint, Inc., to the president of the National Association of Manufacturers, with a copy to the Honorable Noah M. Mason, on the subject of the pyramiding of Federal excise taxes imposed at the manufacturers' level.

May we call your attention to the fact that excise taxes, whether pyramided or unpyramided, are included in the consumer-price index issued by the Bureau of Labor Statistics. Increases in the consumer-price index, as we all know, go quickly, under escalator clauses, fully into wages and salaries, up to approximately $7,500, and to some extent above that figure. Increases under escalator clauses are quickly followed by increases of wages and salaries paid by most other employers in order to enable them to compete successfully in the labor market. These increases in wages and salaries soon find their way into the cost of production and distribution, from which they go quickly into the cost of government, both in the form of increases in salary levels and in the form of increased costs for everything the Government buys. Thus excise taxes wind up in the increased cost of government and the necessity for still more Federal revenue. Doesn't this amount to a beautiful ring around the rosy; that is, to a considerable extent, excise taxes are self-defeating in terms of Federal budget balancing.

Three major indices are used to measure the importance of manufacturing industries to the national economy. These are the average number of production and related workers, value added by manufacturer, and expenditures for new plant and equipment.

The latest detailed figures we have been able to find, those for 1947, show that the following manufacturing industries—namely, computing and related machines, electric appliances, motor vehicles and parts and trucks and bus bodies, radios and related products, tires and tubes—(*a*) employed a total of 895,701 production and related workers, (*b*) added $5,595,600,000 through manufacture, and (*c*) spent $415,800,000 for new plant and equipment. This magnitude of economic activity in these industries has its impact on employment and wage levels, sales, corporate income, and individual and corporate income taxes; backward in the chain of economic activity to the capital-goods industries, component manufacturing industries, transportation of persons and property, communications, mining, and then forward to the wholesale and retail trade for a broad range of consumer products and for amusement, recreation, and services.

The CHAIRMAN. The tax money which the Government collects and pays out has the same effect?

Mr. BURR. Yes; but to what extent is that a direct contribution to normal business activity?

The CHAIRMAN. The payrolls of the Government contribute directly to normal business activity, do they not? You may quarrel with the size of them, but the payroll of the Government workers circulates the same as the payroll of any other person, and follows the same process that you have been describing, does it not? When the Government buys material, does it not stimulate the business of those with whom it deals?

Mr. BURR. Yes, but I am not arguing against that.

The CHAIRMAN. I am just wondering about how far your theory is applicable. Isn't it also applicable to the Government money which is taken in taxes and spent through payrolls and otherwise?

Mr. BURR. Do you mean to what extent is Government contributing directly to the same type of economic activity which I am describing in this testimony?

The CHAIRMAN. That is right. What is the difference in economic activity between the man who gets his check from the Government or the man who gets his check from private industry? I can give you a lot of argument on the subject, but I would like to have you give me some.

Mr. BURR. Well, I would like to offer this as a personal opinion. I think we seek to achieve the objective that, wherever possible, we may be able to reduce the amount of Government activity.

The CHAIRMAN. I will agree with you.

Mr. BURR. That would be required.

The CHAIRMAN. To the extent that it exists, what is the difference between the economic acitivity of the man on the Government payroll and the private payroll?

Mr. BURR. I don't think you can make any distinction.

The CHAIRMAN. And to the extent that it exists, the Government is a materials purchaser. Doesn't that stimulate industry just as in the case of things purchased by private industry?

Mr. BURR. Yes, it does, but again we get back to the point as to whether or not we don't want more of the activities of Government carried forward by private industry.

The CHAIRMAN. You are entirely right and there are some basic arguments against everything I have been suggesting, but I wondered what you would have to say on the subject.

Mr. BURR. I don't think you can make any basic distinction between the two.

The CHAIRMAN. Well, one of the basic distinctions is, Who has control over the citizen's pocketbook? Shall the citizen be allowed to spend his own money to the maximum degree, or shall a bunch of smart fellows here in Washington decide how the individual's money should be spent? That involves a whole lot of philosophy of Government which we won't go into on this occasion.

Mr. BURR. I think both the Ways and Means Committee and the Senate Finance Committee have certainly shown an inclination, as far as both parties are concerned, to reduce the amount of Government activity, and thus relieve the tax burden on the consumers.

The CHAIRMAN. Yes; I think that is true. The existence, as I see it, is usually a burden. If I could have my own way about it and could find an equally dependable substitute, I would like to get rid of all of them, but excise taxes are the most dependable, steadiest source of

income that the Government gets. Much more than income taxes, for example.

The CHAIRMAN. So those of us who have the responsibility for seeing that the Government gets enough money to operate on, we can't just say, because this might be an unfair tax or bears heavily on people, more heavily than some other kind of taxes, we can't throw the whole thing in the garbage can, in the absence of an alternative that will produce an equal or greater amount of revenue.

Mr. BURR. Of course, our basic recommendation at this point is not for repealing all excise taxes out at this point. The decentralization of activities begun under the present administration, to State and local governments, is in its extreme early stages, so that we have a considerable distance to go before you can see more opportunity for possibly elminating most Federal excise taxes.

Excise taxes do have an impact on the consumer price index which may make them a less desirable tax, even though they provide to the Federal Government a more stable level of income, and I think the advantages have to be balanced against the disadvantages and gaged to see whether it is more satisfactory for the Government to continue or repeal most excise taxes.

Senator GEORGE. As I understand you, you are not opposing this tax bill, but you are saying that it is not selective enough, and therefore it is discrminating, as between items that are still subject to the excise tax, particularly in the field of electrical appliances and gas and water heaters, et cetra. Refrigerators, and so forth.

Mr. BURR. That is right.

Senator GEORGE. I think that is a very just criticism of the bill. It is not discrminating enough and it was not selective enough. The Ways and Means Committee seems to have applied some arbitrary formula in trying to cut them all down to, say, a 10-percent basis, and in doing that, of course, they overlooked other taxes that had been previously imposed that possibly should have had equally lenient treatment by the committee. I think that is the chief criticism that you can make. That is, that it is not selective, and not being selective, it necessarily is putting the emphasis on a lot of articles and a lot of products that don't have too much to do with the economy, or at least have a more restrictive influence on the economy, than some other things which could have been handled in this bill.

Mr. BURR. Of course, the term "selective" frequently, as it applies to excise tax, has a connotation which is not favorable. If the Ways and Means Committee had selected another formula—they had their difficult problems in selecting a formula which was simple and readily understood and justifiable—if it had selected a formula of cutting excise-tax rates by a uniform percentage, all retailer, manufacturer, and miscellaneous taxes, maybe the committee would have come out with a bill that would have eliminated the problems I am speaking about.

Senator GEORGE. Yes. Well, that is what I had in mind. I think there are some notable omissions in taxes here that should have been reduced in the interests of the whole economy.

However, Ways and Means had this difficult job and we don't understand that you are opposing what has been done so much as those things that were omitted.

Mr. BURR. We do have toward the end here—and I only have about 3 or more pages, triple-spaced—2 recommendations which you may wish to consider. Shall I continue?

The CHAIRMAN. How long will it take you?

Mr. BURR. It will take me about 5 minutes.

The CHAIRMAN. Let us have it.

Mr. BURR. H. R. 8224, however, offers no stimulation to the economic activity of these key industries. Yet in 1947 their employment level, their value added by manufacture, their expenditures for new plants and equipment was approximately four times greater than the same figures for the following manufacturing groups which have been granted relief under the bill: Fur; electric lamps; costume jewelry; precious metal jewelry; pens, pencils, and crayons; photographic equipment; silver and plated ware; sporting and athletic goods; toilet preparations; watches and clocks.

Unfortunately, the source figures were not in sufficient detail to provide segregated figures for luggage, pistols, and revolvers. These figures, furthermore, do not cover the transportation and communication industries and the amusement industries. With reference to transportation and communications it should be noted that:

1. While personal consumption expenditures for transportation was $22.5 billion in 1952, $19 billion—almost 85 percent of that amount and 8.7 percent of all consumption expenditures for that year was for user-operated transportation—the taxed automobiles, tires, tubes, gasoline, and lubricating oils—items for which no immediate relief is offered.

2. Approximately two-thirds of the relief proposed on communications is on cable, radio, telegrams, and long-distance telephone which is of little significance to the low-income groups.

May we again thank you for the opportunity to appear before your committee and for your careful consideration of the statement, and our recommendations that the Senate Finance Committee:

1. Consider amending H. R. 8224 to provide for a reduction from 10 to 8 percent, a 20-percent reduction in tax rate, in the manufacturer's excise taxes imposed on refrigerators and freezers and air-conditioners, section 3405, and the manufacturers' excise taxes imposed on electric, gas, and oil appliances, section 3406 (a) (3); and the manufacturers' excise taxes on radios and televisions.

2. Consider carefully whether comparable reductions might not be given to consumer purchase of other products upon which an excise tax is imposed at the manufacturer level, possibly even to the extent of amending H. R. 8224, so that the rate reduction on all retailer, manufacturer, and miscellaneous excise taxes would be identical—a 20-percent rate reduction.

The CHAIRMAN. You can see that if you try to make a completely, logical, selective tax on all of the items involved in excise taxes, you get into a mental problem that the human mind is not capable of dealing with.

For example, if you started to make a completely logical balance between the taxes imposed on cigars and cigarettes, just start out and take that as an example, and you are going to take up a completely logical difference between those two taxes, it would be a pretty diffi-

cult job. When you start to compare the logic of tax on fur and the logic of tax on refrigerators, and take all the factors into consideration to consider them logically, you would find that a pretty difficult job.

Mr. BURR. There is no question about that, and it is a very difficult job that faces both your committee and the Ways and Means Committee.

The CHAIRMAN. That doesn't mean you should overlook every degree of commonsense and logic, but I say if you take every excise tax at this time, and try to place each one in relation to the other one, I think it would be attempting an impossible job. It would be impossible.

Take the difference in the impact of the tax on cigars and cigarettes. Just sitting here, you will find complete injustice between those smoking products.

How would you ever face the job and what would be your criteria for setting up your respective judgments.

Take that with every product all the way along the line. Remember everything sold in the American market is in competition with everything else. Your iceboxes are in competition with shoes and with the theater and with everything else.

Now, you are sitting down and trying to figure all those things out. I suggest to you there is no way to do it, except a method that in its essence is more or less arbitrary but which, of course, should be as little arbitrary as possible.

Mr. BURR. If the Federal Government can get to that stage of its revenue picture and the decentralization to the States and local government of its activities, where it could turn over to the States all the excise taxes, then you wouldn't have that problem.

The CHAIRMAN. That is right. The States would then have it. They would have the same problem exaggerated, probably. Then, you would have 48 States, each with a different set of excises, and just imagine the arguments you would hear, how one set of taxes competes unfairly with another set of taxes in another State and so forth and so on.

There is a lot of feeling about this business of shucking off.

In my estimate, not many of them are going to be shucked off.

Mr. BURR. The Canadian National Government and the Provinces have made some achievements in that direction. Again, of course, you probably feel it is in the realm of theory, but I think some of your national tax associations have been thinking in those terms and have been attempting to work up a procedure.

The CHAIRMAN. We have a special commission set up to study that subject and I am very interested in seeing what they come up with and then it will be more interesting to see whether it comes in being.

Off the record.

(Discussion off the record.)

The CHAIRMAN. On the record.

Mr. BURR. There have been groups other than retailers that are opposed to a broad based Federal excise tax.

There have been manufacturers' groups such as the Illinois Manufacturers' Association and our own group, which are opposed.

The CHAIRMAN. I think you have some items which I think I have overgeneralized as we do sometimes in these things. I think there

are some items where the tax would not compound, where the item is in high competition and has a markup big enough so that a fellow scrambling for business will say "We will knock off this tax," but that is only where you have very strenuous competition and where there is a big enough markup so that you can knock it off, just as you might knock off any other element of cost, if in the end you had enough writeup.

Mr. BURR. That is the point.

The CHAIRMAN. I am told that in the automobile business the tax is fixed at the manufacturers' level and it goes right on through.

Mr. BURR. I don't know how the EOH, used on automobile sales invoices, is calculated. Do you happen to know, Mr. Stam? EOH includes not only excise taxes but also transportation and some other items. I don't know how those items fluctuate within the EOH.

Mr. STAM. I don't know what the other charges are, but the tax itself is paid and the consumer knows definitely what that tax is on the automobile.

Senator BENNETT. Under the law of the sales form on which the consumer buys the automobile, it has to have the tax spelled out in it, so that it does pass on through, but it is quite a complicated process which you could not repeat, with thousands and millions of items.

The CHAIRMAN. One time when this thing was under discussion someone pointed out high-priced jewelry where there is enough markup, where it would not necessarily follow that a base tax at the beginning of the process would carry through. If there were competition and the markup is broad enough, the fellow to get business would say, "Well, let's knock out this tax," just as he might knock out any other cost.

Senator BENNETT. When a man sets out to cut a price for whatever value he may achieve from the sales argument he uses in cutting out the price, he will say, "I'll knock out the tax." He might equally say, "I'll absorb the freight," or he will do anything else that is involved.

The CHAIRMAN. I don't think we are moving this boat any. Much obliged for your testimony.

Mr. BURR. Thank you very much, indeed. It was a privilege and a pleasure to appear before the committee.

The CHAIRMAN. The committee has a telegram from Governor Williams of Michigan which concludes, "In order to present adequately the position of our people in this matter, I would appreciate the opportunity to appear before your committee in person. I believe I can make a good case for terminating the automotive excise tax under consideration."

The whole wire will be put in the record and the committee will consider whether it wishes to hear any further witnesses.

(The wire referred to follows:)

LANSING, MICH.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building:

H. R. 8224, the tax bill which deals with excise taxes, has recently passed the House and will be before your committee for consideration within the near future.

During the Ways and Means Committee consideration of H. R. 8224, I addressed a communication to the Honorable Daniel A. Reed, chairman, pointing out that failure to include in this measure a reduction in excise taxes on automobiles was a serious omission.

At a time when efforts are being made to stimulate consumer purchasing power, the failure to recognize the important part played by the automobile industry is a serious oversight. The automobile, at present, is not a luxury in our modern economy but a necessity. At a time when over 214,000 men are out of work in the automobile industry, the reduction in excise taxes which was scheduled to go into effect automatically on April 1, 1954, would be a very effective stimulant to the sale of automobiles and the consequent increase in employment.

It is my respectful request that your committee reconsider the House action on H. R. 8224 and include a reduction in the excise tax on automobiles.

In order to present adequately the position of our people in this matter, I would appreciate the opportunity to appear before your commitee in person. I believe I can make a good case for terminating the automotive excise tax under consideration.

G. MENNEN WILLIAMS,
Governor of Michigan.

(See letter, p. 304.)

The CHAIRMAN. Is there anyone in the room who has been overlooked as a witness?

We appear to have exhausted all the witnesses who wanted to be

We will meet again at 10 o'clock tomorrow morning.

We will meet again at 1 o'clock tomorrow morning.

(By direction of the Chairman, the following is made a part of the record:)

JOINT STATEMENT BY COL. H. A. COLE AND PAT McGEE[1] IN BEHALF OF THE COUNCIL OF MOTION PICTURE ORGANIZATIONS, INC.

We appear before this committee as representatives of the Council of Motion Picture Organizations, Inc., a New York corporation established in 1950 by the 10 principal organizations in the motion-picture industry, representing all divisions and elements in the business.

We are authorized to state to this committee that the motion-picture industry, as represented by our constituent organizations, is grateful to the House of Representatives for the passage of H. R. 8224, which is calculated to reduce the present admission taxes from 20 percent to 10 percent.

We do not wish this submission to be interpreted in any sense as ingratitude for the work that the House Ways and Means Committee and the House of Representatives have accomplished in forwarding this bill to this committee. But we would be remiss in our duty to our industry and to you if we did not call to your attention certain features of this legislation that fall short of the announced intention of the House and the Senate last year to save the motion-picture industry from impending disaster.

I

We first address ourselves to a technicality. H. R. 8224 was intended to reduce the 20 percent admission tax to 10 percent. This was established by a press release (copy appended) exhibit A, of the House Ways and Means Committee of March 3 and of the supporting addresses by the Honorable Daniel Reed and others on the floor of the House. A scrutiny of the bill, and this we state after consultation with officials of the Joint Committee on Internal Revenue Taxation, has indicated that the bill as phrased, and through inadvertence, is not designed to reduce the admission tax from 20 percent to 10 percent but by reversion to a prior statute has spelled out the admission tax reduction to be at an effective

[1] Colonel Cole is a member of the board of directors of Allied States Association of Motion Picture Exhibitors, and Mr. McGee is a vice president of Theater Owners of America, both constituent members of the Council of Motion Picture Organizations.

rate of 1 cent on each 10 cents or fraction thereof. This would make an effective rate considerably in excess of 10 percent on admissions and in this respect would partially defeat the purpose of the bill. We have brought this matter to the attention of Mr. Colin Stam of the Joint Committee on Internal Revenue Taxation and he has indicated that he is in complete agreement that this error in drafting should be corrected.

The purpose of H. R. 8224 can be accomplished by a simple change in the phraseology as affecting section 1700 (a) of the Internal Revenue Code so that the applicable phrase will be "1 cent for each 10 cents or major fraction thereof."

II

In addition to this technical correction we must urge on this committee most serious consideration of the condition in which the motion-picture industry finds itself today. We have expressed our gratitude for the relief provided by H. R. 8224 in its present form. We are greatly disturbed, however, that the House of Representatives felt that it was unable to consider the plight of many small theaters of the Nation for which it and this committee and the Senate overwhelmingly, at the last session, voted complete relief. Despite the relief offered in H. R. 8224 we must bring to your attention with all the vigor that we can command, the fact that the reduction to 10 percent will fail to save in this Nation 4,820 theaters which are now operating at a rate of loss in excess of 10 percent of their gross. We feel free to bring the plight of these theaters to your attention because they are spread throughout every State in the Union; and of this total 2,300 towns are represented wherein the theaters is the only theater and its loss would mean the complete absence of motion-picture entertainment to those communities. All of these theaters charge 50 cents or less. We do not propose in this brief statement to burden you with voluminous statistics. We have filed with the Treasury Department and with the Joint Committee on Internal Revenue Taxation complete documentation of the statements that we make here rather conclusively. Briefly, they are as follows:

As of last July 1953, approximately 5,100 theaters were operating at a loss. Since that date, 1,200 theaters have gone out of business, and approximately 2,100 additional theaters have become distressed. The figure, today, is: 6,127 theaters are operating at a loss in this country. H. R. 8224, in reducing the 20 percent admission tax to 10 percent, will relieve approximately 1,300 of these theaters, leaving 4,820 theaters in the red. These theaters presumably will close their doors. Of these theaters, 95 percent charge admissions of 50 cents or less.

We can state with assurance that all of the 6,127 theaters presently in distress have remained open since last July on the hope that this present Congress would grant them adequate relief. They took this comfort from the President's veto message of the Mason bill (H. R. 157) when the President stated that he would recommend to the Congress a reduction in the admission tax in January. We must feel that the President intended his recommendation would be adequate to save the small theaters. It is our conclusion that while H. R. 8224 accomplishes much toward the salvation of some theaters, its terms do not reach the large segment of theaters to which we now refer.

We suggest a solution to the problem:

The exemption of all taxes on admissions where the charges are 50 cents or under. This relief would be directed and almost entirely confined to theaters in small towns and children's admissions.

We are appending hereto, marked "Exhibit B: General Summary of United States Theater Situation" which outlines in some detail the inadequacy of relief as afforded by H. R. 8224 on a national basis. We are appending, marked "Exhibit C: Summary of United States Motion Picture Theater Situation by States." These figures are honestly revelatory of the situation in which the motion-picture industry finds itself and we invite your attention to the State tabulation, particularly, for this tabulation will be consonant with the facts as each of you know them to be in your home State.

We do not wish to belabor this committee with argument. Each member of your committee, by his record, has shown an active sympathy for the small town theater. We represent all types of theaters—theaters in Times Square and theaters on Main Street. No theaterman anywhere will deny the importance of these small town and neighborhood theaters. Their social value may even transcend

their economic value. The small town theater must not pass out of the community scene. We regret the circumstances that have caused the House of Representatives to pass H. R. 8224 with such rapidity. We understand these circumstances. Our plea to this committee is to render this effort on the part of the Congress to relieve our business, even more effective, by the inclusion in this bill of the provisions that we outline. We urge the members of this committee to consult with the staff of the Joint Committee on Internal Revenue Taxation and with the Division of Tax Research of the United States Treasury for verification of all facts that we have offered.

EXHIBIT A

[From release by Committee on Ways and Means, March 3, 1954]

Chairman Daniel A. Reed (Republican, New York) announced today that the Committee on Ways and Means had agreed to the provisions of H. R. 8150. The committee made one technical amendment relating to effective dates.

A clean bill will be introduced tomorrow embodying this change.

The excise taxes which are reduced under the bill are:

	Apr. 1 rate	Present rate
Retail excises:	*Percent*	*Percent*
Jewelry	10	20
Furs	10	20
Luggage	10	20
Toilet preparations	10	20
Taxes on facilities and services:		
1. Admissions and dues:		
Admissions	(1)	(2)
Permanent use or lease of boxes or seats	10	20
Sale of ticket outside of box office	10	20
Cabaret tax	10	20
Club dues	10	20

[1] 1 cent for every 10 cents or major fraction.
[2] 1 cent for every 5 cents or major fraction.

EXHIBIT B

SINDLINGER & CO., INC.,
Ridley Park, Pa.

To: Council of Motion Picture Organizations, Inc.
Re Summary of Theater Situation in State of _____.

Original number of conventional theaters and drive-ins constructed in above-named State _____

Number of operations already closed in above-named State _____

Number of currently operating conventional theaters and drive-ins in above-named State _____

The financial status of the _____ operating theaters and drive-ins in _____:

Are now in distress under the present 20 percent admissions tax; or

Will still be in distress if the tax rate is reduced to 10 percent, for they are now losing more than half of what they are paying at the 20 percent admissions tax rate.

A 10 percent admissions tax rate could force closings of _____

Theater closings in the above-named State would then total _____

NOTE.—The above figures include both drive-in and conventional theaters. The confidential sources, methods, and procedures used to determine the above summary facts are made available to the Treasury and to the Joint Congressional Committee on Taxation. Facts concerning other States, as well as the entire motion-picture industry, are available.

EXHIBIT C

Summary of United States motion picture theater situation by States

State	Theaters constructed				Theaters closed				Open as of February 1954	Distressed theaters		If distressed theaters closed, closings would be—	
	Prior 1946	Since 1946		Total	1946 through April 1953	April 1953 through February 1954	Total	Percent closed		With a 20 percent tax	With a 10 percent tax	Total	Percent
		4-wall	Drive-in										
Alabama	290	9	99	398	61	17	78	19.6	320	106	83	161	40.5
Arizona	96	2	31	129	23	7	30	23.2	99	28	20	50	38.7
Arkansas	342	9	67	418	89	22	111	26.5	307	125	101	212	50.7
California	1,167	96	169	1,432	344	85	429	29.9	1,003	370	294	723	50.5
Colorado	210	9	46	265	33	16	49	18.5	216	57	42	91	34.3
Connecticut	196	8	27	231	28	18	46	19.9	185	48	36	82	35.5
Delaware	38	2	8	48	5	1	6	12.5	42	15	11	17	35.4
Florida	339	21	164	524	61	18	79	15.1	445	139	106	185	35.3
Georgia	350	12	129	491	86	29	115	23.4	376	155	127	242	49.3
Idaho	144	12	34	190	14	5	19	10.0	171	39	26	45	23.7
Illinois	980	14	120	1,114	314	113	427	38.3	687	182	129	556	49.9
Indiana	456	20	116	592	117	57	174	29.4	418	154	123	297	50.0
Iowa	504	24	60	588	99	71	170	28.9	418	99	71	241	40.9
Kansas	391	20	98	509	70	67	137	26.9	372	96	72	209	41.1
Kentucky	299	16	78	393	84	40	124	31.5	269	120	101	225	57.2
Louisiana	380	11	79	470	89	49	138	29.4	332	123	98	236	50.2
Maine	161	10	27	198	23	7	30	15.1	168	31	23	53	26.8
Maryland	257	10	23	290	70	25	95	32.7	195	14	5	100	34.5
Massachusetts	404	31	59	494	141	8	149	30.2	345	70	41	190	38.5
Michigan	684	41	99	824	193	56	249	30.2	575	180	136	385	46.7
Minnesota	475	14	41	530	61	39	100	18.9	430	130	99	199	37.5
Mississippi	276	12	59	347	61	15	76	21.9	271	111	92	168	48.4
Missouri	576	22	113	711	136	74	210	29.5	501	250	209	419	58.9
Montana	141	10	35	186	23	4	27	14.5	159	68	57	84	45.2
Nebraska	326	12	36	374	56	9	65	17.4	309	118	94	159	42.5
Nevada	45	3	5	53	9	2	11	20.7	42	8	3	14	26.4
New Hampshire	90	4	19	113	28	3	31	27.4	82	16	9	40	35.3
New Jersey	408	6	26	440	174	24	198	45.0	242	70	44	242	55.0
New Mexico	108	15	45	168	28	6	34	20.2	134	44	37	71	42.2
New York	1,311	26	121	1,458	343	77	420	28.8	1,038	350	266	686	47.0
North Carolina	485	16	244	745	89	36	125	16.8	620	256	204	329	44.2
North Dakota	194	8	14	216	28	8	36	16.7	180	33	21	57	26.3
Ohio	916	10	176	1,102	296	123	419	38.0	683	241	184	603	54.7
Oklahoma	508	4	114	626	127	39	166	10.0	460	245	206	372	59.6

Summary of United States motion picutre theater situation by States—Continued

State	Theaters constructed				Theaters closed				Open as of February 1954	Distressed theaters		If distressed theaters closed, closings would be—	
	Prior 1946	Since 1946		Total	1946 through April 1953	April 1953 through February 1954	Total	Percent closed		With a 20 percent tax	With a 10 percent tax	Total	Percent
		4-wall	Drive-in										
Oregon	245	1	62	338	52	16	68	20.1	270	103	86	154	45.2
Pennsylvania	1,237	19	184	1,440	278	140	418	29.8	1,022	342	271	689	49.2
Rhode Island	69	4	6	79	23	13	36	45.6	43	15	7	43	54.4
South Carolina	219	16	130	365	42	10	52	14.2	313	147	125	177	48.4
South Dakota	195	15	24	234	33	12	45	19.2	189	34	24	69	29.5
Tennessee	310	26	114	450	61	10	71	15.8	379	174	139	210	46.7
Texas	1,422	62	417	1,901	467	88	555	29.1	1,346	582	469	1,024	53.8
Utah	144	11	28	183	28	4	32	17.5	151	37	18	50	27.3
Vermont	68	6	21	95	14	3	17	17.9	78	31	16	33	35.4
Virginia	375	19	132	526	56	25	81	15.4	445	185	152	233	44.2
Washington	316	21	57	394	56	36	92	23.3	302	91	77	169	42.9
West Virginia	322	14	84	420	94	28	122	29.0	298	116	104	226	53.8
Wisconsin	426	18	55	499	70	21	91	18.2	408	140	130	221	44.2
Wyoming	61	2	23	86	9	6	15	17.4	71	28	23	38	44.1
District of Columbia	63	4	0	67	10	2	12	17.9	55	11	9	21	31.4
Total	19,019	807	3,918	23,744	4,696	1,584	6,280	26.4	17,464	6,127	4,820	11,100	46.7

The confidential sources, methods and procedures used to determine the above summary facts are made available to the Treasury and to the Joint Congressional Committee on Taxation.

Prepared by Sindlinger & Co., Inc., for the Council of Motion Picture Organizations, Inc.

STATEMENT OF LLOYD C. HALVORSON, ECONOMIST

If there is to be any tax reduction, the place to begin is in the automotive excise tax field. That is the consensus among Grange members everywhere.

Last fall at our 87th annual session, the National Grange delegate body adopted the following statement:

"The Grange maintains that the Federal budget can be and should be kept in balance except during all-out war, and urges Congress to oppose legalizing any further increase in the national debt beyond what may be required to care for expenditures authorized by Congress in previous years."

Tax reduction at this time means a bigger deficit than the $2.9 billion contemplated in the President's budget, unless the Congress can reduce Government expenditures to a lower level than in the President's budget. Our members are pleased with the reduction of Government expenditures that has already been achieved, but believe even more can and must be achieved.

Last fall the National Grange reaffirmed its long-established opposition to Federal automotive excise taxes as a means of securing funds for general revenue purposes. This opposition is predicated on the proposition that sooner or later Federal expenditures can be and must be reduced, thus allowing tax reduction without causing more deficit financing.

In view of the present level of governmental expenditures and projected budget deficit, the executive committee of the National Grange adopted the following policy when they met last January:

"The executive committee noted that while the President's budget proposal calls for $6.5 billion less expenditures in fiscal 1955 than in 1954, there is contemplated a budgetary deficit of $2.9 billion, largely because of tax reductions which recently went into effect and were voted by Congress last year. It was agreed that if budgetary expenditures cannot be further reduced, it would be sounder and more realistic to accept the deficit than to seek a return to the repressive tax rates in effect last year.

"In view of the cessation of inflationary pressures, it was felt that a budgetary deficit would not cause further depreciation of the dollar. Because of present unsettled economic conditions, it was decided the Grange would favor raising the debt ceiling to recognize the fact that if even a moderate recession should occur, tax receipts would fall off; and that to raise tax rates in such a period would serve to promote the recession.

"The committee decided to favor maintaining the present excise tax rates for another year because the emergency for which they were enacted is not yet over. They also decided to favor such tax revisions as clearly necessary to establish equity and feasible administration, but felt that the dividend credit should be postponed until budget expenditure could be further reduced.

"The committee reaffirmed the position of the Grange looking forward to a balanced budget and eventual beginning of public debt reduction. The Grange has historically opposed Federal automotive excise taxes and will seek their elimination first of all when the budget permits tax reduction."

As to elimination or reduction of Federal automotive excise taxes, we believe the tax on gasoline and oil should have the highest priority. Next should come the excise tax on tires, tubes, parts, and accessories.

Farming is becoming more and more mechanized, and for that reason the tax on gasoline, oil, tires, tubes, and automotive parts and accessories falls unduly heavy on farmers. In 1953 the cost of operating motor equipment on farms came to $2.3 billion. A large part was for farm production and subject to the Federal automotive excise taxes. It is generally considered undesirable if not unsound to have excise taxes on items that enter into cost of production; and in view of the present depressed farm-income situation, the tax further adds to the plight of the farmers and aggravates every serious national economic problem.

In most of the States, if not all, farmers get a refund on gasoline used for nonhighway purposes. It is not so for the Federal automotive excise taxes.

As inequitable as the automotive excise taxes hit farmers, that is not our main reason for asking their repeal as the first order of tax reduction. The main reason is the appalling inadequacy of our roads, highways, and streets. The States feel they have already pushed gasoline and oil taxes to the limit, and therefore cannot raise the additional money needed to get our highway program up to par until the Federal Government recedes from the excise tax on gasoline and oil.

We believe that the Federal automotive-tax field should be reserved to the States, and if this is not done, we either go along with inadequate roads which are a hindrance to commerce, and a hazard to life, or we will be forced toward

more centralization and federalization of our road, highway, and street program. The Grange has always recognized that up to a point it is logical to have some Federal coordination in our highway program, but beyond that point it simply becomes Federal aggrandizement and invasion of the sphere of the States with economic loss and bad political side effects.

There are some who would defend the Federal automotive excise taxes on the basis that the Federal Government is justified in having a highway user tax to raise the money for Federal highway aid. In the first place the Federal automotive excise taxes have been nearly four times the Federal highway aid, so this argument falls. In the second place the justification for Federal aid to highway bears little or no relationship to the amount on individual uses of the highway, the amount of gasoline, and oil used in his tractors and engines, and the number of tires, tubes, automotive parts, and accessories worn out. The Federal highway-aid program has three main justifications that are as significant to nonmotorists as motorists; and they are: (1) Facilitating the mails, (2) national defense, (3) facilitating interstate commerce. Some would add another: Facilitating education—that is adequate roads for school buses.

One of the earliest justifications for Federal aid was improvement on the postal road system. A free flow of commerce means much to consumers. It means more and better products moved from farms and factories to the doorsteps. It raises wages as it facilitates specialization in production and mars production With the danger of this country being attacked in case of war, the highway system becomes more and more important as a national defense and civilian defense measure.

It appears to us that it would be premature to cut taxes on the basis that we must do so to avoid a depression. Economic data indicates that the present recession is as yet largely an inventory liquidation phenomenon, and therefore it will be rather short-lived. Furthermore, if the recession should deepen, as it might, tax receipts would fall off quickly and the budgetary deficit would increase appreciably without any cut in the tax rates. Such a deficit would likely be deflationary enough.

Should the Congress decide, nevertheless, that tax cuts must be made to avoid a depression, we believe that a repeal or reduction of the automotive excise taxes would be the proper place to begin. In the first place these taxes hit farmers unduly hard and farm purchasing power has already been damaged to a dangerous and unfortunate degree. It has had repercussions in some segments of industry already.

Reduction or repeal of the automotive excise taxes would stimulate public works—namely road construction and improvement—in the States. It would stimulate automobile buying, an industry most likely to be hurt first by a deepening of the recession. It would encourage travel with stimulation to the petroleum business and tourist business. It would tend to bring truck freight rates down and thus encourage commerce and reduce the cost of distribution between producers and consumers.

The National Grange has a very brief policy on excise taxes in general. It is as follows:

"The Grange believes that taxing of property should be left to the States and local subdivisions, that sales taxes and excise taxes, except on liquor, tobacco, and other luxury items, should be left to the control of the States, and that the Federal Government should secure its taxes from incomes, tariff duties, and other sources of revenues."

This means we are opposed to a general Federal sales tax or a manufacturers excise tax.

What is a luxury item is a rather subjective determination, but there would be general agreement that many of the items presently subjected to the Federal excise tax rates, are not luxuries such as washing machines, refrigerators, luggage, and business machines.

The National Grange is opposed to the Federal excise taxes on transportation and communications. These taxes discourage production and commerce in undue proportion to the money they raise. They permeate the whole economy. One reason we have a great economy is that we have an outstanding transportation system that makes the United States one market that facilitates mass production and specialization according to natural or acquired advantages.

As stated before, we recognize that it may be impossible to cut Government expenditures enough to repeal or reduce many excise taxes at this time, but they should certainly be the first Federal taxes to be reduced or repealed when fiscal conditions permit.

SUMMARY OF STATEMENT OF CLINTON M. HESTER, WASHINGTON COUNSEL, UNITED STATES BREWERS FOUNDATION

The Federal excise tax on beer should be at the rate of $5 a barrel. Included in the present $9 rate is $3 imposed to aid in the prosecution of two wars long since ended. These increases were on top of a $1 increase imposed in 1940 for national defense purposes.

National beer sales reached 87 million barrels in 1947 and thereafter stopped increasing. In 1953 sales actually were 1 million barrels below 1947 and in January of this year showed a further decline of 10 percent. Per capita consumption since 1947 has dropped 9 percent from 18.4 to 16.8 gallons. This decline in beer sales since 1947 has occurred notwithstanding that population and consumer disposable income have both continued to rise.

Beer sales today would be upwards of 150 million barrels if the annual per capita consumption today were at the preprohibition consumption level of the areas in which beer could be sold.

The four $1 tax increases imposed by Congress have slowed down the growth of beer sales. Their cumulative effect has so increased the price of beer that it is difficult within 10 blocks of the Capitol to purchase a bottle for less than 35 cents—a far cry from the 10 cent bottle and the nickel glass of beer of a few years ago.

Beer is the workingman's beverage. It is not a luxury but rather a mass-consumed food item severed by two-thirds of the families in the United States and is exceeded in popularity by only milk and coffee. The excise tax on beer is a selective sales tax bearing most heavily on those who can least afford it.

A reduction in the excise tax would result in lower prices and greater beer sales. By the proceess of price "unpyramiding," the consumer will receive a price reduction greater than the tax reduction. Initial losses, if any, to the Government in excise revenue will rapidly be regained through improved earnings of the brewing and allied industries which would result in greater corporate and individual income taxes.

Four out of five tax returns show incomes under $5,000. The workingman will benefit far more from a reduction in the beer tax than he will in the reduction of the excise tax rates on long-distance phone calls, country club dues, furs, jewelry, safe deposit box rentals or transportation tickets. Relief to a large number of our citizens and a stimulation of business would follow from a reduction of the beer excise tax.

Informed members of the industry are certain that if Congress would permit at least the $1 excise tax to expire, increases in beer sales and stimulation of the brewing and allied industries will result in a total gain rather than a loss in revenue to the Federal Government as a result of the reduction in the tax.

STATEMENT OF CLINTON M. HESTER, WASHINGTON COUNSEL, UNITED STATES BREWERS FOUNDATION

Mr. Chairman and members of the Senate Finance Committee, my name is Clinton M. Hester. I am an attorney in the Shoreham Building this city and appear here today in behalf of the United States Brewers Foundation, 535 Fifth Avenue, New York City, for which association I have been Washington counsel for many years. This association was established in 1862 and has been in continuous operation since that date. It is probably the oldest trade association in the United States. It members manufacture over 85 percent of the beer produced in the United States.

There is another brewers association, composed of small brewers, which was organized in recent years and which is now known as the Brewers Association of America. Some members of the industry belong to both associations.

Twenty years ago I appeared frequently before this committee as Legislative Counsel for the Treasury Department. Thirteen years ago, in 1941, I appeared before this committee as counsel for the United States Brewers Foundation in opposition to a proposal of the Secretary of the Treasury to increase the beer tax $2 per barrel. This committee voted unanimously against any increase in the tax because it considered the tax on beer already excessive. The House Ways and Means Committee had previously, for the same reasons, voted unanimously against any increase in the beer tax.

We submit that the excise tax on beer should be $5 per barrel instead of $9. Included in the $9, the United States Government is today collecting $3 imposed

to aid in the prosecution of two wars which have long since ended. Indeed, these $3 are on top of a dollar which was imposed in 1940 for national defense purposes.

If Thomas Jefferson were here today, we are confident that he would favor a substantial reduction in the present excise tax on beer. This view is based on historical facts.

When Thomas Jefferson was President he was so convinced that beer encouraged moderation and aided public morale that he sent to Europe, and secured and brought to the United States the best brewmasters to teach the people in all of the States the art of brewing beer for public consumption.

From 1934 to July 1, 1940, the tax was $5 per barrel of beer. In 1934, the first full year following repeal, beer consumption was 32 million barrels. In 1940 beer consumption had risen to 53 million barrels. By 1947 beer consumption had reached 87 million barrels. Thereafter beer sales stopped increasing and by 1953 had declined a million barrels below 1947. Indeed, beer sales nationwide in January 1954 declined 10 percent below January 1953. This decline in beer sales since 1947 has occurred notwithstanding that population and consumer disposable income have continued to increase since 1947. Per capital beer consumption during this period has declined from 18.4 gallons to 16.8 last year, a drop of about 9 percent. This clearly shows that beer sales have not even kept pace with the growth in population, let alone the tremendous growth in consumer disposable income since 1947.

Beer sales should follow population and consumer-disposable income. This was the experience of the brewing industry prior to prohibition. At that time theoretical per capita beer consumption was 21 gallons annually. In that period about half of the population lived in wet areas and about half resided in dry areas. Taking this into consideration, beer consumption by those residing in the wet areas was actually 40 gallons per capita. Today only 9 percent of the population lives in dry areas. Therefore, had beer sales continued at the rate of 40 gallons per capita, sales today would be upwards of 150 million barrels annually. Instead, beer sales for 1953 were only 86 million barrels.

At the rate of $5 per barrel on upwards of 150 million barrels the Federal Government would be receiving annually as much if not more in excise taxes than it is receiving today at the rate of $9 per barrel. It would also be receiving much larger corporation and individual income taxes paid on increased earnings in the brewing and allied industries. However, Congress slowed down beer sales by increasing the beer excise tax to $6 in 1940, to $7 in 1942, to $8 in 1944, and to $9 in 1951. All four of these $1 increases were imposed for national-defense purposes. The last three $1 increases were imposed as temporary increases. Two of the latter have since been made permanent and the third $1 increase made in 1951 was to have expired April 1, 1954. As it passed the House and is now before this committee, H. R. 8224 provides that the 1951 $1 increase shall not expire until April 1, 1955.

The cumulative effect of these four increases in beer excise taxes on beer prices is illustrated by current beer prices in this city. In the numerous places where beer is sold within 10 blocks of this committee room, it is difficult to purchase a bottle of beer for less than 35 cents. This is a far cry from a few years ago when a bottle of beer could be purchased for 10 cents and a glass of beer for a nickel.

Beer is a mass-consumed food item, and taxwise should be treated as a food, and not as a luxury. It is served by two-thirds of the families in the United States and is exceeded in popularity only by milk and coffee. Beer is not a luxury, but a staple of the moderate-income family's market basket. Beer is actually considered a part of their daily diet. This fact is recognized by the Bureau of Labor Statistics, which includes beer along with other staples to compute its cost-of-living index. Any tax on beer has the same effect on the low- and moderate-income family as would a tax on many other foods.

The excise tax on beer is a selective sales tax and like all sales taxes bears most heavily on those who can least afford the tax burden. The workingman who consumes a bottle of beer pays as great a tax on his beer as the wealthy man. We need not point out that beer has long been known as the workingman's beverage because so many people in the lower- and middle-income groups consume and enjoy beer. These are primarily the people who pay the high tax on beer.

A reduction in the Federal excise tax on beer would result in lower prices and thus stimulate beer sales. The consumer will receive a price reduction considerably greater in amount than that of the tax reduction itself by the process of the

price being unpyramided. These lower prices will begin to stimulate beer sales almost immediately. This means greater employment in breweries as well as in plants of suppliers such as can, bottle and machinery manufacturers, steel mills, and coal mines. Farmers will also benefit from greatly increased purchases by brewers of barley, corn, rice, and hops.

Initial losses, if any, in Federal excise-tax revenue would rapidly be regained and, in addition, any improvement in the earnings of brewing companies, beer wholesalers, and beer retailers would be reflected in increased payments of corporate and individual income taxes. Since the Federal Government is, for all practical purposes, a 50–50 partner of the brewing industry, it follows that the Federal Government would share equally in the increased profits of the industry.

Beer, far from being a luxury item, has from the earliest days of our country been considered a nourishing food beverage. Indeed, in American history beer enjoys the honor of having come over on the *Mayflower*. A journal kept by one of the *Mayflower's* passengers tells that the landing at Plymouth Rock was made because "we could not now take time for further search or consideration; our victuals being much spent, especially our beere * * *."

When the Dutch bought Manhattan Island from the Indians in 1626 and began to develop the area in earnest, beer became an increasingly important product. The Dutch West India Co. recognized its importance in maintaining the morale of employees, just as three centuries later the War Labor Board, in 1945, ruled that beer is essential to public morale.

These early Americans of New England and New Amsterdam brought with them a culture which treated beer and ale as both beverage and food—a view which nutritionists take today.

The most famous of all brewers in early American history was Samuel Adams, Father of the Revolution. One of America's foremost defenders of the "Natural" rights of man, this patriot, who managed the Boston Tea Party was a signer of the Declaration of Independence, inherited the brewery from his Puritan father.

Not only were these brewers among our earliest patriots, but many of our most illustrious early Americans favored beer as a beverage. George Washington liked it well enough to have his own recipe, still preserved in his handwriting at the New York Public Library. Thomas Jefferson, James Madison, and Patrick Henry were others.

Madison and Alexander Hamilton both thought moderation would be encouraged by keeping taxes low on beer so as to keep its price down. In 1789 the Massachusetts Legislature went further. It exempted brewers from taxation for 5 years. During the same year, Madison, as a Member of Congress, urged a duty of 8 cents a gallon on foreign beer. He regarded beer as a temperate drink and felt that the duty would encourage brewing in every State of the Union. And, before Madison died, beer was being brewed in every one of the Original States and was proving itself a valuable factor in the Nation's economy.

William Penn, who brought the Quaker faith to America, had his own private brewery at his country manor.

All of us recall that President Franklin D. Roosevelt thought so much of the value of beer to public morale, that even before the repeal of the 18th amendment, he recommended and urged the Congress to enact legislation, to permit manufacture and sale of beer, which the Congress did in April 1933.

If the excise-tax reductions on luxuries made by H. R. 8224 are justified, the Korean war which has now ended, should not be continued beyond its expiration date of April 1, 1954.

If the reductions in the excise taxes on furs, jewelry, country-club dues, and like luxuries are justified, surely at least the emergency tax on beer, which is not a luxury, in all fairness to the workingman, should not be continued.

Since 4 out of 5 tax returns show incomes of under $5,000, it follows clearly that a great majority of consumers will not benefit materially from reductions in excise taxes on luxuries for they seldom use those taxed items—or not in great quantities—simply because they cannot afford them.

The workingman will benefit far more from a reduction in the beer tax than he will from a reduced excise tax on long-distance telephone calls of which he makes few if any, a reduction in the tax on the rental of a safe deposit box which he does not need because he does not have stocks, bonds, and securities which require safekeeping, a reduction in taxes on rail or plane tickets which he seldom if ever buys, or a reduction in the tax on luggage which he rarely purchases.

It is obvious from these illustrations that by and large the reductions made in excise taxes by H. R. 8224 will mean little if anything to the low-income group—the beer-consuming public. Genuine relief to large numbers of our citizens and a real stimulation to business are much more likely to result from a reduction in the beer excise tax—a commodity which is mass-consumed and which is served in the homes of two-thirds of our American families, and in even a higher proportion of the home of the low-income group.

Informed members of the industry are certain that if the Congress will permit at least the $1 Korean war excise tax to expire April 1, 1954, beer sales will be so stimulated and business in the brewing and allied industries so expanded that the Federal Government will gain rather than lose total revenue as a result of the reduction in the excise tax.

Thank you, Mr. Chairman and members of the Senate Finance Committee, for your indulgence.

AIR TRANSPORT ASSOCIATION OF AMERICA,
Washington 6, D. C., March 16, 1954.

Re H. R. 8224, the excise tax reduction bill.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D. C.

DEAR MR. CHAIRMAN: The scheduled airlines of the United States, which compose the membership of the Air Transport Association of America, have long urged, and will continue to urge, the complete repeal of the 15-percent tax on transportation.

This tax should be repealed because: (*a*) it discourages the use of the various forms of public transportation at a time when it is in the national interest to encourage travel by commercial carriers; (*b*) it discriminates against travel in the United Sates and to Canada, Mexico, Central America, and the Caribbean; and (*c*) it encourages tax-avoidance practices which result in disrespect for the internal revenue laws and increased business costs for the carriers involved.

(*a*) *Public interest requires immediate repeal of this excise tax*

The 15-percent transportation tax was enacted primarily to curtail civilian travel during Warld W'ar II. It is still curtailing air travel, although the public interest now requires the fullest posible increase in such travel. The Department of Defense has informed the airlines that 308 of their multiengined aircraft have been assigned to form the Civil Reserve Air Fleet, and that the fullest possible expansion of the airline fleet is vital to national defense since, in the event of war, additional military demands on the airline fleet will have to be met whatever they are. The increase in air travel which repeal of the 15-percent tax will bring about would greatly help the industry in financing the purchase of this equipment.

The cost of providing this Civil Reserve Air Fleet, and of keeping it ready for instant military use, is being borne entirely by the airlines. Repeal of the transportation tax, which would speed up expansion of the airline fleet, would be one of the greatest bargains which Federal Government has ever obtained.

While over 95 percent of the total volume of airmail is carried by airlines which do not receive Federal subsidy, some of the airlines, particularly the local-service airlines, now need such assistance. Removal of the 15 percent tax would greatly increase the traffic which these airlines carry, since they now compete with the private motor car to which the transportation tax does not apply. Every dollar of additional net earnings which repeal of the tax would bring to these carriers would result in an equal saving to the Federal Government, in reduction in subsidy payments to those carriers. Moreover, the earnings of the unsubsidized carriers would be greatly increased by repeal of the tax, with an accompanying increase in their income tax payments to the Government.

(*b*) *The tax is discriminatory*

The tax does not apply to travel to Europe, South America, and the Far East. It does apply to travel in the United States and to Canada, Mexico, Central America, and the Caribbean. There is no logic to this concept. Certainly there can be no defense for a tax which discriminates against our good neighbors to the south, and our equally good neighbor to the north.

(c) *The tax encourages tax avoidance practices*

As the tax law is now drawn, payments made in the United States for transportation are taxed differently than payments made outside the United States. In the latter case, only domestic transportation is taxable. This has led to the practice of purchasing, in border cities in Canada and Mexico, transportation from those points to points in the United States. While technically tax exempt, this travel is actually domestic travel, and should be so considered for tax purposes. This practice diverts business from the travel agents of this country. It also compels the airlines to pay commissions amounting to thousands of dollars a year to travel agents located in Canada and Mexico on sales that, but for these tax avoidance practices, would be made at airline ticket offices in this country.

For the reasons stated above, we feel strongly that the tax should be repealed. Of course, we support a reduction in the tax from 15 percent to 10 percent as a step in that direction.

There is a further step that can be taken at this time, with a very slight loss of revenue to the Federal Government, to correct the discrimination and tax avoidance referred to above. The distinction now contained in the present law between payments made in the United States and payments made outside the United States should be removed. The tax should be made to apply only to domestic transportation regardless of where purchased. Domestic transportation should be defined to include transportation between the so-called "border cities" in Canada and Mexico and points in the United States, so that the present tax loophole is closed.

There is attached a proposed amendment to section 3469 (a) of the Internal Revenue Code, which would amend that section along the lines indicated above. We urge the committee to include this amendment in H. R. 8224.

Respectfully,

S. G. TIPTON,
General Counsel.

Amend section 3469 (a) of the Internal Revenue Code to read as follows:

"(a) TRANSPORTATION.—There shall be imposed upon the amount paid within or without the United States for the domestic transportation of persons by rail, motor vehicle, water, or air a tax equal to 10 per centum [now 15 per centum under section 1650] of the amount so paid. As used in this subsection the term 'domestic transportation' means—

"(1) transportation which begins and ends in the United States, no part of which is outside the United States, Canada, or Mexico; and

"(2) transportation which begins or ends in the United States and, respectively, ends or begins at a point in Canada or Mexico twenty-five miles or less from the border between that country and the United States.

The term 'domestic transportation' does not mean—

"(1) round trip transportation, other than transportation included in clause (2) of the preceding sentence, between a point within the United States and a point outside of the United States;

"(2) transportation, otherwise taxable under clauses (1) or (2) of the preceding sentence, which is covered by a separate ticket or order but which is part of transportation from or to a point outside the United States, where it is definitely established, pursuant to regulations prescribed by the Commissioner, at the time payment for the transportation is made that the several portions of the trip are being purchased for use in conjunction with each other.

Such tax shall apply to transportation by motor vehicles having a passenger seating capacity of less than 10 adult passengers, including the driver, only when such vehicle is operated on an established line."

STATEMENT OF THE INTERNATIONAL UNION OF ELECTRICAL, RADIO, AND MACHINE WORKERS, AFFILIATED WITH THE CONGRESS OF INDUSTRIAL ORGANIZATIONS

The International Union of Electrical, Radio, and Machine Workers, affiliated with the Congress of Industrial Organizations, represents 400,000 men and women who are engaged in the manufacture of electrical machinery and appliances. Hundreds of plants, in which IUE-CIO represents the workers, manufacture essential household items such as television and radio sets, refrigerators,

ranges, and home-laundry equipment. All such electrical appliances are now subject to an excise tax of 10 percent.

The Senate Finance Committee is now considering H. R. 8224, which would reduce excise taxes in 1954 and 1955 by almost $2 billion. The only major industry presently taxed, which does not receive relief under H. R. 8224, is the household appliances. We urge that the present tax of 10 percent on household appliances be reduced to 7 percent.

We fail to see why excise taxes should be reduced on furs, jewelry, cameras, sporting goods, cosmetics, and admission to night clubs and rack tracks, while basic articles such as household appliances are ignored.

The electrical industry has been severly hurt by the present recession. This is reflected in the growing number of our members who are being laid off. In television and radio plants, for example, employment is down 25 percent.

With the growing unemployment in the household-appliances industry and the serious slump being suffered by manufacturers and retail-appliance stores tax relief is of urgent necessity.

If the excise taxes on home appliances are reduced from 10 to 7 percent, it will mean lower prices and a resulting stimulation of sales. The present problem is a lack of consumption which can be met by lower prices and greater purchasing power. It seems inconsistent to reduce the excise tax on durable goods such as automobiles, trucks, and auto parts while denying relief to the household-appliances industry. It should be noted that the electrical-appliances industry is suffering even more than the automobile industry. We believe that all durable goods presently subject to the excise tax should receive tax relief.

The current situation being of such a serious nature with unemployment growing daily, we urge that the excise tax on durable goods, including household appliances, be made effective as of April 1, 1954. H. R. 8224 as it is written would postpone tax reductions for automobiles and associated products until April 1, 1955. We feel that such a postponement would only contribute to the present recession. There is an urgent need for immediate action.

The Senate Finance Committee, by reducing the tax to 7 percent on household appliances such as radios, television sets, ranges, home-laundry equipment, and refrigerators, can rectify what we consider an oversight on the part of the House Ways and Means Committee when it drafted H. R. 8224. We feel that to refuse relief to this important industry will only serve to increase unemployment.

STATEMENT OF THE NATIONAL LICENSED BEVERAGE ASSOCIATION

BRIEF SUMMARY

Excise tax rates on alcohol beverages

Present economic situation of onpremise food and beverage industry (restaurants, taverns, hotels, bar cafes, and cabarets) requires retention of April 1, 1954, automatic reduction on these taxes. Consumer resistance and competition from illegally produced beverages have put the taxpaying, licensed retailer in a poor competitive position. Tax relief at this time would improve business, with a resulting deepening of the income-tax base of thousands of individual businessmen. If conditions will not permit reduction at this time, an April 1, 1955, termination date should be included in the law.

Cabaret tax

Reduction of this tax from 20 to 10 percent as provided in the bill is helpful to this industry, but the tax could be completely eliminated without detriment to Federal revenues. Federal collections from this tax declined steadily from 1946 to 1950; then rose slightly up to 1953, and in the current fiscal year are again declining. During the first 6 months of current fiscal year collections are only approximately 76 percent of what they were for the same period in fiscal 1953. (See p. 4.) Survey conducted by National Licensed Beverage Association indicates that if tax were eliminated 2½ times as many establishments would use live entertainment. Estimate is that present payrolls for music and entertainment would be doubled. Additional income tax collected on this payroll would more than offset the approximately $36 million that would be collected under the present rate.

STATEMENT OF JAMES J. DONOVAN, PRESIDENT, NATIONAL LICENSED BEVERAGE ASSOCIATION

Mr. Chairman and gentlemen of the committee, this statement is presented on behalf of the National Licensed Beverage Association, of which I am president. The approximately 45,000 members of this association are proprietors of restaurants, taverns, hotels, bar-cafes and cabarets. Appended to this statement is a list of the local and State associations affiliated with our national association.

We are the tax collectors for the Federal Government as regards excise taxes on alcohol beverages. As such, we are in direct contact with the taxpayers who are our customers, and we are first to feel the impact of buyer resistance to the taxes. Our margin of profit is small, so we must depend on volume sales. Any threat to this volume is a threat to our existence. Today, for every dollar taken in, the average well-run restaurant or tavern pays out 56 cents for food and beverages, 26 cents for wages, and 15 cents for such operating costs as rent, repairs, replacement, laundry, insurance, business taxes, and advertising. The 3 cents that is left to us we share with the Federal and State Governments in income taxes. The most recent Dun & Bradstreet report on this industry says that net profit before taxes amounts to only 2½ cents.

Since 1946, our share of the 2 to 3 cents, and the Government's share as well, has been threatened by a decreasing volume of sales. This decline was recognized by the Federal Government in its regulation of our prices during the period of price controls as we were the only industry which was given a price yardstick based upon our food and beverage cost per dollar of sales.

There are two principal causes for this decline which I would call to your attention. The first is consumer resistance to high-taxed beverages. Ounce for ounce, alcohol beverages cost more in an on-premises establishment than in one making sales by the package because of our high labor, equipment, and overhead cost. During the war years, restaurants and taverns sold 65 to 70 percent of all distilled spirits and now we sell only 30 to 35 percent.

The second cause of our decline in sales volume concerns the price advantage which has been given to the illegal product. To most people, illegal manufacture or moonshining connotes a backwoods operation for local consumption. However, to us it means an entirely different matter because these operations are now taking customers from the on-premise food and beverage industry throughout the country. Some time ago we reported to the Ways and Means Committee, as an example of this illegal competition, that police in Philadelphia were averaging 25 seizures per week from unlicensed premises of illegal liquor being held for retail sale. Such arrests may sound insignificant, but if you will consider that each arrest indicates a retail outlet in direct competition with the legal, licensed, taxpaying retailer, you will understand our concern with the present flood of bootleg liquor. Each of these illegal outlets has a price advantage over our members, not only in the amount of the tax, but in many other overhead items required only of the taxpaying retailer.

A tax reduction at this time on spirits would also improve our competitive position by lowering that part of our overhead cost due to financing necessary inventory. We pay the excise taxes in a lump sum through our supplier and then reimburse ourselves a penny at a time as individual drinks are sold. A tax reduction will decrease the dollar value of the necessary inventory and thereby reduce our financing cost. Keeping in mind the 2½ cents of the gross-sales dollar that we have for profit, I believe that you will see that the saving in inventory financing cost is an important one to us.

These savings—the tax and the cost of financing the tax—would be enough to be of considerable aid to us in our efforts to reverse the present trend of declining patronage. In our present competitive positions we need this help.

In the consideration of a tax reduction and its probable effect upon our retail industry, we would remind the committee that the several thousand retailers here concerned are also taxpayers under the provisions of the Federal income tax. It is obvious that an improvement in our business conditions will result in a deepening of the income-tax base so far as we are concerned and that as our individual businesses prosper so does the Federal revenues.

We ask that the April 1, 1954, automatic termination date of the present rates on alcohol beverages be allowed to take effect. We believe that the present economic status of the on-premise food and beverage industry is such that its well-being requires the termination of the so-called Korean rate. However, if consideration by the committee indicates that the present rate must be retained, we

earnestly request that a new termination date of April 1, 1955, be written into the law.

In addition to the excise taxes on beverages, the members of the National Licensed Beverage Association are very much concerned with the so-called cabaret tax. In discussing this tax, I hesitate to use the name "cabaret tax" because it has a tendency to bring to mind plush dine and dance establishments or elaborate rooms in our leading hotels with name bands, famous entertainers, society patrons, and gross revenues in large figures. Actually, the great bulk of the establishments subject to this tax are modest taverns, restaurants, and bar-cafes, owned and operated by men who work in the business themselves and use live music and entertainment in an effort to compete against home television and keep up what is now lagging public patronage. Just when we need entertainment most to compete against home television we find the rate of the tax so high and consumer resistance against it so great that entertainment is not available to us.

The fact that we are not using live entertainment is easily shown by the Federal revenues from this source. In 1946, the Federal Government received from this tax over $72 million. In the following 4 years the revenue dropped steadily [1] so that by 1950 the return was about 41½ million. In 1951 it rose by 1 million and by 3 million in 1952. In fiscal 1953 the revenues were up to just over 46½ million but during the current year they are apparently once more on a severe decline. During the first 6 months of fiscal 1953 collections were $23,896,000 but during that same period of fiscal 1954 collections have been only $18,095,000. If the pattern of the rest of the year continues as it is now, the result will be a new low in revenue collections from this tax. We submit that even though this tax is reduced by 10 percent by the bill under consideration that now is the time for a selective consideration of excise taxes and that a tax which results in decreasing revenues as has this one is a tax that is wrong in concept under present conditions and should be abolished in its entirety.

Normally, the elimination of a tax will result in a total loss of revenue from that source. We believe, however, that our industry would more than make up the loss of the $36 million that could be expected from the present rate on this tax. We are of the opinion that the use of live entertainment would be increased to an extent which would deepen the personal income-tax base far enough to more than make up the loss.

Our opinion in this regard is based upon a survey made among our members last winter. Statements concerning their use of taxable entertainment were received from 502 members in 9 States. Out of the 502 members, 156 stated that they are now using entertainment and paying the tax; 346 are not using such entertainment. Out of the 346 members not using entertainment, 126 stated that they are not interested in entertainment regardless of action on the tax, and 220 stated that they would use entertainment if the tax were eliminated. From this survey we find that if the tax were eliminated, that of the 502 members there would be 376 users of entertainment in place of the present 156. In the replies to our survey many of those now using entertainment stated that if the tax were eliminated their present entertainment programing would be changed either by using it more nights each week, more hours each day, or by enlarging their entertainment staff.

Taking this sampling as a cross section of our industry, it is clear that there would be a considerable increase in the employment of musicians and variety entertainers. The number of establishments using entertainment would be increased about two and a half times, although total employment would not be increased to this extent. It is to be noted that the present rate of tax has for the most part taken entertainment away from the smaller establishments, and if it was to be placed within their reach again the numbers of musicians and entertainers employed in each establishment would not be as large as it is in the establishments now using entertainment. We submit, however, that it is reasonable to assume an increase of 250 percent in the number of users of entertainment would result in at least a 100-percent increase in total entertainment payroll. This is the deepening of the tax base of the personal income tax to which I have referred and would be an important increase in national income which is now barred in order that the Government may collect approximately $36 million.

[1] Collections, admissions to cabarets, roof gardens, etc. (in round figures): 1946, $72,007,000; 1947, $63,500,000; 1948, $53,527,000; 1949, $48,857,000; 1950, $41,453,000; 1951, $42,646,000; 1952, $45,489,000; 1953, $46,691,000.

The elimination of this tax would have a direct effect upon the competitive position of the on-premise food and beverage industry. Those of us who now use entertainment would have an immediate 20-percent reduction in sales price of all food and beverage items and those not now using entertainment could use it as a means of drawing patronage. We believe that the Congress can, without detriment to the Federal revenues, give us the relief we seek. We ask that the 20-percent tax on cabarets, roof gardens, etc., be eliminated.

AFFILIATES OF NATIONAL LICENSED BEVERAGE ASSOCIATION

Arizona Retail Liquor Dealers Association, Inc.
Associated Tavern Owners of Brooklyn, Inc.
California Licensed Beverage Association
California Tavern Association
Chicago Tavern Owners Association
Colorado Retail Liquor Dealers Association, Inc.
Connecticut Restaurant Association, Inc.
Idaho Licensed Beverage Association
Illinois Tavern Owner's Association
Licensed Beverage Association of Illinois
Indiana Retail Alcoholic Beverage Association, Inc.
Maryland State Licensed Beverage Association, Inc.
Massachusetts Retail Liquor Dealers' Board of Trade
Michigan Table-Top Licensees' Congress
On-Sale Liquor Dealers of Minneapolis, Inc.
Minnesota Licensed Liquor Retailers, Inc.
Montana Licensed Liquor Dealers' Association
Nebraska Licensed Beverage Association
Nevada Licensed Beverage Association
United Licensed Beverage Association of New Jersey
State Restaurant Liquor Dealers Ass'n, Inc. (N. Y.)
North Dakota Beverage Dealers Association
Buckeye Retail Liquor Dealers' Association (Ohio)
Oregon Licensed Beverage Association
Retail Liquor Dealers of Pennsylvania
United Tavern Owners of Philadelphia
Rhode Island Retail Liquor Dealers' Association
St. Paul On-Sale Liquor Dealers' Association
South Dakota Retail Liquor Dealers' Association
Associated Tavern Owners of Utah, Inc.
Restaurant Beverage Association of Washington, D. C., Inc.
Wisconsin Tavern Keepers Association, Inc.
Tavern League of Wisconsin, Inc.
Wyoming State Retail Liquor Dealers' Association

MEMORANDUM

MARCH 15, 1954.

To: The honorable the Senate Finance Committee.

Re request of the Metropolitan Museum of Art, the Art Institute of Chicago, the Boston Museum of Fine Arts, the Toledo Museum of Art, and the University of Pennsylvania Museum for consideration of an amendment to the Internal Revenue Code to exempt purchases of artistic antiquities for exhibition or study purposes from excise tax on jewelry imposed by section 2400, when the purchaser is a public museum no part of the net earnings of which inures to the benefit of any private shareholder or individual.

The Deputy Commissioner of Internal Revenue has held that the jewelry excise tax imposed by section 2400 of the Internal Revenue Code applies to the sale by an art dealer of an art object containing precious stones or metals, even, though the object is an artistic antiquity and the purchaser is a public museum exempt from Federal income tax under section 101 (6) of the code. (See copy of letter attached hereto.)

The museums listed above, on their own behalf and on behalf of other nonprofit public museums and galleries in the United States, respectfully submit that the imposition of this tax to such purchases by them works a grave hardship, and is contrary to the generally accepted principle of exempting public educational instiutions from Federal taxation.

Artistic antiquities have long been exempt from customs duties. The exemption there applies to any importer, whether a museum, an art dealer, or a private collector. We do not suggest that such a broad exemption be granted in the case of the excise tax imposed by section 2400, but we earnestly request that an exemption be granted to nonprofit museums and gallaries, no part of whose net earnings inures to the benefit of any shareholder or individual. Such an exemption would be in conformity with those already granted these institutions under the Federal income tax (sec. 101 (6), I. R. C.), Federal estate tax (sec. 812 (d), I. R. C., see also sec. 863, as amended), and the Federal gift tax (sec. 1004 (a) (2) (B), I. R. C.).

The application of the jewelry excise tax to purchases by nonprofit museums not only imposes a drain on trust funds dedicated for educational purposes, but the tax in every instance is based upon a sale price largely determined by antiquity, rarity, and artistic merit rather than on precious metals or stones in the object. The tax is, consequently, a heavy burden on the limited purchase funds of a particular museum. Moreover, this tax does not produce much revenue because only a relatively small number of artistic treasures of museum quality are offered for sale.

If the Congress were to look with favor upon the granting of the exemption here sought, it might be done in either one of two ways: by an amendment to section 2406, the exemption section, or by an amendment to section 2400 under which the tax is imposed.

The former could be done by adding a new subsection (c) to section 2406, as follows:

"(c) for exhibition or study purposes when the purchaser is a public museum or gallery no part of the net earnings of which inures to the benefit of any private shareholder or individual."

The other alternative would be to insert in section 2400 immediately after the words "The tax imposed by this section shall not apply to," the following exception:

"objects of art when purchased for exhibition or study purposes by a public museum or gallery exempt from Federal income tax under section 101 (6) of the Internal Revenue Code,".

Respectfully submitted.

DUDLEY T. EASBY, JR., *Secretary.*

THE METROPOLITAN MUSEUM OF ART, *New York, N. Y.*

MAY 25, 1942.

COLLECTOR OF INTERNAL REVENUE,
New York, N. Y.

(Attention: Chief, Miscellaneous Tax Division, JS: JO.)

Reference is made to your letter of April 27, 1942, transmitting a letter dated April 10, 1942, from Brummer Gallery, Inc. A ruling is requested as to whether the retailers' excise tax imposed under section 2400 of the Internal Revenue Code, as added by section 552 of the Revenue Act of 1941, is applicable to antique articles made of, or ornamented with, precious metals or precious stones.

The tax imposed under section 2400 of the Internal Revenue Code is applicable to the sales at retail of all articles made of, or ornamented with, precious metal or imitations thereof. There is no provision under chapter 19 of the code which will exempt from the tax imposed thereunder any article referred to therein because of its antiquity. Also, any article is properly subject to tax when sold at retail if it consists of pearls, precious or semiprecious stones, or imitations thereof.

It should be noted that no tax under this section of the code will attach to the sale of articles such as monstrances or relic holders which are sold to be used in church services. However, where such articles are sold at retail as antiques or museum pieces, tax will properly apply.

D. S. BLISS, *Deputy Commissioner.*

STATEMENT OF SPESSARD L. HOLLAND, A UNITED STATES SENATOR FROM FLORIDA

Mr. Chairman, I appreciate the opportunity to file a statement in support of the repeal of that part of the transportation of persons tax which affects transportation to Central America and the Caribbean area. The committee will recall that the transportation of persons tax (sec. 3469, Internal Revenue Code) had its origin in the Revenue Act of 1941. The tax which was originally 5 percent, is now 15 percent, and in accordance with the provisions of section 3469 was levied upon the amount paid within the United States (including Alaska and Hawaii) for the transportation of persons both within and without the United States.

Section 8 (a) of the Excise Tax Act of 1947 (Public Law 17, 80th Cong.) approved March 11, 1947, amended the Internal Revenue Code to provide that "the tax shall not apply with respect to transportation any part of which is outside the northern portion of the Western Hemisphere," but transportation to Central America and the Caribbean is still taxable under the law. I feel that the complaints raised by the people of these areas against this unfair discrimination are justified, and it is my understanding that each of the countries concerned has urged our Department of State to repeal this tax.

Tourism is the only industry capable of meeting the problems created by the fast-growing population in the Caribbean area. As the committee knows, agriculture is limited in this area, and these countries are not highly industrialized, which requires them to import almost every type of manufactured product and makes tourism a major source of dollar income.

Mr. Chairman, we in Florida are impressed with the desirability of encouraging more trade with and travel to the Caribbean area and are disturbed by the fact that cruise ships are known to avoid making port in countries subject to the tax. Certainly it is difficult for the people in the affected countries to understand why no tax is charged for travel to Iron Curtain countries while a trip to Cuba or Haiti requires a 15-percent tax, and why a tourist who goes direct from the United States to Trinidad has a 15-percent tax added to his fare, but if he goes to Venezuela, 15 miles farther, no tax is required. Such discriminatory inconsistencies understandably create resentment in the minds of our good friends to the south and will not serve to enhance our present friendly relations with them.

The Randall Commission Report recognized the importance of encouraging tourism in the following words:

"It is clearly important to the economic and social development of the free world that the United States Government promote foreign travel. Increased travel abroad by Americans can make a substantial contribution over a period of time to increasing the dollar earnings of foreign countries. While tourist promotion should be primarily a private responsibility, the Commission appreciates that the Government cannot exercise its appropriate functions in respect to foreign travel at no cost whatsoever. There are many actions which the Government might take.

"* * * The President should direct the appropriate departments of the Government to encourage the promotion of tourism."

It is my understanding that the estimated total tax collected for transportation to the Caribbean countries and Central America, including Mexico, amounts to only $12 million annually. The bill before you today would reduce the tax from 15 percent to 10 percent, which would mean that only approximately $8 million per year would be collected under this bill from this source, and this is a small sum to pay to prevent increased resentment toward this country's tax requirements concerning our close and friendly neighbors.

I am convinced that the repeal of this tax would strengthen our position throughout the Caribbean area and Latin America, and I urge the committee to repeal the transportation of persons tax as it pertains to those areas.

THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS,
Washington, D. C., March 16, 1954.

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR MILLIKIN: May we call your attention for purposes of the record our statement made before the House Ways and Means Committee (commencing

on p. 2585) with regard to the excises on toiletries. Our brief is contained in part 4 (topic 40) entitled "General Revenue Revision."

We are conversant with the valiant effort the administration is making in order to give relief to the taxpayers and at the same time strive for a balanced budget. We are of the opinion that a reduction from 20 percent to 10 percent excise on cosmetics will be helpful in stimulating the economy. However, for the past several years the National Association of Retail Druggists have resolved in convention assembled that the excise tax on toiletries should be collected at the source; namely, the manufacturers' level.

In annual convention in Chicago, October 16, 1953, representatives of our 36,000 small independent retail druggists throughout the Nation reaffirmed their stand by adopting the following resolution:

"Whereas the collection of excise taxes at the retail level has created a constant state of confusion both in the minds of the retailers and the consumers; and

"Whereas no suitable nor practical method of accurately collecting excise taxes has been formulated, either by the Federal Government, the manufacturer, or the retailers; and

"Whereas it is a virtual impossibility for any retailer to handle collection of excise taxes in a satisfactory manner: Therefore be it

"*Resolved*, That the National Association of Retail Druggists attempt to obtain the proper legislation to establish the collection of excise taxes at the original source of supply."

With kind regards,

GEORGE H. FRATES,
Washington Representative.

STATEMENT OF DAL L. BRUNER, EXECUTIVE SECRETARY, IOWA STATE PHARMACEUTICAL ASSOCIATION, DES MOINES, IOWA

THE FEDERAL EXCISE TAX PROBLEM

Historical background.—Most Federal excise taxes have lost their original character as control and regulatory measures and have become primarily revenue producing laws. Many of these taxes were emergency measures hastily enacted into law with little regard to the long-range impact upon our economy and more specifically upon the special groups affected by each. Most of these acts contained self-terminating provisions keyed to the end of the war and temporary inequities did not appear important at that time. Now that our Federal commitments are so great it is apparent that these taxes will occupy a place in our revenue machinery for the foreseeable future, if not permanently. Accordingly long overdue corrections should be made before these taxes are woven permanently into our Federal revenue fabric.

ANALYSIS OF RETAIL EXCISE TAX ON TOILETRIES

As a revenue measure.—The district of Iowa recently conducted its first intensive enforcement program in this field during the 10-year period of the act. Examination of more than 300 retail drugstores in Iowa (approximately 25 to 30 percent of the total) produced a total of roughly $500,000 additional revenue. Although the examinations were made on a selected basis it is fair to assume that the amount of tax collectively unreported by the large majority of druggists not yet subjected to examination would at least equal the amount secured through examination efforts to date. Inasmuch as the examinations referred to herein were limited by law to 4 of the 10 years covered by the act, it is apparent that in Iowa alone between $2 million and $3 million of tax due under the law was not reported and paid to the United States Treasury. Projecting these figures on a national scale the loss of revenue in the drug field alone would be well in excess of $100 million. It should be borne in mind that this statistical approach completely ignores the vast additional retail outlets for toiletries, i. e., department stores, grocery stores, sundry shops, women's apparel shops, and the door-to-door salesmen who blanket this field throughout the Nation.

WHY THIS EXTENSIVE REVENUE LOSS?

Although the failure to accurately return this excise tax is not without "sin" in some instances it is equally true that this failure is not the result of any planned program of tax evasion. Rather it is a direct result of the following circumstances:

1. *Control problems.*—Excise taxable sales of nearly all druggists range from 5 to 10 percent of total sales, hence special control measures are needed to accurately collect, record, and report excise tax on such sales. Various methods have been used, i. e., writing the amount of tax on each taxable item, recording taxable sales in a special book, use of special accounting-type cash registers.

Regardless of the method employed, the druggist must rely on his clerical help to collect and record this tax. The wages and hours of drug clerical employees do not attract competent help. Turnover is high and the druggist is faced with the continuing problem of training new help. In an effort to tighten control over excise tax sales some druggists purchased accounting type cash registers at great expense only to abandon them later because they were too complex for his employees to master.

2. A further factor contributing to error is the wide divergence of opinion concerning taxable items. The constant addition and deletion of taxable toiletries makes uniform tax treatment of these items impossible.

3. The known lack of active tax enforcement in this field has provided an open invitation to careless reporting. A few retailers have exploited this opportunity for personal gain. Others have reluctantly joined as a necessary competitive measure. Still others (the vast majority) have been parties with neither knowledge nor design.

THE ECONOMIC ASPECT

On Government.—The present system requires returns from all druggists, sundry shops, department stores, grocery stores, and many individual sales people. Many of these returns are so small in revenue that they do not equal the cost of processing. The huge costs of processing are reflected in printing, addressing and mailing excise tax blanks each month to the various categories of taxpayers indicated above. (Returns now filed quarterly.)

The return "trip" of these completed returns entails even greater costs. The returns must be opened, numbered, examined for correctness, the remittance controlled, listed and deposited. Upon completion of these tasks the returns must be individually filed which involves labor, equipment, and space. In addition correspondence is required on most returns involving mathematical or other error.

The enormous cost of the present system could be radically reduced by collecting this tax at the manufacturer's level rather than at the retail level.

On the retailer.—Costs to the retailer in collecting this tax involve the training of personnel in the taxability of items, marking appropriate merchandise, recording sales and preparing monthly returns. Although it is difficult to place an accurate cost on these various processes, most druggists will agree that they impose an economic burden which would exceed $10 per month. On the basis of 50,000 druggists this cost would total $6 million per year, to this group alone.

ENFORCEMENT OF THE TAX

Present.—The limited manpower available to the Bureau of Internal Revenue for enforcement of the many Federal taxes has resulted in sporadic and scattered efforts in the retail excise tax field. In most collection districts no organized enforcement effort has been attempted during the 10 year period of the act. The requirements upon available man hours for income tax enforcement and other priority activities preclude any general effort in the excise tax field.

Result.—The obvious lack of enforcement has been an open invitation to careless reporting and collection as conclusively demonstrated by the program in Iowa. The scattered enforcement which has taken place has resulted in inconsistent treatment of taxpayers as between collection districts as well as categories of excise taxpayers within the same collection district.

Proposed.—If the collection of this tax is transferred to the manufacturer's level the volume of taxpayers would be reduced to a number which could be effectively controlled. An equally important factor in securing accuracy which

would result from the proposed shift relates to the control facilities available to the manufacturer in the form of established accounting systems.

ADDITIONAL FACTORS

The proposed change in collection method would equalize the tax to the buying public.

By item.—There are many divergent viewpoints on the taxability of certain items by the present volume of taxpayers. It is difficult and highly impractical to attempt to reach this large number with new rulings and changes as they occur. The limited number of manufacturers could be readily informed and a consistency established which was never possible heretofore.

REVENUE EFFECT OF PROPOSED CHANGE

A transfer of the excise tax on toiletries from the retail level at 20 percent to the manufacturing level at 20 percent would accomplish the following changes:

1. *To the consumer.*—A tax cut of approximately 50 percent (based upon average markups from manufacturer to jobber and jobber to retailer).

2. *To the government.*—(*a*) Based upon the findings discussed herein, the proposed transfer of excise tax on toiletries should produce as much revenue as under the present retail system.

(*b*) For the reasons heretofore discussed, the administrative costs in producing these revenue dollars would be radically reduced.

3. *To the druggist.*—Costs of operation would be reduced. It would eliminate the distasteful job of directly collecting excise tax which is camouflaged for other retailers as part of the manufacturer's price.

4. *To the manufacturer.*—Would assume a new burden of recording and paying excise tax. Numerically this group is very small compared to the retail category. In addition, he is equipped to do the job. It is not illogical to assume that the resulting tax cut to the consumer would stimulate sales and thus produce profits to the manufacturer which would exceed the additional costs of this tax shift to him.

WHY THE DRUGGIST?

There are literally hundreds of items subject to Federal excise tax at the manufacturer's level, for the obvious reasons set forth in the previous paragraphs.

WHY NOT THE EXCISE TAX ON TOILET ARTICLES?

The druggist merely handles, does not process.

His relationship to toiletries is precisely the same as that of the hardware dealer to power lawn mowers; the appliance dealer to appliances; and the sporting gods store to boxing gloves.

Why the distinction? Why the discrimination?

TRUCK BODY AND EQUIPMENT ASSOCIATION, INC.,
Washington, D. C., March 16, 1954.

COMMITTEE ON FINANCE,
United States Senate, Washington, D. C.

(Attention: Hon. Eugene D. Millikin, chairman.)

DEAR SENATOR MILLIKIN: The writer has been authorized by the officers and directors of the Truck Body and Equipment Association, speaking in behalf of the industry as represented by the membership of this association, to bring to the attention of the Committee on Finance, United States Senate, valid reasons for repeal of the current 8-percent Federal excise tax on truck bodies, truck equipment, parts, and accessories, for what we hope will be favorable consideration in your deliberations with respect to H. R. 8224, the Excise Tax Reduction Act of 1954, now pending before your committee.

The Truck Body and Equipment Association is a nationwide trade association composed of truck-body manufacturers, truck-equipment manufacturers, distributors of these products, and others related to the industry. Its membership includes firms located in all sections of the United States. The industry is recognized as one vital to our national economy, and based on established standards those firms so related are considered small business, the backbone of our American economic system.

The Truck Body and Equipment Association firmly believes that this tax should be canceled in its entirety. The industry represented by the Truck Body and Equipment Association bases its contention for elimination of this excise tax and the need for relief under this tax on the part of both manufacturer and consumer imposed under section 3403 of the Internal Revenue Code on the following basic facts:

1. Motortruck bodies, and motortrucks as such, can by no stretch of the imagination be considered a luxury. They must be recognized as an essential unit of production in this modern age wherein commercial transportation is as important as the food we eat, the homes in which we live, the clothing we wear, and the Nation's industries which make our way of life possible. They are something we just can't get along without. Truck bodies and the motortruck bring all necessities to us. The tax discourages the ready purchase and use of motortrucks and truck bodies and equipment and in so doing hampers and retards the industry, whereas its growth and prosperity should be encouraged.

2. Trucks are essential tools on farms. Motortrucks are today's "work horses" on United States farms, and farmers account for about 33 percent of all privately owned trucks in the United States. Trucks have given farm operators the opportunity to buy and sell in their choice of markets, and have provided a means for the speedy and timely marketing of perishable farm produce. As a time and labor saver, the truck is invaluable, since it performs innumerable hauling jobs both on and off the farm. Some 92 percent of all farm products reach their initial markets by truck transportation.

3. The tax can be justified only on a temporary or emergency basis. The tax was first enacted in 1932 at 2 percent as a temporary measure to meet the depression; it was increased to 5 percent in 1941 to meet defense needs; after the Korean outbreak it was further revised upward to the present 8 percent in 1951.

4. Excise taxes levied on trucks, truck bodies, and truck equipment discriminate against the manufacturers and against the users, because the tax is so highly selective, and represents a serious departure from the accepted tax policy of uniformity of treatment. Other forms of transportation, including streetcars, freight trains, aircraft, and ships are not subject to the tax. Trucks rank with the most necessary of industrial equipment, but machine tools, conveyors, and hoisting machinery are free from the excise tax. The same thing can be said of the construction industry where the truck is indispensable along with the bulldozer, tractor, crane, and cement mixer, but none of this construction equipment is taxed except motortrucks.

5. The tax is passed along to the consumer as a higher cost of doing business. It automatically penalizes the part of commerce borne by motortrucks which carry three times as much freight as the combined total hauled by all other forms of transportation. The class taxation of motortruck transportation is a burden from which competing forms of transport are free.

6. The tax constitutes over a prolonged period a threat to price, demand, and employment in the truck body and equipment manufacturing and related industries.

H. R. 8224 reduces to 10 percent certain excise taxes and continues for another year at present rates certain taxes due to expire on April 1, 1954. In the case of excise taxes on truck bodies, etc., the law now provides that the present rate of 8 percent automatically reverts to 5 percent effective April 1, 1954. We respectfully submit that the reduced rate would be an acceptable compromise on a temporary extension basis for 1 year in the event the committee feels the tax cannot be completely eliminated at this time because of the fiscal requirements of Government operation and to allow more time to reduce expenditures and lessen the need for the money raised by this tax to balance the budget.

Speaking for members of the Truck Body and Equipment Association, its officers and directors, and for myself, I appreciate the privilege of this opportunity of submitting, and your courtesy in receiving this statement. We sincerely hope that our expression of interest and concern in this matter will receive your favorable consideration.

Sincerely yours,

ARTHUR H. NUESSE,
Executive Manager.

STATEMENT OF R. E. JOYCE, CHAIRMAN, TAX COUNCIL OF THE ALCOHOLIC BEVERAGE INDUSTRY

My name is R. E. Joyce. I am chairman of the Tax Council of the Alcoholic Beverage Industry and vice president of National Distillers Products Corp. The tax council represents all branches of the wine and distilled spirits industry, including distillers, rectifiers, importers, wholesalers, hotel operators, package store retailers and tavern owners, operating more than 200,000 businesses and establishments.

In November 1951, in an effort to partially offset the Korean military expenditures, excise-tax rates were increased temporarily on certain commodities, which increases are due to expire on April 1, 1954. H. R. 8224, passed by the House on March 10, 1954, continues (with the exception of the tax on sporting goods) these temporary wartime increases for another year, while at the same time reducing the permanent excise-tax rates on other commodities whose tax was not increased in November 1951. This we feel is a discriminatory action; it nullifies the specific provision Congress placed in the present law and is directly contrary to the announced policy to revise our tax laws to remove inequities and discriminations. The bill would continue a tax on distilled spirits which represents 43 percent of the consumer's purchase price while reducing rates on most other commodities to a flat 10 percent, representing only 9 percent of the consumer's gross purchase price. The principle of equality in taxation cannot justify a tax on one commodity nearly five times as great as that levied on other commodities. In our opinion Congress should first remove the temporary excise increases imposed by reason of the Korean military activities as promised by present law before reducing the basic rate of other excise taxes not temporarily increased at that time.

Our statement of August 11, 1953, to the Ways and Means Committee is before you and we will not attempt to deal in detail with the factors—many of which apply solely to distilled spirits—which justify a reduction of the distilled-spirits rate. We do, however, want to point out that:

1. Past increases on distilled spirits have been heavier than on any other commodity. Since the repeal of national prohibition in 1933 the rate has been increased 854 percent. Since 1941 when taxes in general were first increased for defense purposes, our rate has risen 162.5 percent, contrasted with an increase of 45.5 percent on 44 excise commodities.

2. The Federal excise tax amounts to 43 cents of every dollar the consumer pays for an average bottle of whisky, and when State and local taxes are added this figure rises to 56 cents. This compares with 9 cents of the consumer's purchase dollar on those commodities granted relief by H. R. 8224. It is unfair to that portion of the public (over 60 million people) who purchase and use a single product, to force them to carry such a disproportionate tax burden, especially when we consider that two-thirds of the distilled-spirits excise tax is paid by persons with annual incomes of $5,000 or less.

3. Distilled spirits is the only commodity which has to compete with an illegal tax-evading industry whose growth has been stimulated by excessive taxes. Moonshining has been on a constant increase since 1946. Since that time still seizures have increased 63 percent. The capacity of seized stills has risen 120.4 percent, and the number of gallons of mash seized has risen 141.6 percent. Moonshining is no longer confined to the South. Government reports show still seizures in all areas of the country, and organized criminal gangs are operating stills with daily capacities of 1,000 to 1,500 proof gallons in the metropolitan cities of the North. Should there be any appreciable increase in unemployment, we can expect to see a much more rapid rise in the rate of moonshining, with a corresponding decrease in revenue from the Federal excise tax.

4. A reduction in the excise tax would reverse this trend and recapture some of the market lost to the moonshiner, a situation not possible with other excise-tax commodities. The business thus recaptured would move from a tax-free area to a tax-paid area, broadening the base for increased personal, corporate, social security and all other taxes, both State and Federal.

5. The combination of the high excise tax and increased moonshining has deprived the industry of the growth to which it was entitled during the past 10 or 11 years in a generally expanding economy. Compared with 1942, apparent consumption of distilled spirits in 1953 increased only 2.3 percent, yet over the same period commodity retail sales in general were up 81.7 percent, disposable income up 29.8 percent and personal consumption expenditures up 53.7 percent.

6. The increased gallonage of tax-paid distilled spirits which would result

from the removal of the temporary $1.50 Korean increase would result in additional revenue to the various State governments of approximately $27 million without the necessity of increasing any of the present State gallonage taxes. Realizing the importance of State revenue from distilled spirits, the legislatures of Nevada, Maryland, and Indiana have memorialized Congress to reduce the tax on distilled spirits. Officials of other States have expressed grave concern, and two national associations representing the alcoholic beverage control authorities of 45 States—men engaged daily in the control and sale of the product—have adopted resolutions urging Congress to reduce the Federal tax on distilled spirits.

As much as we decry the failure of the House to recognize these compelling reasons and grant a reduction in the distilled spirits rate, it is gratifying to note that they have provided in H. R. 8224 that the last increase of $1.50 should automatically expire on April 1, 1955. This in itself is an acknowledgment of the disparity between the present rate on distilled spirits and the adjusted rates provided in the bill on other commodities, and an expression of an intention to terminate this disparity at an early date. If your committee feels that the present condition of the Nation's finances is such that regardless of equity among industries and consumers it is essential for the present to continue the tax at the present rate of $10.50, we strongly urge that the provision of the House bill providing for the specific termination of the last increase of $1.50 on April 1, 1955, be retained.

In light of the foregoing and in fairness to the industry, its many thousands of stockholders and employees, and the general public, we earnestly urge your serious consideration of allowing the temporary rate of increase to expire as provided by the present law.

STATEMENT OF C. E. O'CONNOR, JR., VICE PRESIDENT, THE DIAMOND MATCH CO., NEW YORK, N. Y.

This statement, requesting a reduction in the manufacturers' excise tax on plain-stem wooden matches and paper-step matches from 2 cents per 1,000 matches to 1 cent per 1,000 matches in H. R. 8224, is submitted by the Diamond Match Co. The company operates match factories at Chico, Calif., Barberton, Ohio, Oshkosh, Wis., Cloquet, Minn., and Springfield, Mass., and produces both plain-stem wooden matches and paper-stem book matches.

TYPES OF MATCHES AND CONDITIONS IN INDUSTRY

The domestic production of matches is made up principally of three types: (1) Strike-anywhere or kitchen matches; (2) strike-on-box or safety matches; and (3) book matches with paper stems. Matches are produced by approximately 20 firms, with factories located in California, Illinois, Louisiana, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, New Hampshire, New York, Ohio, Washington, and Wisconsin. A majority of the plants are located in small cities, where their continuous operation is of great importance to the welfare of the community.

The consumption of matches has decreased sharply during the past 10 years. This is the more significant because during this period the number of smokers, the principal users of matches, increased much faster than the population.

The increase in the use of automatic lighters by smokers was given a great impetus during the war when our war effort required that practically all strike-on-box, and 35 percent of the book matches produced in the United States be distributed to the Allied armed forces and the civilian population in the Allied countries. This created a shortage of matches for the United States civilian consumers and, as a result, many people turned to automatic lighters and have continued to use them now when matches are again in plentiful supply. It should be noted that, while for approximately 20 years matches of all kinds have paid an excise tax which presently averages 17.5 percent ad valorem, automatic lighters, unless made of precious metals, were not taxed until 1951, and that H. R. 8224, as passed by the House of Representatives, reduced the tax on automatic lighters from 15 percent to 10 percent ad valorem.

The use of matches for kitchen and other household lights has greatly declined, due to the increasing use of pilot lights on gas ranges and water heaters, the electrification of both rural and urban dwellings, and the increased use of electric ranges and water heaters. This trend is bound to continue to the point where,

in the future, the use of matches for lighting kerosene lamps and kitchen-stove fires, the two major household uses, will be practically nonexistent.

As a result of these decreases in the use of matches, the match industry has not enjoyed the increase in business that normally would have accompanied the increase in population and in the use of cigarettes. Instead, the consumption of matches has declined and, in recent years, several factories have closed.

HISTORY OF TAX

A manufacturers' excise tax of 2 cents per 1,000 on wooden matches and one-half cents per 1,000 on paper-stem matches was originally effective on June 21, 1932 (Public Law 154, 72d Cong.). This tax was part of a general program to increase temporarily the revenue of the Government. At the same time the excise tax was imposed on matches, a manufacturers' excise tax was placed on toilet preparations, furs, jewelry, sporting goods, firearms, cameras, and other items, on which the rate would be reduced by H. R. 8224, as passed by the House of Representatives. The tax on matches was continued until the close of business on June 30, 1938, at which time it was discontinued under the provisions of Public Law 554 of the 75th Congress. Prior to World War II, when additional funds were needed to increase our preparations for defense, the tax was reimposed on matches, effective October 1, 1941 (Public Law 250, 77th Cong.), at a rate of 2 cents per 1,000 on both plain-stem wooden matches and paper-stem matches. This tax has remained unchanged since that date.

In considering the legislation which later became the Revenue Act of 1934, the Senate Committee on Finance was informed that foreign producers were coloring the stems of their matches and thereby decreasing the tariff duty nearly 75 percent since the duty on colored-stem wooden matches was on an ad valorem basis and plain-stem wooden matches paid duty on a specific rate basis. To offset this advantage to the imported matches, the committee recommended, the Senate approved, and later the House approved, an excise tax of 5 cents per 1,000 matches, effective May 11, 1934, on fancy wooden matches and wooden matche swith a stained, dyed, or colored stick or stem (Public Law 216, 73d Cong.). This rate was increased to 5½ cents per 1,000 matches, effective July 1, 1940 (Public Law 656, 76th Cong.), which rate is presently in effect. No reduction is requested in this rate, since it was enacted to lessen the advantages enjoyed by foreign producers of matches.

REVENUE COLLECTIONS

Internal-revenue collections from the manufacturers' excise tax on matches have recently been as follows:

Calendar year:	*Revenue collections*
1950	$9,728,194
1951	8,528,926
1952	8,698,934
1953 (not yet available).	

The above amounts include taxes cellected on imported matches with plain wooden stems and paper-stem matches which are taxed 2 cents per 1,000 matches.

The amounts also include the tax of 5½ cents per 1,000 matches collected on fancy wooden matches and matches having a stained, dyed, or colored stick or stem.

EQUIVALENT AD VALOREM OF THE TAX

The following table has been prepared using our current average selling price per case of matches in carload lots, and excise tax rates per case as established by the Internal Revenue Service.

Type of match	Manufacturers' price per case	Excise tax	Ad valorem equivalent
			Percent
Strike-anywhere (large boxes)	$7.80	$0.80	10.3
Strike-anywhere (penny boxes)	4.25	.60	14.1
Strike-on-box	4.25	.58	13.6
Book (resale)	4.80	1.00	20.8

In recent years, the use of strike-anywhere and strike-on-box matches has decreased at a greater rate than the use of book matches. No data are available to us giving the number of each type of match produced by domestic match manufacturers. Estimates, based on our own production and such other information as is available, indicate that the present production of the three types of matches referred to in this statement is approximately as follows:

Type of match:	*Percent of sales*
Strike-anywhere (large boxes)	20
Strike-anywhere (penny boxes)	5
Strike-on-box	12
Book (resale)	63
Total sales	100

Using the above tables, it is computed that the average manufacturers' excise tax on matches with plain wooden stems and book matches is approximately 17.5 percent ad valorem. As the match business is very competitive, it is believed that this average represents the average of the entire domestic match industry.

JUSTIFICATION FOR INCLUDING A REDUCTION IN THE TAX ON MATCHES IN H. R. 8224

The tax on matches is a discriminatory tax. The tax on cigarette, cigar, and pipe mechanical lighters, which are highly competitive with matches, is reduced from 15 percent to 10 percent in H. R. 8224 as passed by the House of Representatives. Matches should not be taxed higher than competitive items.

Matches are a necessity and used by people in all income brackets. Under H. R. 8224 as passed by the House of Representatives, the tax on matches would be much higher than the tax on jewelry, furs, cabaret charges, and other luxury items.

The domestic match industry is in a depressed condition. A reduction in the tax on matches will stimulate match sales and increase employment in many small communities.

A reduction in the tax on matches will increase the number of free matches given with tobacco and other purchases, and as advertising.

An excise tax was placed on matches in 1941, along with other items, as a wartime tax. The wartime tax on many of these other items is being reduced and matches should have equal treatment.

RECOMMENDATION

The manufacturers' excise tax on book matches and matches with plain wooden stems should be entirely removed at the earliest possible date. In the meantime, it is recommended, and urged, that the tax on book matches and matches with plain wooden stems be reduced to 1 cent per 1,000 matches by striking out "2 cents per 1,000 matches" in section 3409 of the Internal Revenue Code and inserting "1 cent per 1,000 matches." This can be accomplished by providing for such a reduction in H. R. 8224.

STATEMENT OF THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

SUMMARY

NADA representing more than 32,000 new car and truck dealers opposes continuation of automotive excise taxes at present levels (as provided in H. R. 8224) for the following reasons:

1. The automotive industry will be denied decreases promised and provided for in existing law.
2. The present threat to customer demand and employment in automotive and related industries will continue and grow.
3. Present discriminations will be perpetuated.
4. Lower income groups will be further penalized.
5. Glaring multiple taxation will be continued.
6. The Nation's mobility will be restricted.

NADA respectfully requests that the committee:

1. Seriously consider the removal of excise taxes on automotive products if possible, but in any event afford the automotive industry the reductions scheduled to become effective April 1.
2. Preserve the 1-year expiration date on any excise taxes on automotive products now contained in H. R. 8224.
3. Preserve the floor-stock-refund provisions now contained in H. R. 8224.

STATEMENT OF ALTON M. COSTLEY, EAST POINT, GA., CHAIRMAN, NATIONAL AFFAIRS COMMITTEE OF THE NATIONAL AUTOMOBILE DEALERS ASSOCIATION

This statement is submitted on behalf of the more than 32,000 enfranchised new car and truck dealer members of the National Automobile Dealers Association. NADA members sell approximately 90 percent of all new cars and 50 percent of the used cars purchased in this country.

We are speaking, also, in the interest of our customers—the farmer, the defense plant worker, the miner, the salesman, the doctor, the businessman—who depend upon the vehicles we sell and service for their livelihoods.

The Nation's new car and truck dealers are deeply concerned over the proposal (H. R. 8224) to continue at present levels excise taxes on new automobiles, trucks, parts, and accessories. We view with alarm this proposal which does not permit reductions in automotive excise taxes scheduled to become effective on April 1 of this year, particularly when this same proposal affords reductions in the taxes on many products which were not scheduled for decreases.

After the Korean outbreak, at the time automotive excise taxes were increased to present levels, Congress recognized the essentiality of the motor vehicle and the heavy tax burden already borne by cars and trucks and wisely stamped those increases as temporary. The automotive industry accepted the fact that these increases were necessary as an emergency measure and we had faith in the assurance that they would be reduced on April 1 of this year, as scheduled by law. Our industry and our customers had every reason to believe a much needed decrease would automatically take place on April 1, but now the rules are being changed.

We believe in a tax program fair to all. It does not seem fair to us, however, that in the interest of expediency the essential commodities we sell should be forced to continue to bear a disproportionate share of the excise tax burden.

It has been suggested that the House bill now under consideration was designed to stimulate the economy by providing a means for increasing consumer spending. The announced objective is to leave more money in the pockets of taxpayers and thereby strengthen business and the economy generally.

We ceretainly are in accord with this objective. However, we are at a loss to understand why the bellwether of the Nation's economy—the automotive industry—is denied the benefits of tax reductions to which it is entitled and which it was assured it would have.

The essentiality of the automobile and truck to the economic growth and well being of our country is unquestioned. One business in 6 is automotive, 1 out of $5 spent is automotive, 1 out of every 7 persons employed works in some phase of automotive transport. This means that the jobs of over 9½ million people depend upon the manufacture, sale, and use of automotive products.

Collectively the franchised dealers of this country provide employment for over three-fourths of a million persons and meet annual payrolls of more than $2½ billion.

The Nation's 54 million motor-vehicle users are extremely conscious of price trends affecting cars and trucks. Dealers are supersensitive to demand fluctuations. Over the past several months there has been a marked decrease in customer demand for motor vehicles. Dealers' stocks of new and used vehicles are increasing daily. Stocks of new cars on hand December 31, 1953, averaged 83 percent higher than at the end of 1952. Dealers' operating margins are decreasing at an alarming rate, the national average today has been reduced to almost one-half of what it was a year ago. The average margin of operating profit before Federal taxes for automobile dealers last year was only $2.20 for every $100 in sales. Our business needs a stimulant. Price reductions are necessary.

We believe that continuation of the present high excise taxes on an automobile—about $150 on a lower priced car—constitutes a threat to demand and employment in the automotive and related industries.

Buyer resistance has already caused curtailed employment in the automotive industry. Due to a marked increase in unemployment, Government recently declared Detroit to be a critical labor area.

Since excise taxes were first imposed on essential vehicles—the new car and truck—we have consistently urged that they be removed in their entirety or substantially reduced.

In registering our objections to the present proposal we wish to reaffirm that position. We have repeatedly pointed out to Congress that present excise taxes are particularly objectionable because:

1. They are discriminatory and unfair

Competitive transportation and industrial equipment are not similarly taxed.

Citizens who are dependent upon the motor vehicle are required to bear a disproportionate share of the tax burden.

Residents in the 25,000 communities without rail service and the 2,140 communities without streetcar or bus service are unjustly penalized.

2. They penalize the lower income groups

The vast majority of automobiles are owned by citizens in the lower income groups. These citizens are forced to pay a heavy percentage of all automotive taxes.

3. They are a glaring example of multiple taxation

Payment of taxes by an automobile owner does not cease with the purchase of the new vehicle.

Throughout the life of his car, he must pay both Federal and State taxes on all future purchases of gasoline and oil. Whenever his car needs repairs involving replacement parts or new tires and tubes, he will be paying additional excise taxes. Each year, of course, he will pay license fees and in many States sizable property taxes on his essential vehicle.

4. They restrict mobility

America is a nation on wheels. We regard this tax as a deterrent to mobility.

For these reasons, we are most strongly opposed to a continuation of the excise tax as it now applies to the automotive industry.

Therefore, we respectfully urge that this committee:

1. Seriously consider the removal of excise taxes on automotive products if possible; but in any event afford our industry the reductions scheduled to become effective April 1.

2. Preserve the 1-year expiration date on any excise taxes on automotive products now contained in H. R. 8224.

3. Preserve the floor-stock-refund provisions now contained in H. R. 8224.

AUTOMOBILE MANUFACTURERS ASSOCIATION,
Washington 6, D. C., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance, United States Senate,
Washington 25, D. C.

DEAR SENATOR MILLIKIN: In appearances before, and statements filed with, the Senate and House committees engaged in writing tax legislation, we have repeatedly opposed the existing structure of automotive excise taxes, for the reasons that:

1. They impede commerce by increasing the cost of moving goods and people;

2. They are an increasing threat to production and employment in the motor-vehicle industry and in supplying industries;

3. They are taxes that affect lower-income groups relatively more than other income groups;

4. They are discriminatory, since they are not imposed on competitive forms of transportation, on other goods which compete with motor-vehicle sales, or on other productive equipment;

5. They are unfair, as they place a relatively greater taxload on farmers, small-town people, and others who necessarily depend mainly or solely on automotive transportation;

6. They are an extreme example of multiple taxation.

These obviously are sound reasons for continuing to oppose the existing automotive excises. In fact, the warnings that we gave your committee in our last appearance before it that these excises would seriously affect production, sales, and employment are now proving true. One of every seven persons normally employed in the United States earns his living from the production, distribution, service, or use of the passenger car, truck, and bus. The threat to employment is becoming manifest by the fact that several automotive cities, including Detroit, have already been declared distressed areas by the Government.

Nevertheless, if the Senate believes that the present automotive taxes should be extended, a conclusion with which we are in disagreement, such extension should be definitely and unqualifiedly limited to 1 year, to wit, April 1, 1955, as is provided in H. R. 8224. Moreover, the provision made by the House for refund or credit of excise taxes on automotive vehicles in floor stocks on that date, as contained in H. R. 8224, should also be adopted by the Senate.

Despite our willingness to support a general manufacturers' excise tax in the past, the automobile industry wants the record to be clear that it continues to oppose the discriminations and inequities of the present excise taxes. The arguments we have advanced for repeal of the existing emergency and temporary taxes on cars and trucks, on repair parts and accessories, on tires and tubes, and on gasoline and oil have never been successfully challenged. We believe they are beyond challenge.

Sincerely,

A. E. BARIT,
Chairman, AMA Taxation Committee.

STATEMENT OF JAMES F. PINKNEY, GENERAL COUNSEL, AMERICAN TRUCKING ASSOCIATIONS, INC., WASHINGTON, D. C.

My name is James F. Pinkney. I am general counsel of American Trucking Associations, Inc. Our offices are at 1424 Sixteenth Street NW., Washington 6, D. C. American Trucking Associations is a federation of State associations representing all types of motor carriers of property, both for hire and private.

I wish to present a short summary of our views on the desirability of repeal or, at the least, reduction of (1) special taxes directed solely at users of highways and (2) the transportation tax on property.

We realize that the amounts of revenue derived by the Federal Government from these taxes are so great that we cannot reasonably expect all of them to be immediately eliminated, particularly in view of the desirability of a balanced Federal budget, but we sincerely hope that this committee will keep in mind in its deliberations the need for, and equities of a plan to grant relief from the burdens and inequities of existing highway users excise taxes and the transportation tax on property.

First let me point out that the trucking industry has paid to the States in registration fees, gasoline taxes, and other special levies directed at it as a highway user, many billions of dollars. In addition the trucking industry now pays into the Federal Government each year more than one-third billion dollars under the equipment and gasoline tax laws. These taxes just referred to are in addition to normal income and property taxes paid by the industry to the State and Federal Governments.

Insofar as most of the special State registration fees and gas taxes are concerned, the industry has no quarrel as it recognizes its obligation to pay its reasonable share of the cost of highway building and maintenance, as a user of the highways, and it of course recognizes its obligation to pay other normal taxes such as those imposed upon all business.

On the other hand the trucking industry is opposed, and justifiably so, to the payment of vast sums in special Federal taxes applicable to that transportation agency alone, which go into the General Treasury and from which all segments of the American economy derive equal benefits. A service so vital to the United States as that rendered by the trucking industry should not be singled out for the payment of these taxes, or, if these taxes are to be continued for general revenue purposes, there should be no exemption from them, such as the exemption now enjoyed by the railroads in their purchases of the taxed items.

In 1952 all trucks paid more than $375 million in Federal automotive excise taxes, including the Federal motor-fuel tax. The for-hire motor carriers of property subject to ICC regulation (class I, II, and III) spent more than $982

million in 1952 for items subject to the Federal excises. These carriers spent approximately $398 million for new equipment, $167 million for tires and tubes, $262 million for motor fuel, and $155 million for parts and accessories. Each of these expenditures was subject to the Federal excise taxes. The total expenditure of $982 million was 22 percent of the carriers' total revenue of $4.7 billion. It is doubtful if any segment of the transportation industry has so large a portion of its annual expenditures subject to these, or any special Federal taxes.

These automotive taxes really has been in the general category of luxury taxes assessed for the general support of Government. However, highway transportation has become a vital necessity and no longer can be considered a luxury. Moreover, on the State level the users of motor vehicles have been assigned the specific responsibility for paying the cost of highways, one of the most important and costly factors in State budgets.

Continuance of these Federal automotive taxes to meet real and imagined emergencies has been a primary factor in creating another emergency—the highway emergency. The magnitude of the financial burden placed upon motor-vehicle owners by these duplicating Federal taxes has made it difficult for the States to levy the taxes they need to solve the highway problem.

The effect on the trucking industry, already hard pressed taxwise by increasingly heavy and burdensome special State taxes is to reduce its operating ratios to a dangerously low level and thus to jeopardize the objective of the national transportation policy which provides, among other things, that it is the policy of Congress "to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers—all to the end of developing, coordinating, and preserving a national transportation system—adequate to meet the needs of the commerce of the United States, of the postal service, and of the national defense."

Obviously, too, these taxes operate to increase the cost of motor-carrier service to shippers and thus affect our entire price structure as practically everything that moves in commerce in the United States today moves in at least some part of its journey by truck. In passing I should also point out that the singling out of one form of transportation for Federal taxation peculiar to it and for general revenue purposes, unfairly affects the competitive situation in transportation. If these taxes are to be continued, the provision making them applicable only to the taxed items which are used on highways, should be repealed.

Secondly, I wish to comment briefly on the transportation taxes which apply to traffic moved by all forms of transportation.

This tax of 3 percent on property and 15 percent on passengers moving by for-hire carriers of all kinds is paid by the shipper or passenger, but the great burden and cost of its collection falls on the carrier. That has been a real burden in transportation, because of the tens of millions of shipments upon which the tax must be figured each year, and computed. This, in turn, operates to increase the overall cost of transportation in our total economy. This tax does not apply to shipments by the State and Federal Governments.

It has a history similar to that of the excise taxes just discussed. It started in 1932 and was applied first to the pipelines. In 1941 it was extended to passengers and in 1942 to property. It has been almost universally condemned by the tax economists and specialists and its repeal has been urged many times. The reasons for this feeling are:

1. These taxes were imposed as wartime excises and to curtail commerce, in many respects. These reasons for which they were levied in large part no longer exist.

2. They directly increase travel and shipping costs and their repeal would greatly reduce the cost of these vital services and aid to roll back prices generally and stimulate production.

3. The cost of collecting these taxes runs into many millions of dollars each year, which in turn weakens our transportation system and further increases the cost to the shipping public.

4. They discourage passenger travel and commercial shipping at a time when our economy needs stimuli to encourage domestic commerce.

As I stated at the outset of my remarks, we are aware of and recognize the problem that Congress faces today from both the defense standpoint and the standpoint of the need for a balanced budget. However, we do hope that Federal expenditures can and will be so curtailed that within the reasonably near

future it will no longer be necessary for Congress to drain off from one of America's most vital services the tremendous sums involved in all of the taxes I have discussed here today.

STATEMENT OF LEIF GILSTAD, FIRST VICE PRESIDENT, TRANSPORTATION ASSOCIATION OF AMERICA

The Transportation Association of America believes that the excise tax on transportation—the 15-percent tax on passenger travel and the 3-percent tax on transportation of property—should be repealed.

The association, which represents users and investors of transportation as well as carriers, favors repeal of the excise tax on transportation for the following reasons:

1. It is a tax on a necessity, not a luxury.
2. It is a tax on the flow of commerce, not a tax on goods.
3. It pyramids the cost of living by adding to the transportation costs at successive stages of manufacturing, marketing, and distribution.
4. It increases the burden on users who can least afford it in a competitive market.
5. It discriminates against for-hire transportation in competition with private transportation.
6. It favors travel in foreign countries as opposed to travel in the United States.
7. It undermines the for-hire transportation industry, the lifeline of our economy.

It is our hope that your committee will give favorable consideration to this subject.

GENERAL ELECTRIC CO.,
Nela Park, Cleveland, Ohio, March 15, 1954.

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
United States Capitol, Washington, D. C.

MY DEAR MR. MILLIKIN: In connection with the Senate Finance Committee's consideration of H. R. 8224, we respectfully urge that provision be made for the filing of claims for credit or refund in connection with floor stocks of electric light bulbs within 5 months of the date of the rate reduction instead of 3 months as would be required if the bill is passed in its present form.

On page 8 of the bill, beginning at line 17, is a provision entitled "Floor stock refunds on electric light bulbs." This provision provides for amendment of section 1657 (a) of the Internal Revenue Code. The amendment deals with the granting of credits or refunds based upon the reduction in rate of tax. Section 1657 (a) of the Internal Revenue Code provides that such claims must be filed "with the Commission prior to the expiration of 3 months after the date of the rate reduction." We submit that this period is not long enough, for the reasons stated below, and urge that this period be extended to 5 months after the date of the rate reduction.

The General Electric Co. will have a very serious problem in obtaining from retailers and manufacturing purchasers the necessary documents to support a claim for refund under section 1657 (a). Such refunds, of course, are for the benefit of and will be distributed to the retailers and manufacturing purchasers submitting such documents. Electric light bulbs are sold by hundreds of thousands of retailers. Many of these retailers are establishments conducted by 1 or 2 individuals with no office force or other clerical help. It has been found that these concerns often are so pressed for time that formal clerical matters are postponed and do not receive attention for considerable periods of time.

The General Electric Co. sells its electric light bulbs through more than 150,000 retailers and there are also possibly 15,000 manufacturing purchasers who would have proper claims for refunds under section 1657 (a) of the Internal Revenue Code. These retailers and manufacturing purchasers would have to submit their claims through the wholesalers or jobbers which handled the accounts. The district offices of our lamp division would then have to process the claims and record the credits to be made. The district offices would then forward the claims to lamp division headquarters at Nela Park, Cleveland, Ohio, to be consolidated into the company's claim for refund.

Experience demonstrates that the documents necessary for filing claims presented by such retailers and manufacturing purchasers will continue to be received for at least 2 months after notice has been sent to those having claims to file. It is optimistic to believe that all of such claims would be received at headquarters in 60 days. Even if this were true, the work involved in preparing the company's claim based on approximately 165,000 individual claims cannot be done in the remaining 30 days.

When the tax on photographic lamps was eliminated in 1951, the company faced a similar problem. It was found that the situation was as described above with the result that many small concerns with legitimate claims for refund forfeited such refund because they were unable to file their claims in time. Not only was this unfair to such concerns but it created much ill will toward this company and the Government.

This problem is not peculiar to General Electric Co. but is faced by all other electric light bulb manufacturers as well. It is probable that most of such manufacturers have an even more involved problem since they will have claims from wholesalers as well as retailers.

We firmly believe that the time limit should be extended to 5 months. This could be accomplished by adding at line 23 of page 8 of the bill the following: "and by striking out 'the expiration of 3 months after the rate reduction date' and inserting in lieu thereof 'the expiration of 5 months after the rate reduction date'."

Very truly yours,

D. L. MILLHAM.

NATIONAL BOARD OF FUR FARM ORGANIZATIONS,
Washington, D. C., March 17, 1954.

The Honorable EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKIN: We are privileged to be permitted to present to your committee a brief summary report relating the effect of the proposed relief from excise tax to our industry.

The National Board of Fur Farm Organizations, representing 40 regional fur farm organizations, and approximately 5,000 fur farmers, endorses H. R. 8224, present before your committee, and strongly urges its passage.

The fur farmers believe that they are entitled to much greater relief than the other industries which are receiving a reduction of excise tax to 10 percent, but are willing to take "half a loaf" at this time, with the sincere hope that further relief will be given by the next Congress if this tax relief does not prove sufficient.

Last year approximately 1,500 fur farmers were forced out of business. Their failure was due to the lack of consumer buying due to the exorbitant wartime excise tax. The retail sales made resulted in the fur farmers receiving depressed prices for their pelts because the retail price was limited, and the excise tax, instead of being added to the retail price, was virtually passed back against the fur farmer, with resulting lower prices to him.

It is the consensus of the group of American fur farmers that failure to give relief from the excise tax at this time would precipitate a failure in the mink industry comparable to that which destroyed the silver-fox industry.

We respectfully submit that the passage of H. R. 8224 will result in the following:

(*a*) Increased revenue to the United States Treasury through increased excise tax on furs, due to increased sales to consumer.

(*b*) Increased revenue to the United States Treasury due to increased income tax, from operating at a profit rather than a loss.

(*c*) Decrease in failures and bankruptcies of fur farmers, buyers, dyers, dressers, manufacturers, wholesalers and retailers, through increased sales to ultimate consumer.

(*d*) Every segment of the fur industry, from the fur farmer to the ultimate consumer, will be benefited through increased volume of sales.

(*e*) Greater employment will result from increased volume of turnover of raw products, goods in process, and finished goods.

(f) All "supplier industries" will be able to furnish equipment, refrigeration, and other needed supplies throughout the industry to replace obsolete, deteriorated, wornout and depleted items.

The American fur farmer will be more able to complete with foreign producers of low-quality furs due to increased consumer demand for better quality merchandise.

Thank you for your consideration of this brief report. I shall be pleased to cooperate with the Senate Finance Committee at any time, in supplying information relating to our oldest American industry, the American fur farmer.

Respectfully yours,

ARNOLD W. MULHERN,
Executive Secretary.

STATEMENT OF THE AMERICAN TELEPHONE & TELEGRAPH CO. ON BEHALF OF THE COMPANIES OF THE BELL TELEPHONE SYSTEM

This statement is filed by American Telephone & Telegraph Co. on behalf of the Bell System. In addition to the American Co., the system includes 22 regional operating companies which provide service in their respective territories throughout the United States. Together with the American Co., which owns and operates interstate connecting lines, they also furnish a nationwide long-distance service and interconnect with the lines of independent telephone companies.

On numerous occasions since World War II representatives of the telephone industry—which serves more than 50 million telephones and includes over 5,000 independent companies in addition to the Bell System companies—have appeared before committees of the Congress to urge the removal or reduction of the excise-tax rates of 25 percent on long-distance calls of over 24 cents and 15 percent on most other charges for telephone service paid by telephone users. The unreasonably high and discriminatory tax rates on telephone service have been and are now of serious concern to the telephone companies and their customers.

Our concern in this matter in the past has stemmed primarily from one consideration: the fact that these rates are so completely out of line with the excise taxes on comparable industries that they constitute a grossly inequitable burden on the telephone-using public. Of the four essential household utility services—water, electricity, gas, and telephone service—only telephone service is subject to any Federal excise tax. Except for telegraph communications and transportation, telephone service is the only regulated public-utility service subject to a Federal excise tax of any kind. Moreover, the present rate on long-distance calls is greater than the excises on any product or service other than liquor and tobacco. The impact of these taxes on our customers continues to be of greatest concern to our industry.

Recent economic conditions have created an additional reason for reducing excise taxes at this time. We are now confronted by a marked downturn in our rate of growth and believe elimination or drastic reduction of these burdensome taxes would provide a stimulant to our industry which would be of significant benefit to the national economy. We, in the Bell System, have programed new construction for 1954, involving expenditures of $1.3 billion. A continued drop in demand will require reappraisal of this program, with a consequent effect on the 700,000 employees now on our payrolls and the volume of purchases of materials and supplies.

PRESENT TAX RATES ARE INEQUITABLE TO TELEPHONE USERS

In considering the effect which telephone excises have on users of our service, it should be noted at the outset that the removal or reduction of the telephone excise taxes would accrue to the immediate benefit of the millions of telephone users throughout the United States. Unlike certain other excise taxes, this tax is levied directly on the consumers of telephone service. No part of any reduction in this tax could be retained by the telephone companies.

The most recent polls on excise taxes have plainly indicated that the taxes on telephone service are by far the most disliked by the public. The Gallup poll published in September 1953, for example, shows that the excise taxes on telephone calls were not only the most unpopular with both men and women but were twice as irritating as the next most frequently mentioned tax. A copy of the Gallup poll is attached.

The public obviously distinguishes between taxes on luxuries and those on necessities. Telephone service is clearly a necessity. It is essential to our Nation's business, to its defense and to its everyday life. Yet telephone service bears a heavier tax than is imposed on any other utility service, or on most luxuries. As previously pointed out, the tax on long-distance calls is greater than that imposed on any luxury with the exception of tobacco and liquor. Attached is a chart which graphically portrays the discrimination against telephone service which is inherent in the present excise-tax structure.

The State regulatory authorities, which are particularly aware of the elements that make up the cost of telephone service, have voiced strong objections to the telephone excises. The National Association of Railroad and Utilities Commissioners has, at its 1952 and 1953 annual conventions, expressed its objections to this tax by formal resolution.

REDUCTION OF TELEPHONE EXCISE TAXES WOULD STIMULATE BUSINESS ACTIVITY

The present high telephone excises were made effective during the period of defense activity prior to World War II and during that war. One of the most important reasons for their imposition was to discourage the use of telephone service and to conserve the then existing facilities for vital wartime needs. Today this reason no longer exists. Since the end of the war the Bell System expenditures for new construction for both defense and civilian needs have already reached a total of more than $9 billion.

Particularly during a period of softening in business activity, such as is currently being experienced, any taxing policy designed to have a depressing effect on demand for telephone service seems inadvisable.

Our experience over many years has shown that the telephone business is quite sensitive to changing levels in general business activity. For example, there was a marked decline in the rate of growth in our business in 1949 which corresponded closely with the business recession in that year, and in the period 1950–51 there was a rise which coincided with the business recovery in 1950 and the intensified activity associated with the Korean conflict. In the last quarter of 1953, following the slackening in general business activity, we experienced a reduction of 22 percent in the net new demand for telephones from the level of the same quarter in 1952, and the figures for January and February 1954 are down 45 and 50 percent, respectively, from the same months in 1953. Similarly, as to another main segment of our business, the volume of long-distance messages has been increasing since World War II at a rate of about 6 percent a year until recently when, again in line with the general business trend, only a negligible increase has been realized since the beginning of the current year.

With a currently planned program involving expenditures for new construction in 1954 of some $1,300 million, we are greatly concerned by any slackening of demand or volume of business. If the decline continues, it is clear that it will have a material effect on our construction program and on the 700,000 employees presently on our payrolls.

REMOVAL OR REDUCTION OF TELEPHONE EXCISES IS DESIRABLE AND NECESSARY

The removal or reduction of these inequitable and highly unpopular taxes would result in immediate benefit to the millions of telephone users by directly increasing their purchasing power. It would result also in indirect but equally significant benefits to our industry and to the economy as a whole.

[From the Washington Post, Saturday, September 26, 1953]

THE GALLUP POLL—PUBLIC MOST IRRITATED BY TAX ON PHONE CALLS, RAIL TICKETS

PRINCETON, N. J., September 25.—The special excise taxes on telephone calls and on railroad tickets are the two types of excise tax which the general public dislikes the most, judging by results of a nationwide survey by the American Institute of Public Opinion.

The levy on cosmetics and toilet preparations ranks next in order of dislike, followed by the tax on telegrams, movie tickets, and women's purses and handbags.

Approximately 4 out of every 10 adults (39 percent) named the telephone tax as the most irritating one, which was more than twice the 17 percent naming the railroad ticket tax.[1]

Utility companies and other industries, particularly the movie industry, whose services or products carry an excise tax have pressed for tax relief.

The 25 percent tax on long-distance telephone calls and 15 percent surcharge on local service, as well as the 15 percent transportation tax, are levies that were imposed during World War II to discourage use of these facilities.

In his pocket veto of the bill to exempt motion pictures from the 20 percent Federal admissions tax, President Eisenhower noted that it would have been unfair to single out one industry for relief.

To determine which excise taxes paid directly by the consumer are the most irritating or annoying, the institute prepared a list of certain items carrying these levies and sounded national opinion among adults on the following question:

"During World War II the Government put a special tax ranging from 15 to 25 percent on such things as jewelry, furs, movie tickets, railroad tickets, etc. Which one of the taxes do you personally dislike the most?"

The list, ranked in order of frequency of mention, is given below:

1. Telephone calls
2. Railroad tickets
3. Cosmetics, toilet preparations
4. Telegrams
5. Movie tickets
6. Women's purses, handbags
7. Sports tickets
8. Jewelry
9. Men's wallets
10. Luggage
11. Night club tickets
12. Furs

Women questioned in the survey gave somewhat different answers from men.

As might be expected, more women than men expressed dislike for the tax on cosmetics and toilet preparations and women's purses and handbags.

Following is the way the women ranked the list:

WOMEN

1. Telephone calls
2. Cosmetics, toilet preparations
3. Women's purses, handbags
4. Railroad tickets
5. Telegrams
6. Movie tickets
7. Jewelry
8. Men's wallets
9. Furs
10. Luggage
11. Sports tickets
12. Night club tickets

And here is the men's list:

MEN

1. Telephone calls
2. Railroad tickets
3. Telegrams
4. Movie tickets
5. Cosmetics, toilet preparations
6. Sports tickets
7. Women's purses, handbags
8. Jewelry
9. Men's wallets
10. Night club tickets
11 Luggage
12. Furs

An institute survey in March 1950 found that the excise tax then being levied on baby oil and baby powder was the one disliked the most.[1]

Congress later repealed the excise tax on the baby products.

STATEMENT OF HARRY J. BATT, SR.

My name is Harry J. Batt, Sr. I reside in New Orleans, La., where I am engaged in the business of operating an amusement park known as Pontchartrain Beach.

I am a member and past president of the National Association of Amusement Parks, Pools, and Beaches, an organization representing 169 amusement parks, 15 pools, and 12 beaches in 40 States of the Union.

I appreciate the opportunity to submit this statement and to acquaint your committee with an excise-tax situation which the members of our industry feel is discriminatory.

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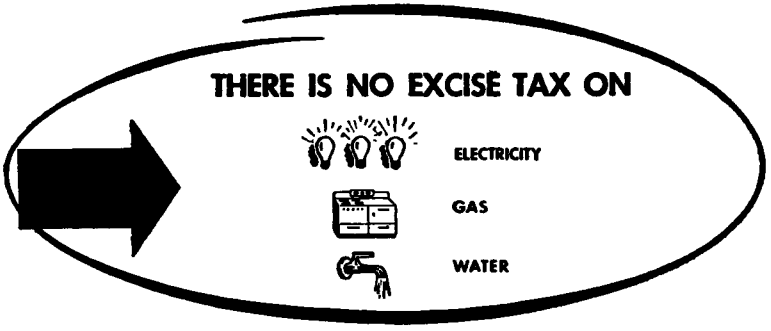
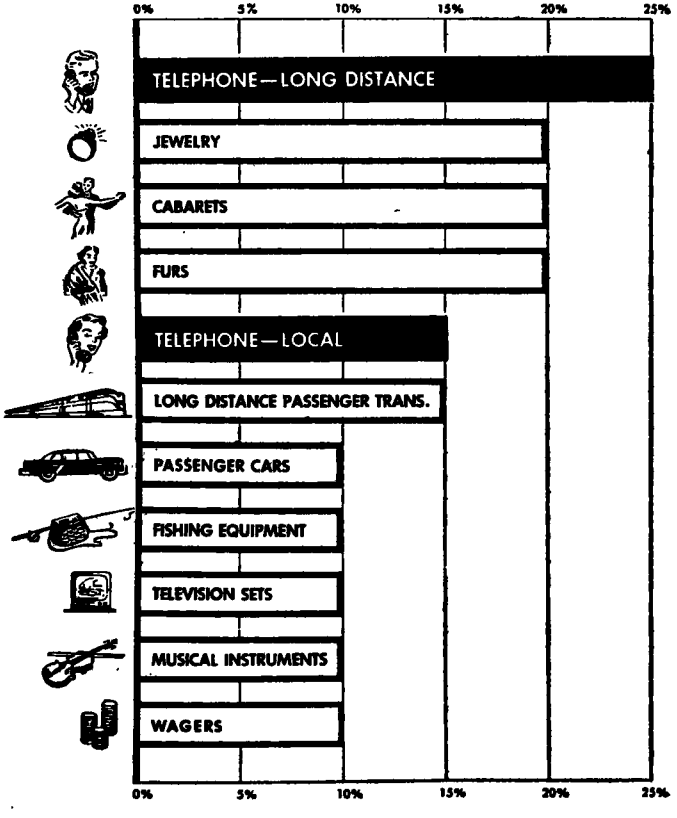
[1] The institute survey in 1950 found that "telegrams and telephone calls" with 22 percent of the vote ranked second in disfavor to baby oil and baby powder with 24 percent.

EXHIBIT I

COMPARISON OF VARIOUS EXCISE TAX RATES – 1953





The amusement park industry is so typically American that I do not have to explain the nature of it. You all know that amusement parks are locally owned and operated and employ local labor, mainly college students during their summer vacations. Our stock-in-trade is the midway with its merry-go-round, ferris wheel, and roller coaster. Our prices are nickles and dimes and our customers are middle and low-income family groups, and particularly small children.

With few exceptions, amusements parks are operated on a free-gate basis, with separate admission being charged to each ride or amusement which our customers care to use. At the present time, the Federal excise tax on admission to each ride or amusement is 20 percent. The effect of this is that a child having 10 dimes to spend in an amusement park must give up 2 of these dimes. Certainly, neither the Government nor the public interest is really served when these children are taxed in the same category as one buying imported champagne, rare perfume, mink coats, or other superluxury items.

From its inception, the admissions tax was an emergency tax which was not intended to become a permanent part of the tax structure. The amusement park operators have willingly borne this wartime measure, but now the time has come when this tax must be considered in its proper light—as an unfair discrimination against an industry that is already burdened with more than its share of financial troubles.

Amusement parks are seasonal and have long inoperative periods of nearly 8 months; they must bear extra heavy maintenance burdens; and suffer a severe competitive disadvantage under the tax laws with municipal pools, skating rinks, and other facilities operated by non-tax-paying State or political subdivisions (sec. 1701 (d), Internal Revenue Code). To my knowledge, not one new amusement park has been built in the past 10 years and there has not been one great fortune made in our business since its inception.

A mere reduction of the excise tax to 10 percent as provided in H. R. 8224 would not be sufficient. The inequities of the 20-percent tax have already been compounded to the point where many amusement parks have been forced to close down.

Without the elimination of this unfair and discriminatory tax, many more are threatened with extinction today. We earnestly feel that the loss of the amusement park, privately operated, would be a severe loss to the people of America.

NATIONAL CATHOLIC WELFARE CONFERENCE,
March 16, 1954.

HON. EUGENE D. MILLIKIN,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: The proposed legislation currently pending before your committee involving Federal excise taxes is of considerable interest to the private institutional system of this country, especially to nonprofit religious, charitable, and educational organizations. These institutions which are daily rendering recognized public service to their community and to the Nation are handicapped by the mounting cost of operation due, in part, to Federal excise taxes.

As early as 1942 the general secretary of the National Catholic Welfare Conference in a letter to the chairman of the House Committee on Ways and Means requested that the same consideration which is extended to public institutions be accorded all religious, charitable, and educational organizations of a nonprofit nature. A copy of this letter is attached hereto.

The reasons set forth in the letter of 1942 remain valid today, but the need for relief has been accentuated not only by the general increase in the cost of items subject to the Federal excise taxes but by the expanded needs for those items on the part of such institutions. For instance, in the field of education nonprofit schools are developing extensive transportation services which are privately financed. Each school bus, for example even a Sunday school bus, purchased by a nonprofit school is subject to the payment of a substantial excise tax. Educational authorities protest that this factor is a serious deterrent to the expansion of indispensable school bus transportation services. Similarly, many such schools, to meet current requirements in the educational field, have established business courses, which necessitate the procurement of typewriters. Public schools may purchase typewriters without having to pay an excise tax, but all other nonprofit schools rendering the same service are required by law

to pay a substantial tax. This is likewise true with respect to other educational supplies such as audiovisual equipment. In short, the whole development of nonprofit institutional enterprise is burdened by Federal excise taxes.

Accordingly, we respectfully request that nonprofit organizations be accorded the same favorable consideration as that which is extended to public institutions.

With sentiments of deep esteem, I remain

Respectfully yours,

HOWARD J. CARROLL,
General Secretary.

NATIONAL CATHOLIC WELFARE CONFERENCE,
Washington, D. C., March 24, 1942.

Hon. ROBERT L. DOUGHTON,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN DOUGHTON: I have been directed by the administrative board of archbishops and bishops of the National Catholic Welfare Conference to inform you, and through you the Ways and Means Committee of the House of Representatives, of a situation existing because of certain excise taxation provisions of the Internal Revenue Code.

In 1932 the Congress in the revenue act of that year enacted into law imposing a "temporary" tax with respect to the sale of certain articles. This tax was imposed on the basis of the sale price of the article sold by the manufacturer to the retailer. This tax was passed on to the public in the retail sale transaction. Among the articles with respect to the sale of which the tax was imposed were tires and inner tubes, automobiles, radio receiving sets, mechanical refrigerators, gasoline, and certain other items.

The purchase by a religious, charitable or educational organization of any articles so taxed resulted in the payment by such organization of the tax so levied. For although the tax was levied with respect to the sale of the article by the manufacturer to the retailer, the amount of that tax was passed on by the retailer in the retail sale transaction.

However, the tax did not apply with respect to sales made "for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia." Consequently, political subdivisions of governmental bodies and agencies thereof did not feel the incidence of this taxation. The seller merely certified that the sale was made to an agency of Government, and, therefore the manufacturers did not have to pay over to the United States the amount ordinarily paid with respect to sales made.

The obvious additional cost of operation to religious, charitable, and educational organizations is a substantial handicap.

The preference accorded governmental agencies rendering essentially the same kind of social service as is rendered by these organizations, or, if viewed in another light, the discrimination against nongovernmental agencies rendering public service, is apparent. The monetary advantage to governmental agencies, the monetary disadvantage to nongovernmental agencies, is measured by the volume of purchases and the rate of taxation.

But because the list of items whose sale was taxed was a list of articles not normally purchased in quantity by such institutions, and because the rate of taxation was relatively low, no real opposition was registered to this type of taxation at that time. Such religious, charitable, and educational organizations remained comparatively unaffected.

Furthermore, the tax was labeled "temporary."

The Revenue Act of 1941 drastically changed this whole picture. The tax so levied was made permanent. The rates applicable were increased. Many new articles were added to the list, among them certain articles purchased in large quantity by such nongovernmental agencies engaged in the rendition of public services without thought of private gain. The provisions exempting from the tax sales made to governmental agencies remain the same. No consideration has been given the problem of the status of religious, charitable, and educational agencies under this tax.

In addition, a completely new tax law was enacted which imposed a 10-percent tax on certain articles sold at retail. The tax-exempting provisions remain substantially the same as those provided in the manufacturers' excise taxation hereinbefore treated. At the present time religious, charitable, and educational

organizations do not purchase many of the items on the list subject to this new tax. It is a "luxury tax" on jewelry, furs, toilet preparations, etc., but items may be added to the list as occurred in the case of the other tax.

We sincerely doubt the necessity of presenting to the Ways and Means Committee of the House of Representatives any extended arguments whose objective would be to convince the committee of the value, social and financial, of the services rendered by our nonprofit religious, charitable, and educational organizations throughout the United States. We are assured that this committee is well aware of the facts in this regard. Further, we hesitate to descend into lengthy discussions concerning the proper treatment by democratic government of these nongovernmental agencies. We feel it unnecessary to point out that for government to assume the burden of discharging the duties presently being so successfully undertaken by these nongovernmental agencies would result, financially, in a cost to government out of proportion to tax exemption, socially, in a price that democratic government cannot afford to pay.

We believe the action herein suggested would be a proper legislative act recognizing the indispensable social service rendered by those organizations as well as legislative recognition of the right of these organizations to carry on their work in a democracy, not only unimpeded by taxation, but also encouraged in every way possible. Established tradition indicates the complete propriety of action in conformity with these statements.

We, therefore, respectfully suggest to this committee that consideration be given to this situation. Section 101, subsection (6) of the Internal Revenue Code contains language exempting from income taxation those organizations which we here contemplate. The satisfactory manner in which this salutary provision has been administered would lead us to express the ardent hope that substantially similar consideration be given these organizations in connection with the two types of tax we have here treated. To this end we respectfully suggest that section 3442 of the Internal Revenue Code be amended to include a fourth category of sales with respect to which the excise tax of that chapter shall not apply. It should provide that no tax under this chapter shall be imposed with respect to the sale of any article—

1. (for use by vendee in further manufacture)
2. (for resale by vendee for further manufacture)
3. (for exclusive use of governmental bodies)
4. For the exclusive use of any religious, charitable or educational organization exempt from income taxation under section 101, subsection (6) of the Internal Revenue Code.

We furthermore respectfully request the new retailers' excise taxes chapter, chapter 19, be amended to provide for substantially similar treatment of religious, charitable, and educational organizations. To this end we respectfully suggest that section 2406 of said chapter be amended to provide that no tax under this chapter shall be imposed with respect to the sale of any article—

(*a*) (for exclusive us of governmental bodies)
(*b*) (for export)
(*c*) For the exclusive use of any religious, charitable, or educational organization exempt from income taxation under section 101, subsection (6) of the Internal Revenue Code.

With sentiments of deep esteem, I remain

Respectfully yours,

MICHAEL J. READY, *General Secretary.*

WASHINGTON, D. C., *March 16, 1954.*

Re the National Association of the Legitimate Theater, Inc.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee, Washington, D. C.

DEAR SENATOR MILLIKIN: On behalf of the subject association and in connection with the reduction to 10 percent of the excise tax on American living theater admissions now provided in the excise tax bill, H. R. 8224, I enclose summary statement, letter dated March 15, 1954, to you from Leland Hayward and the exhibits referred to in that letter.

We appreciate your serious consideration of this matter.

Respectfully,

RALPH E. BECKER.

SUMMARY STATEMENT OF RALPH E. BECKER, COUNSEL, THE NATIONAL ASSOCIATION OF THE LEGITIMATE THEATRE, INC., WASHINGTON, D. C.

The American living theater includes all groups and facilities presenting plays and musicals with live performers before an audience. It is a vital medium of culture and entertainment and comprises, today, a total of 141,940 such groups.

The program of our association for the elimination or reduction of the Federal admissions taxes on the living theater has the united support of every national and regional living theater organization, both professional and nonprofessional, and many affiliated and related industries, in each of the 48 States and the District of Columbia.

The living theater has paid admissions taxes for over 35 years—at the rate of 20 percent since 1944. Admissions tax collections from the living theater totaled less than $14.5 million in 1952. To the living theater this equals one-fifth of its total income—to the Federal Government this represents less than three ten-thousandths of 1 percent of total gross receipts.

The living theater is in desperate economic decline, having been successively hit by the advent of silent and talking motion pictures, free radio entertainment, free television entertainment and then, in 1951, the admissions tax free entertainment of the opera and symphony. In addition, operating costs have trebled.

H. R. 8224 passed by the House of Representatives on March 10, 1954, provides the first step in the relief from the admissions tax burden so vital to the continued free enterprise of the living theater. It is uniform, fair, nondiscriminatory and provides equal treatment for all industries which depend for their income on admissions.

To the Federal Government the 10 percent reduction means a potential revenue loss not in excess of $8 million annually.

The support of the Senate Finance Committee and the United States Senate for H. R. 8224 is urgently requested.

THE NATIONAL ASSOCIATION OF THE LEGITIMATE THEATRES, INC.,
Washington, D. C., March 15, 1954.

Chairman EUGENE D. MILLIKEN, AND EACH MEMBER OF THE SENATE FINANCE COMMITTEE,
United States Senate, Washington, D. C.

DEAR SIRS: As spokesman for a large segment of the American living theater, I respectfully urge you to support the reduction to 10 percent of the excise tax on American living theater admissions now provided in the excise tax bill, H. R. 8224, passed by the House of Representatives on March 10, 1954. This constitutes a first step in lifting from the American living theater a burden which it has borne for 35 years and which has grown heavier and more burdensome each year.

THE AMERICAN LIVING THEATER DEFINED

The American living theater—the legitimate theater—includes presentations of all plays and musicals where performers before whose roles develop the story are actually present and acting before an audience. The term is used broadly to include the tens of thousands of groups and individuals throughout the country presenting such plays, both professional and nonprofessional and theaters used principally for the staging of such attractions.

IMPORTANCE OF THE AMERICAN LIVING THEATER

The American living theater is vital to the social, recreational, and cultural life of this country. It is not just another business or industry whose existence or disappearance would mean little to the welfare of the country. It is an art—an art to which the country turns instinctively when disasters threaten, when emergencies develop. Its great patriotic contributions to the Nation during the World Wars cannot be forgotten. Its USO's and stage-door canteens, its troupes of actors touring military posts throughout the world are a familiar and beloved memory to all. The living theater is a trailblazer for more modern media of entertainment. It serves as a training ground, as well as the final goal, for topflight artists in most major entertainment media.

EXCISE TAX REVENUES

Admissions tax collections from the living theater industry totaled less than 14.5 million in 1952. The alltime peak was only $17 million during World War II. To the American living theater admissions tax collections equal one-fifth of its total gross income. To the Federal Government, they represent less than three ten-thousandths of 1 percent of total budget receipts.

Excise tax rates which are now above 10 percent, including the 20-percent excise tax on the American living theater admissions, are now reduced to 10 percent under the aforesaid H. R. 8224, effective April 1, 1954.

Accordingly, such reduction to 10 percent means a loss of receipts to the Federal Government of a maximum of $8 million—three twenty-thousandths of 1 percent of total budget receipts. To the American living theater, this is one-tenth of its total gross income. To the theater, which lives by its admissions revenues—without endownment, without subsidy—his relief is vial.

PROGRAM FOR RELIEF AND SUPPORT OF OTHER ORGANIZATIONS

The National Association of the Legitimate Theater, Inc., was organized more than 20 years ago to promote the general welfare and progress of the legitimate theater—the American living theater—in the United States. It numbers among its active members producers, playwrights, dramatists, theater owners, script writers, actors and persons prominent in every phase of the legitimate theater industry throughout the country.

The program has the united support of every national and regional legitimate theater organization, both professional and nonprofessional, and many affiliated and related industries, in each of the 48 States and the District of Columbia, throughout the country.

A partial list of these organizations is set forth in exhibit A attached to this statement.

Copy of a recent letter addressed to Senator Milliken from Ralph Bellamy, president of Actor's Equity Association, is attached hereto as exhibit B.

Copy of a recent letter addressed to Senator Milliken from American National Theater and Academy is attached hereto as exhibit C and copy of a recent letter from Horace W. Robinson, University of Oregon, president of the American Educational Theater Association to Chairman Daniel A. Reed, House Ways and Means Committee is attached hereto as exhibit D. Our association first testified concerning its desperate plight and need for relief before the House Ways and Means Committee on August 5, 1953. Among those who testified were James F. Reilly, League of New York Theaters; Dennis King, Actors Equity Association; Lawrence Langer, National Association of the Legitimate Theater; Wolfe Kaufman, Association of Theatrical Press Agents and Managers, AFL; and Henry Kaiser, American Federation of Musicians. An excerpt from those hearings is attached to this statement as exhibit E.

DISTRESS OF THE AMERICAN LIVING THEATER

Dr. O. Glenn Saxon, professor of economics, Yale University, completed, on December 31, 1953, a comprehensive economic study entitled "The Plight of the Living Theater in the United States." This study was made on a research grant from the National Theater Arts Council of Illinois and Theater Arts Magazine, in the interest of the American theater. It is an unbiased, impartial pioneer study of the economics of this industry and together with the aforementioned testimony sets forth eloquently the desperate need of the legitimate theater for relief from the Federal excise tax.

A copy of this economic study, together with a summary thereof, are attached to this statement as exhibit F.

A few of the vital statistics from the economic survey are as follows:

There are approximately 141,940 theater groups which have presented plays and musicals to the American public within the past 2 years. Of these approximately 424 are professional commercial theaters and summer and winter and permanent stock companies and the balance are nonprofessional groups consisting of summer stock, college and university groups, high school, community and miscellaneous amateur groups.

In New York City the number of commercial theaters available for professional productions has decreased by more than 50 percent since 1931. Such theaters numbered 66 in 1931 and only 32 in 1953.

Nationwide total number of theaters has dropped from 647 in 1921 to 234 today—a decline of 64 percent.

Winter or permanent stock companies have all but disappeared in the past two decades—having numbered 413 in 1928 and only 20 in 1953.

Summer stock companies, a fairly recent phenomena, developed in the late 1930's and early 1940's, recorded 152 companies in 1950 and only 139 in 1953, a decrease of about 9 percent.

Only 63 professional productions were presented on Broadway in the 1952–53 season contrasted with 195 shows produced during the depth of the depression in 1931–32—a decline of 68 percent.

The total number of playing weeks of all productions on Broadway has declined from 1,147 in 1948–49 season to 1,023 in the 1952–53 season. Since 1927–28 the decrease in Broadway playing weeks has exceeded 50 percent.

Between the 1944–45 and 1951–52 seasons, estimated total attendance at stage plays on Broadway has fallen from 11.5 million to 8.4 million—a decline of 27 percent.

Theater Guild and the American Theater Society records reveal nationwide that subscriptions in 12 major cities dropped between 1952 and 1953 in varying degrees that ranged up to 59 percent in Milwaukee.

Average employment of actors in the 12 months ending May 31, 1953, showed a decline of 15 percent from the 1950 level which had shown a moderate increase over the previous season.

Average number of actor employees in the 1927–28 season was 4,445 and in the 1952–53 season was 991—a decline of 85 percent.

Total actor workweeks in New York road shows and rehearsals dropped from over 45,000 in the 1948–49 season to approximately 36,000 in the 1952–53 season—a decline of 20 percent.

Gross income of the professional theater has declined from over $85 million in 1947 to $72.5 million in 1952—a decline of 15 percent.

Gross receipts of road shows decreased from $23.6 million in 1948–49 to $19 million in 1951–52—a 50-percent drop. Ticket prices have been relatively stable over the years of widespread price inflation since 1944. New York box prices for musical shows have risen only 34 percent and for drama only 28 percent since 1944.

In four major cities there have been no increases in professional theater ticket prices since 1941 other than the additional 10-percent admission tax imposed beginning April 1, 1944. In Pittsburgh the price of such tickets has not increased in 25 years. On the other hand, production and operating costs have doubled and trebled.

Ticket price trends of nonprofessional theater groups parallel those of the professional theater.

Average income from the living theater of all professional actors throughout the country for the 1952–53 season was only $800 per person. Many, of course, did not work throughout the entire season. The average annual earnings of all those who worked 26 or more weeks was under $6,000.

Aggregate losses on Broadway productions have exceeded aggregate income by merely $3 million in each of the past 2 years. More important is the fact that the 1948–49 season was the last to show a profit. The 1948–49 season was the only year in the last five which showed combined gross earnings (before income tax) greater than combined losses for all Broadway productions.

On the basis of average annual gross receipts of $29 million over the past 5 years, Broadway productions have paid about $5.8 million each year as their share of the 20 percent Federal admissions tax. Meanwhile, the average overall deficit of such productions for the same 5 years was $1.6 million. In other words, estimated admissions tax collections exceeded the average annual deficit by 3½ times. Accordingly, repeal of the tax would eliminate the deficit, provide some return to investors, and still leave some chance of stimulating theater attendance by a reduction in ticket prices.

FACTORS FOR DECLINE AND PLIGHT

The American living theater has been badly hit by the advent of both silent and talking motion pictures. In the mid 1920's it was forced to meet another new competitor—free radio entertainment paid for by the commercial advertisers.

The fate of the industry has been further jeopardized in recent years by the development of commercial television which renders admissions tax-free enter-

tainment free to the consumer. Then, just as the novelty of free television began to fade, there came new competition from admissions tax-free entertainment. The Revenue Act of 1951 exempted many forms of entertainment directly in competition with the theater, including operas and symphonies. However, we are not critical of relief to these forms of entertainment. We seek merely for uniform and just treatment.

CONCLUSION

The American living theater, both professional and nonprofessional, can survive and again thrive under free but fair competition. It cannot, however, much longer survive the economic impact of free radio and television entertainment and unfair competition based on special tax exemption without relief from the excise tax.

To the United States Government, the cost of outright repeal of the tax on the living theater admissions would mean a revenue loss not in excess of $16 million annually—the 10 percent reduction means a revenue loss of approximately $8 million annually.

The American living theater is grateful for the 10 percent reduction provided in H. R. 8224 passed by the House of Representatives on March 10. It considers this the first step toward the complete relief so desperately needed by it. While the American living theater would like to have complete relief, it is cognizant of the overall tax problem. However, we are appreciative of the relief, particularly in the form of the nondiscriminatory and uniform relief for institutions which depend upon admissions as its chief source of income. In this regard we are aware of the equal treatment the living theater has received under the House bill in relation to other groups affected by the admissions tax.

I express the deep gratitude of the countless organizations, groups, and individuals, both professional and nonprofessional, in each of the 48 States and the District of Columbia throughout the country for the favorable action thus far taken.

Again I respectfully urge the support of your committee and of the United States Senate for the uniform and nondiscriminatory excise tax reduction to 10 percent on admissions provided by H. R. 8224.

Respectfuly submitted.

THE NATIONAL ASSOCIATION OF THE LEGITIMATE THEATRE, INC.
By: LELAND HAYWARD, *President.*

EXHIBIT A

PARTIAL LIST OF NATIONAL AND REGIONAL LEGITIMATE THEATER ORGANIZATIONS, BOTH PROFESSIONAL AND NONPROFESSIONAL, SUPPORTING THE PROGRAM

Among the national and regional legitimate theater organizations, both professional and nonprofessional, which are actively supporting the program of the National Association of the Legitimate Theatre, Inc., for relief from the 20 percent excise tax on legitimate theater admissions, are as follows:

The American National Theatre and Academy.—A nonprofit organization chartered by the Congress of the United States for promotion of the general welfare of the legitimate theater. It has many hundreds of members throughout the United States.

American Educational Theatre Association.—A nonprofit organization established to encourage the devlopment of legitimate theater in education. Its membership includes hundreds of persons throughout the country and while membership emphasis is placed on educational theater, many members are engaged specifically in professional theater, in children's theater, in community theater and other areas of theatrical interest.

Children's Theatre Conference of American Education Theatre Association.—A nonprofit organization established to provide the children of American with the kind of children's theater activities they deserve. Membership is the same as its parent, American Educational Theatre Association.

New England Theatre Conference.—A nonprofit organization to develop, expand, and assist theater activity on the community, educational, and professional levels in New England. Membership is open to all residents of New

England interested in promoting the legitimate theater and it presently has hundreds of members in the New England area.

Southwest Theatre Conference.—A nonprofit organization to share the results of experiences, research, knowledge and, by mutual interchange, to improve the theater in the Southwest region. Its membership includes persons active in professional, community, and education theater, with many of its hundreds of members coming from the colleges and universities throughout the Southwest.

National Theatre Conference.—A nonprofit association of directors of community and university theaters organized to serve the noncommercial theater. It functions only on university and community theater levels. Membership is limited to 100. In the past it has received grants from the Rockefeller Foundation for support of its various activities.

Speech Association of America.—A nonprofit organization, a department of National Education Association, consisting of men and women who have a common interest in speech and drama, primarily high-school and college teachers of speech and allied fields including dramatic art.

Northwest Drama Conference.—A nonprofit organization of educational and community theater groups in the Northwest region of the United States.

Intercollegiate Dramatic Association.—A nonprofit organization of college theaters, including some Negro schools. It has 31 members consisting of college and university directors of drama.

Catholic Theaters Conference.—An association of parish, educational, and community theaters established in 1937 for the development of common action and the promotion of mutual service for the legitimate theater. It consists of hundreds of members, mainly derived from Catholic high schools, colleges, and universities throughout the country.

Delaware Dramatic Association.—A nonprofit organization composed of school, college, and community theaters in Delaware and neighboring States—established to promote all kinds of theater in this region and to provide an opportunity for concerted action on common problems. Approximately 75 high schools, university, and community theater groups compose its membership.

National Collegiate Players.—A nonprofit organization established to further the best in all theater to the end that it becomes a permanent community culture. Its membership includes 60 chapters in colleges and universities throughout the country.

Wisconsin Idea Theater Conference.—A nonprofit organization devoted to the idea of a people's theater for Wisconsin and consisting of 114 groups and individuals throughout that State.

Pennsylvania Theater Conference.—A nonprofit group of community and college theaters throughout Pennsylvania, established to improve and aid the development of the theater in its various aspects within the State. Its membership includes groups and individuals numbering several hundreds.

Ohio Community Theater Association.—A nonprofit organization of nonprofessional community theaters in Ohio consisting of 20 community theaters in that State.

New Jersey Theater League.—A nonprofit organization of community theater groups throughout New Jersey, including a membership of 75 community theaters in that State.

New York State Community Theatre Association.—A nonprofit organization of community theaters in all parts of the State—consisting of many nonprofessional community theater groups throughout the State.

New York State Theatre Conference.—A nonprofit theater conference of educational and community theaters throughout the State with approximately 50 members including high school and college teachers and professors.

Westchester Drama Association.—A nonprofit federation of community theater groups in Westchester County, New York State, with a membership of over 1,200.

Virginia Speech and Drama Association.—An organization of college, secondary, and community theater groups in Virginia with membership in the many hundreds.

Theatre Library Association.—A nonprofit organization of theater libraries—affiliated with the American Library Association and numbering 131 libraries, universities, and individuals among its members.

The American Theatre Society.—A society which operates subscription theaters all over the country.

The Theatre Guild.—An important producer of many important dramas—dedicated to promotion of the best in the theater.

Council of the Living Theater.—Of which Katherine Cornell is the chairman and which is a foundation formed under Congress for the promotion of the American living theater.

American Federation of Musicians.—An association with a membership of over 200,000 taxpaying citizens devoted professionally to music and related arts.

The Association of Theatrical Press Agents and Employees, A. F. of L.—A union with a membership of approximately 600 across the United States.

Actor's Equity Association.—of which Ralph Bellamy is president and which has a membership of many thousands of actors and actresses throughout the country.

Chorus Equity Association.—Similar to Actor's Equity Association and again with a membership of many thousands of persons active in the summer and winter stock companies and all other phases of the legitimate theater industry.

National Association of Theatrical and Stage Employees.—A union of many thousands of stagehands, technical assistants, and other persons in the legitimate theater industry throughout the country.

In addition to the above, many summer and winter legitimate theater stock companies, arena companies, and many other professional and nonprofessional legitimate theater organizations and individuals throughout the country are actively supporting the program.

EXHIBIT B

NEW YORK, N. Y., *February 23, 1954.*

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR MILLIKIN: I would like to add my personal and official plea for serious consideration of the repeal of theater-admissions tax, which subject I understand is before you now.

So far as I know the entertainment industry is the only group to have carried this kind of tax since the First World War, and its original purpose no longer exists, but this heavily burdensome tax has remained during the intervening period.

You are aware of the increased costs of production and this, plus continuing percentage taxes, have brought theater admissions to an almost prohibitive figure. This condition is alarming, affecting the livelihood of this vital cultural aspect of our national life.

Without undue emphasis on the efforts of all the people of the theater to assist the Government in times of emergency and in the interest of all worthy national affairs, may I respectfully request that the Government consider this in its deliberations of the problem this tax imposes. It is economically strangling the existence of the entire industry.

Respectfully yours,

RALPH BELLAMY,
President, Actors' Equity Association.

EXHIBIT C

THE AMERICAN NATIONAL THEATER AND ACADEMY,
NEW YORK, N. Y., *March 1, 1954.*

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR MILLIKIN: We are writing to you on behalf of the American National Theater and Academy, its officers, board of directors and members, to express our interest in the repeal of the Federal excise tax on legitimate theater admissions. ANTA was chartered in 1935 by the Congress of the United States to stimulate public interest in the living theater and to advance the living theater throughout the country. ANTA represents, through its national membership, all branches of the legitimate theater, professional and nonprofessional, in every State of the Union.

ANTA believes that the Federal excise tax has a damaging effect upon the present state and future growth of the American theater, and that relief from this tax will aid in revitalizing the living theater and in bringing more theater to more people. For these reasons, the board of directors of ANTA at its annual meeting on February 5, 1954, passed a resolution urging the repeal of the Federal excise tax on admissions in all branches of the legitimate theater. We believe that the living theater is a vital force in the cultural, educational, and recreational life of our country, and that every effort should be made to assist the theater and encourage its activity.

We hope that you as chairman of the Senate Finance Committee will bring this matter to the attention of your committee and that you will support the repeal of this tax.

Sincerely yours,

HELEN HAYES,
Honorary President.
CLARENCE DERWENT,
President.
WILLARD SWIRE,
Executive Director.

EXHIBIT D

JANUARY 15, 1954.

Hon. DANIEL A. REED,
Chairman, House Ways and Means Committee,
House Office Building,
Washington, D. C.

DEAR MR. REED: It is my understanding that the House Ways and Means Committee has on its agenda a discussion of a possible revision or elimination of the Federal excise tax on admissions, usually referred to as the "amusement tax."

The American Educational Theater Association is deeply interested in an equitable solution to this problem. Our organization, consisting of over 2,000 members in every State of the Union and at all levels of instruction including children's theater, the theater of the primary and secondary school, college and university theater, and community theater, represents directly and indirectly a large element of the theater-going public in America. As practitioners and patrons of the theater arts, we are concerned with the maintenance and development of the theater as an essential contribution to the cultural life of America. We believe that the present tax structure is a serious threat to the proper development of the art form and perhaps to its very existence.

At a recent session of Congress, that body saw fit to eliminate the amusement tax as it related to the educational theater in recognized and established educational institutions. This action has been received with appreciation as a recognition on the part of Congress of the merit and consequence of our work. We would be derelict in our duty to the theater, however, if we failed to call attention to the desirability of the extension of this tax relief to other forms of living theater.

At the recent convention of the American Educational Theater Association, held in New York City during the last week of December 1953, the following resolutions were passed:

"1. Whereas there are differences with resulting inequities in the present interpretation of section 1701 of the Internal Revenue Code: Be it therefore

"*Resolved,* That the American Educational Theater Association urges that nonprofit children's theater organizations be made uniformly exempt from the requirements of the Federal admissions tax and that the nonprofit community theater organizations be made uniformly exempt from the requirements of the Federal admissions tax.

"2. I move for the committee that the president be empowered to take appropriate action to advance the resolution pertaining to uniform admissions-tax exemption for nonprofit children's and community theaters.

"3. Whereas the American Educational Theater Association, with membership from the educational theater in all its branches and levels, and from the children's theater and the community theater, recognizes the mutual interdependence of all branches of living theater; and

"Whereas the American Educational Theater Association undertakes to represent and speak for teachers and students of theater throughout the Nation who

have been, are, and hope to be in the future either patrons of the living theater or practicing participants therein; and

"Whereas the AETA believes that relief from the present tax on theater admissions will aid in bringing more theater to more people: Be it therefore

"*Resolved*, That the AETA urges relief from the Federal admissions tax for all branches of legitimate theater."

The American Educational Theater Association respectfully requests serious consideration by the House Ways and Means Committee of these resolutions.

Very truly yours,

HORACE W. ROBINSON,
President, American Educational Theater Association.

EXHIBIT E

THE PLIGHT OF THE LIVING THEATER IN THE UNITED STATES [1]

An economic study made by Prof. O. Glenn Saxon, professor of economics at Yale University, on a research grant from the Nation Theater Arts Council of Illinois and Theater Arts magazine, in the interest of the American theater.

INTRODUCTION

The purpose and scope of this analysis

The purpose of this analysis is to present pertinent facts concerning current conditions and economic trends in the living theater in the United States. Particular emphasis is placed on conditions and trends since 1944, when the wartime Federal tax on theater tickets was doubled.

The present 20-percent admissions tax is both discriminatory and highly burdensome. The tax was unjustly discriminatory even during the years between World War I and 1944, when it was levied at the rate of 10 percent of the box-office price.

To the extent that reliable statistical data, official or private, are available, all factors influencing current economic trends in the living theater are analyzed. Unfair competition from other entertainment media is shown to have become more intensified, especially since specially favored segments of the industry were exempted from the 20-percent tax on admissions by the Federal Revenue Act of 1951.

In scope, this analysis covers all classes of theaters and theatrical groups that are commonly regarded by the industry as a part of the living theater. It describes the current financial and economic status of all theaters now available for staging professional productions. It covers all professional stage shows on "Broadway" in New York and touring "on the road," as well as all professional stock companies and all nonprofessional groups which, as part of their activities, present stage productions.

The living theater, as defined for purposes of this analysis, includes all presentations, whether plays or musicals, in which live pereformers, whose roles develop the themes of the play or musical, are actually present and acting before an assembled audience. This term, "living theater," is also used broadly to include all groups and individuals, both professional and nonprofessional that present such productions, and all theaters used principally for the staging of these attractions.

Specificaly excluded from the scope of this analysis of the living theater are all operas, concerts, ballets, vaudeville and similar forms of entertainment as well as their producers, actors, executive personnel, and other employees, including motion pictures, their exhibitors, and personnel. Traditionally, none of these has ever been considered as part of the living theater.

Operas and concerts have already been given statutory exemption from the Federal admissions tax by Congress. Even motion pictures were voted similar relief by Congress last year, but that action was vetoed by the President in his efforts to balance the Federal budget.

As defined, the living theater, therefore, is not confined to "Broadway" productions in New York, or to professional road shows, but includes many thousands of both amateur and professional groups located in each of the 48 States,

[1] This objective study by Dr. O. Glenn Saxon is made independently and in no way reflects the opinions or views of the National Theater Arts Council or Theater Arts magazine.

the District of Columbia, and the Territories of the United States. It encompasses every group which presents a play or musical whether vocationally or avocationally. As defined, the living theater involves, as important participants in its traditions, a great variety of groups made up of many thousands of people throughout the United States who earn their living in the theater and are vitally cocnerned with its fate. It provides entertainment annually to the many millions who, as audiences, enjoy the living theater.

The historic role of the living theater in the United States

The living theater in the United States has always played a basic role in the cultural development of the country, while acting as a trailblazer for more modern media of entertainment. From the opening of the first theaters in Philadelphia and Williamsburg, more than 200 years ago, until the present century, the theater was acknowledged as the outstanding medium for dissemination of both culture and entertainment.

Even in face of the advent of many new, even revolutionary types of competition, the living theater has continued to serve as a training ground, as well as the final goal, for topflight artists in most major entertainment media. It has made possible the discovery, and has encouraged the development of, promising artistic talent throughout their formative years. Community groups and stock companies have provided valuable experience from which the more talented may graduate into all other fields of entertainment. Because of its wide scope, the living theater reaches many thousands ambitious young men and women who otherwise would never have opportunities to test their talents and abilities.

The living theater, in addition, has always been a major source of free talent and other services for public benefits. The time and services of both producers and performers have always been freely and liberally given to such purposes. Particularly, during both world wars, as well as throughout the Korean conflict, many thousands professional entertainers have contributed to organized tours and special appearances before members of the Armed Forces, both at home and in the war zones.

Beyond its many contributions in the field of entertainment, the theater has always been a basic element in our American culture. It has contributed fundamentally to the intellectual and esthetic development of the various arts and culture of our American civilization. Yet the very existence of the living theater in the United States is now in serious jeopardy.

The living theater is widely subsidized abroad

In many foreign countries the living theater is considered an acknowledged form of public service, much in the same category as the public museums or public libraries of every nation. In fact, the United States is the only major country in the world where the living theater is not regularly subsidized by the National Government in recognition of the national interest in its preservation.

In some nations, such as Denmark, France, Greece, and Hungary, national support of the living theater has been a tradition for 2 to 3 centuries. The Royal Theater in Copenhagen, for example, dates from 1722, while in France the Comédie-Française was subsidized by the Government as early as 1680. In other countries, including Mexico and Sweden, theaters have been subsidized since the 1930's. In Great Britain, Belgium, and Japan, governmental subsidies have been extended within the past 12 years.

Great Britain provides a good example of a nationally supported theater. The first British subsidy began in 1942, with a modest sum granted by the Ministry of Education to encourage both London theaters and touring companies to provide public entertainment during World War II. In 1945, under the chairmanship of Lord Maynard Keynes, the Arts Council was chartered by the British Government and given support directly by the British Treasury. This annual subsidy has increased fourfold over the past 8 years, rising to £675,000 ($1,800,000) in the year ending March 31, 1953. Based on populations, a comparable Federal subsidy in the United States would exceed $6 million per year. Government subsidy in Britain, in fact, is extended to all of the arts.

Discriminatory tax exemption and subsidiaries abroad

A significant feature of the British subsidy, however, is that only non-profit-sharing companies may receive aid. Only after nonprofit companies are certified by the Government as performing plays as a partly educational nature and as entitled to statutory exemption from the normal entertainment tax, does the Arts Council make direct subventions available to them.

All private, competitive profit-seeking, and taxpaying enterprises in the British theater are therefore discouraged in two major aspects—by the penalty of a heavy and discriminatory entertainment tax on all companies organized for profit, and by direct financial subsidies from the national treasury to all nonprofit, educational theater groups that actively compete with the nonsubsidized companies. These grossly unfair discriminatory practices, if continued, are most likely to lead to the destruction of the free, private competitive theater and the total socialization of all theatrical activities under direct Government control and domination.

According to a recent report, the United States and Norway stand alone as the only major nations which have not experienced a rise in theater popularity and attendance since the end of World War II.[2]

By permitting substantial reductions in prices of theater tickets, governmental subsidies have sharply increased theater attendance in most major foreign countries. Subsidization has already led in some countries to nationalization, which is a heavy price to pay with all its stultifying consequences.

The independent and self-sustaining theater in the United States is in jeopardy

The theater in the United States—by contrast—has a long and proud history of independence from governmental domination. For more than two centuries it has taken pride in freedom of competition and self-reliance, following American principles of a free, private, and competitive enterprise society. The American theater cherishes that independence. It now seeks only to be left free to continue to pay its own way—free from all governmental subsidies, free from socialistic controls, but also free from all discriminatory taxation and all unfair, tax-subsidized competition.

The present analysis documents the steady decline of the living theater in the United States during recent years. It points up various major factors that are sapping the virility of the theater and destroying its ability to function effectively as a private institution in the public interest in an otherwise vigorous, prosperous, and expanding American economy.

The objective of this analysis is to point the way by which the living theater in the United States can be permitted to regain its lost vitality and resume its historic role in the American entertainment world and the development of an American culture without sacrifice of its high standards, its self-reliance, and its independence.

CHAPTER I. VITAL STATISTICS OF THE INDUSTRY

The living theater in operation

The living theater in the United States has long since become a very real and vital part of our American way of life. It now reaches into practically every community in the country. There is a living theater or theater group for every 782 individuals of 15 years or older in the Nation today.

Structure and size of the industry.—Approximately 141,940 theater groups, professional and amateur, have presented plays and musicals to the American public within the past 2 years. These groups range all the way from those offering large commercial productions, which give 8 performances each week, down to local church groups, clubs, or similar organizations that stage, perhaps, only 1 show each year.

The latter type, however, consisting of miscellaneous amateur groups, constitutes 78 percent of all these theater groups. School groups—high schools, colleges, and universities with active dramatic programs—total 28,658 in number. The remaining 1,437 nonprofessional theater groups consist of community associations which engage in the art as an avocation. Relatively few have salaried staffs.

The professional theater groups, however, constituting less than one-half of 1 percent of the total, are characterized by the number of theaters in which all commercial productions are regularly staged throughout the 48 States. Such theaters had declined to only 265 in number by 1953. Of these, only 32 theaters comprise what is commonly known as Broadway in New York City.

Professional stock companies make up 159 of the overall professional group total. They include the strawhat or summer-stock groups, as well as the winter or permanent companies which present productions throughout the year.

The table below shows the industry's structure and the relative number of its various components.

[2] The Public, Charles Landstone, World Theatre, 1952, vol. II, No. 2, the International Theatre Institute, Paris, France.

TABLE 1.—*Living theater groups in the United States, by type, 1952–53* [1]

Type	Number
Professional groups:	
Commercial theaters	265
Stock companies:	
Winter and permanent	20
Summer	139
Nonprofessional groups:	
Summer stock	121
College and university	[2] 1,858
High school	[2] 26,800
Community	[3] 1,437
Miscellaneous amateur groups	[4] 111,300
Total	141,940

[1] Data for professional theaters and groups are for 1953; all other data for nonprofessional theater groups are for 1952.
[2] Were exempted from the 20-percent Federal admission tax under the Revenue Act of 1951.
[3] A small number have claimed admissions-tax exemption since 1951, where closed membership fees of less than $10 annually are charged or where they qualify as "educational" groups.
[4] Include an unsegregable number of church and other groups which are exempted from the 20-percent Federal admissions tax.

Source: National Association of the Legitimate Theatre and American National Theatre and Academy.

Federal admission tax.—During World War I, the Federal Government for the first time levied a tax of 10 percent on all admissions to the theater, as a war emergency measure. It was generally imposed on all theaters without discrimination. At the end of that war, this tax was allowed to become a permanent part of the Federal tax system, with certain discriminatory exemptions granted by Congress.

During World War II the Revenue Act of 1943 raised the rate of the admissions tax to 20 percent and eliminated all exemptions. This rate was fixed for the duration of the war emergency, but at the end of the war it was extended indefinitely.

Discriminatory taxation.—In 1951 Congress gave relief to selected segments of the industry by discriminatory exemptions from the admissions tax. Those groups not so favored have continued to pay the war-emergency 20-percent rate.

Therefore, at present the professional, competitive, and profit-making theater groups are generally subjected to discriminatory taxation in two respects. They pay the Federal admissions tax and are also subjected to other forms of taxation—Federal, State and local—including taxes on personal and corporate incomes. In contrast, many nonprofessional, but competitive theater groups are exempt from the Federal admissions tax and the great majority of them, as nonprofit organizations, are exempt from all other forms of Federal, State, and local taxation.

The footnotes to table I indicate the groups that are exempted from the Federal admissions tax by the Revenue Act of 1951. A more exact classification of tax-exempt groups is not possible because of lack of available data in the United States Department of Commerce and the Treasury Department.

Trends in the industry

To evaluate properly the present economic status of the living theater, it will be helpful to analyze various trends in the industry over the past two decades.

A major indicator of the unfavorable economic climate in the industry is the steady and drastic decline in the number of operating theaters since 1931. There has also been an even more marked decline in various professional producer organizations.

Trends on Broadway.—In New York City, the number of commercial theaters available for professional productions has decreased by more than 50 percent since 1931. This sharp decline is all the more significant because the base year (due to lack of earlier statistics) is 1931, which was practically the trough of the 10-year depression. The downward trend continued steadily throughout the decade of the 1930's. It has not been broken even by the prosperity of the years during and since World War II. In fact, it was broken only in 1953. In that year came the first increase in 22 years—an increase of only 3 in the number of theaters devoted to the presentation of professional stage productions.

CHART I.—*Theaters available for professional productions in New York City 1931–53*

Year:	Number	Year:	Number
1931	66	1943	41
1932	64	1944	39
1933	59	1945	36
1934	56	1946	36
1935	56	1947	35
1936 [1]	53	1948	35
1937	50	1949	31
1938 [2]	48	1950	30
1939	47	1951	30
1940	43	1952	29
1941	43	1953	32
1942	43		

[1] Includes Hippodrome.
[2] Includes Metropolitan Opera.
Source: National Association of the Legitimate Theater.

Nationwide trends.—There have been practically no new theaters constructed to house professional productions within the past 25 years throughout the United States.

The total number of such theaters has dropped steadily from 647 in 1921 to 234 today—a decline of 64 percent. Iowa has suffered the greatest loss—from 34 to 6 theaters. Pennsylvania comes next with a decline from 36 to 9 theaters, a loss of 75 percent.

Throughout the 48 States, North Carolina and Tennessee alone show an increase in number of theaters, but even these 2 States had increases of only 1 theater each in 32 years.

The following chart shows by States the decline since 1921 in the number of theaters outside New York City available for professional plays:

CHART II.—*Theaters available for professional production, by States (1921 and 1953)*

State	Number		State	Number	
	1921	1953		1921	1953
Alabama	9	3	Nevada	3	1
Arizona	6	2	New Hampshire	11	1
Arkansas	5	1	New Jersey	8	6
California	35	14	New Mexico	2	1
Colorado	10	3	New York	1 22	17
Connecticut	13	4	North Carolina	4	5
Delaware	3	1	North Dakota	3	2
Florida	15	6	Ohio	32	11
Georgia	17	5	Oklahoma	14	3
Idaho	8	2	Oregon	5	1
Illinois	24	7	Pennsylvania	36	9
Indiana	27	6	Rhode Island	3	1
Iowa	34	6	South Carolina	6	4
Kansas	29	7	South Dakota	2	1
Kentucky	8	1	Tennessee	3	4
Louisiana	7	2	Texas	21	14
Maine	10	1	Utah	5	2
Maryland	3	1	Vermont	5	0
Massachusetts	17	2	Virginia	9	5
Michigan	20	6	Washington	9	3
Minnesota	10	3	West Virginia	3	3
Mississippi	4	3	Wisconsin	17	4
Missouri	7	3	Wyoming	2	2
Montana	6	5			
Nebraska	4	0	Total	647	234

[1] Excludes theaters on Broadway.
Source: National Association of the Legitimate Theater.

Trends in stock companies.—Winter or permanent stock companies have all but disappeared in the past two decades. Throughout the entire United States there were only 20 such companies in operation in 1953—a decline from a total of 413 in 1928.

The following chart shows that ever since the bottom of the depression in 1932, when there were 133 professional stock companies in existence, the decline in their number has amounted to 85 percent.

CHART III.—*Winter stock companies (by selected years)*

Year:	Number	Year:	Number
1928	413	1951	37
1932	133	1952	30
1950	31	1953	20

Source: Actors' Equity Association.

Reliable statistics covering earlier years are not available for summer stock companies. This type of company is a fairly recent phenomenon, developing in the late thirties and early forties. Statistics are available only since 1947.

Professional summer stock companies showed little change between 1948 and 1953. After reaching a peak of 152 in 1950, the number of these companies, however, has declined to 139 in 1953—a decrease of about 9 percent.

CHART IV.—*Professional summer stock companies (1948–53)*

Year:	Number	Year:	Number
1948	130	1951	141
1949	135	1952	146
1950	152	1953	139

Source: Actors' Equity Association.

Current status of community theater groups.—Comparative statistical data for nonprofessional community theater groups are not available prior to 1952, but indications are that this type of theater group has increased in number in recent years. These groups—1,437 in all—are currently found in every State, as well as in the District of Columbia, Alaska, and Hawaii.

The community theater is the medium to which many thousands of individuals turn yearly for avocational outlet. It is also a source of satisfying activity and entertainment in our community life. Such activities in most communities are conducted without compensation, thereby enabling community theater groups to operate on very limited budgets.

Table 2 shows the distribution of these community theater groups throughout the country. They range in number from 2 in Nevada to more than 100 in California, Illinois, and New Jersey and, finally, to 232 in New York.

TABLE 2.—*Nonprofessional community theater groups by States, 1952*

State	Number	State	Number
Alabama	9	Nebraska	5
Alaska	1	Nevada	2
Arizona	5	New Hampshire	9
Arkansas	4	New Jersey	103
California	140	New Mexico	11
Colorado	14	New York	232
Connecticut	28	North Carolina	21
Delaware	10	North Dakota	4
District of Columbia	36	Ohio	72
Florida	44	Oklahoma	6
Hawaii	1	Oregon	10
Georgia	12	Pennsylvania	85
Idaho	4	Rhode Island	6
Illinois	101	South Carolina	11
Indiana	23	South Dakota	3
Iowa	21	Tennessee	15
Kansas	9	Texas	38
Kentucky	12	Utah	4
Louisiana	16	Vermont	8
Maine	5	Virginia	37
Maryland	41	Washington	22
Massachusetts	51	West Virginia	12
Michigan	48	Wisconsin	43
Minnesota	9	Wyoming	4
Mississippi	7		
Missouri	20	Total	1,437
Montana	3		

Source: American National Theater and Academy.

It is apparent, therefore, that over the past 2 decades there has been a steady decline in the number of operating theaters and theatrical groups—the professional, profitmaking, taxpaying segment of the industry. In the nonprofessional, community theater groups there are no reliable historical data available, but the trend apparently has been upward, stimulated, without doubt, by exemption from the Federal admissions tax, as well as other Federal, State, and local taxes.

Production trends in the industry

Decline in "Broadway" productions.—Over the past 22 years an average of 108 shows has been presented annually on Broadway. However, when measured by this standard, the 1952–53 season stands out as second only to the 1949–50 season as the low watermark for the entire 22-year period.

Only 63 professional productions were presented on Broadway in New York City last season. This relatively small number represented a decline of 68 percent from the 195 shows produced during the depth of the depression in 1931–32.

CHART V.—*Professional plays and musicals presented in New York City (1931–32 to 1952–53)*

Season	Number of plays	Season	Number of plays
1931–32	195	1942–43	82
1932–33	180	1943–44	105
1933–34	158	1944–45	94
1934–35	175	1945–46	77
1935–36	159	1946–47	94
1936–37	152	1947–48	90
1937–38	137	1948–49	70
1938–39	113	1949–50	60
1939–40	93	1950–51	88
1940–41	75	1951–52	74
1941–42	89	1952–53	63

Source: Series of annual volumes, from Best Plays of 1931–32 to Best Plays of 1952–53, edited by Burns Mantle (1931–32 to 1946–47), John Chapman (1947–48 to 1951–52), and Louis Kronenberger (1952–53). Dodd, Mead & Co., New York.

The total number of playing weeks of all productions on Broadway has declined from 1,147 in the 1948–49 season to 1,023 in the 1952–53 season. The 1951–52 season is the only exception to a continuing decline during this 5-year period.

Since 1927–28, the decrease in Broadway playing weeks has exceeded 50 percent. The weeks played in the 1952–53 season were about 10 percent below those in 1931–32.

CHART VI.—*Number of weeks played by professional shows in New York City (1927–28 to 1952–53)*

Season	Number of weeks	Season	Number of weeks
1927–28	2,053	1950–51	1,057
1931–32	1,136	1951–52	1,075
1948–49	1,147	1952–53	1,023
1949–50	1,067		

Source: Actors' Equity Association and American National Theater and Academy.

Decline in "road-show" productions.—"Road show" playing weeks dropped off markedly in the 1949–50 and 1950–51 seasons from the level of 1948–49, but showed a substantial recovery in 1951–52 and 1952–53. This recovery is generally acknowledged as due to concerted efforts by the Theater Guild and American Theater Society to increase their subscriptions, which entitle subscribers to attend "road" performances. Despite the upswing, total playing weeks on the road in 1952–53 were more than 6 percent below the 1,389 weeks played in 1948–49.

CHART VII.—*Weeks played by "road shows" (1948–49 to 1952–53)*

Season	Number of weeks	Season	Number of weeks
1948–49	1,389	1951–52	1,077
1949–50	1,099	1952–53	1,295
1950–51	1,017		

Source: Actors' Equity Association.

The number of operating weeks for theaters in various cities throughout the country points up the problems faced by the average local theater owner. The record is startling. Out of a possible total of 52 playing weeks, theaters in 34 major cities that were privately surveyed for this analysis reported an average of only 13 playing weeks for professional live "road shows." The range was from 35 weeks in Pittsburgh to less than 5 weeks in 10 other cities.

TABLE 3.—*Operating weeks of professional theaters outside New York City (1952–53)*

Location	Operating weeks	Location	Operating weeks
Los Angeles	[1] 29	Kansas City	9
San Francisco	[1] 30	St. Louis	22
Denver	4.5	Atlantic City	0
Bridgeport	1	Newark	1
Hartford	12	Buffalo	10
New Haven	15	Rochester	8
Wilmington	9.5	Cincinnati	[1] 13
Chicago	[1] 33	Cleveland	26
Indianapolis	4.5	Columbus	8
Des Moines	3.5	Portland (Oreg.)	5
New Orleans	8	Philadelphia	[1] 18
Baltimore	15.5	Pittsburgh	35
Boston	[1] 12	Providence	3
Springfield	10	Richmond	4
Worcester	1	Seattle	9
Detroit	[1] 24	Milwaukee	13
Minneapolis	18	District of Columbia	[1] 31.5
St. Paul	3		

[1] Represents average of two or more theaters.
Source: National Association of the Legitimate Theater.

Playing weeks are vital statistics to the theater industry. They show the total operating time of theaters with all that means in employment, rental income from which to pay local property taxes, and net revenues for adequate return on capital invested. Closed theaters usually also mean reduced business activities and depressed property values for surrounding areas. The unhappy plight of the theater is not isolated to that industry. Ill health in one industry reacts among all others associated with it.

Theater attendance

Decline in attendance on Broadway.—Between the 1944–45 and 1951–52 seasons, estimated total attendance at stage plays on Broadway has fallen from 11.5 million to 8.4 million—a decline of 27 percent. Unfortunately, earlier reliable data are not available. This downward trend probably had prevailed in the prewar years and was interrupted only for the duration of the war.

This drop in attendance cannot be ascribed to a deterioration in the quality of productions. The Nation's most popular hits have been presented in recent years. Abroad, theater attendance has increased steadily since World War II. Whether or not heavy and discriminatory taxation is the cause, the fact remains that a continuation of the present trend in attendance can result in the eventual elimination of the living theater—the oldest and most highly respected medium of the entertainment world.

CHART VIII.—*Living theater attendance*[1] *in New York City*

Season	Attendance	Season	Attendance
1944–45	11,500,000	1948–49	9,450,000
1945–46	11,000,000	1949–50	9,373,000
1946–47	10,250,000	1950–51	9,260,000
1947–48	9,975,000	1951–52	8,430,000

[1] Estimates based upon the number of programs printed and used.
Source: American National Theater and Academy.

Decline in nationwide attendance.—This decline in attendance has not been confined to New York City. The Theater Guild and American Theater Society

actively promote the sale of theater subscriptions in major cities throughout the country. Subscribers are entitled to attend a series of professional live productions that are sent on tour each year. These road shows bring the professional stage to all parts of the Nation. They have been operating at financial losses in recent years, despite all efforts of the Theater Guild and the American Theater Society to promote their popularity. An intensive sales program in 1951 raised subscriptions to a new high, but in the 1952–53 season they dropped to the lowest level of the past 4 years.

Nationwide subscriptions sold by the Theater Guild and the American Theater Society reveal a net loss of approximately 9 percent in the past year. Between 1952 and 1953 subscriptions dropped in 12 major cities in varying degrees that ranged up to 59 percent in Milwaukee. Earlier data are not available.

TABLE 4.—*Decline in subscribers, Theater Guild-American Theater Society, 1946–47 to 1952–53*

City	1946–47	1952–53	Increase or decrease (—) 1946–47 to 1952–53
Baltimore	3,386	3,413	27
Boston	9,143	5,450	—3,693
Buffalo	925	653	—272
Chicago	12,967	12,109	—858
Cincinnati	2,008	3,477	1,469
Cleveland	1,501	2,455	954
Columbus	1,797	1,536	—261
Detroit	5,919	6,200	281
Hartford		1,250	1,250
Kansas City	1,605	552	—1,053
Los Angeles	6,894	(1)	
Milwaukee	2,632	3,872	1,240
Minneapolis	3,121	3,741	620
Philadelphia	9,830	7,351	—2,479
Pittsburgh	3,996	2,952	—1,044
St. Louis	3,081	2,595	—486
St. Paul	3,737	1,860	—1,877
San Francisco	7,185	5,808	—1,377
Seattle	3,063	2,341	—722
Washington, D. C.	13,858	7,007	—6,851
Wilmington		2,122	2,122
Total	96,348	76,744	[2]—12,710

[1] Not available.
[2] Excludes Los Angeles because comparable 1952–53 data are not available.

Source: Theater Guild.

Comprehensive data for attendance at road-show productions are not available. However, the following table shows a sharp attendance decline in four representative cities.

San Francisco had 60 percent smaller road-show audiences in 1952 than in 1946. Attendance in Detroit dropped 44 percent during the same period. St. Louis has a 36 percent decline between 1948 and 1952. From the prewar season of 1940 through the 1952 season, Columbus (Ohio) experienced a decrease of nearly 20 percent in road-show attendance.

CHART IX.—*Road-show attendance, selected seasons, 1940–52*

City	Attendance			
	1940	1946	1948	1952
San Francisco	(1)	1,232,564	559,867	489,624
Detroit	(1)	418,700	329,000	232,500
St. Louis	(1)	(1)	253,293	162,918
Columbus	144,441	(1)	(1)	120,305

[1] Not available.

Source: Direct questionnaire.

The one encouraging note in living theater attendance is found among community theater groups. These data are based on a questionnaire sent to 200 nonprofessional community theater groups, including those subject to the admissions tax, as well as those which are exempted by the Revenue Act of 1951. The sampling of this group shows that, where they are exempt from the 20 percent Federal admissions tax, nearly every group reported attendance increases in recent years. On the other hand, roughly one-half of the taxable groups replying to the questionnaire reported attendance losses.

Employment in the industry

In 1953 total employment of actors in the living theater amounted to only 991, less than 15 percent of the number employed in the 1927–28 season. Permanent-stock companies alone provided work for 4,130 in that season and 315 actors were employed by repertoire companies, a form of traveling show which completely disappeared during the depression years.

Average employment of actors in the 12 months ending May 31, 1953, showed a decline of 15 percent from the 1950 level which had shown a moderate increase over the previous season. There has been, in fact, a substantial decline in employment since the bottom of the depression in 1931–32.

Total employment in the industry is best indicated by the statistical surveys made by the Actors' Equity Association of its members. There is a close correlation between employment among actors and among all other groups that depend upon the stage for their livelihood, including managers, porters, ushers, stagehands, box-office employees, engineers, and wardrobe attendants.

The Equity surveys cover all actors employed in the professional theater under a standard Equity contract in Broadway productions, road production (including pre-Broadway tryouts), west coast productions, summer-stock, winter-stock, and permanent-stock companies.

CHART X.—*Employment of equity actors in the living theater, selected seasons 1927–28 to 1952–53* [1]

Season	Average number employed [2]	Season	Average number employed [2]
1927–28	[3] 4,445	1949–50	1,168
1931–32	[3] 1,458	1950–51	1,047
1948–49	1,106	1951–52	1,014
		1952–53	991

[1] Excludes Chorus Equity employees.
[2] Median average of weekly employment each year.
[3] Includes stock and reportoire employment only.

Source: Actors' Equity Association.

The number of actor workweeks offers another significant indication of employment trends in the professional theater. In the 1952–53 season there were 36,347 actor workweeks for those employed on Broadway, road shows, and rehearsals. This level represented 8,849 fewer workweeks than in 1948–49; a 20-percent decrease. The 1952–53 season marked the fourth straight year of decline. Earlier data are not available.

TABLE 5.—*Total actor workweeks in New York, road shows, and rehearsals, 1948–49 to 1952–53*

Season	Average number employed [2]	Season	Average number employed [2]
1948–49	45,196	1951–52	38,704
1949–50	43,759	1952–53	36,347
1950–51	40,846		

[2] Median average of weekly employment each year.

Source: Actors' Equity Association.

Nonprofessional community theater groups engage relatively few employees. Those with paid staffs are in the minority and rarely employ more than 1 or 2 persons each. For example, of 749 community theaters replying to a questionnaire, 314 theaters reported a total of only 556 employees.[3]

[3] A Directory of Nonprofessional Community Theaters in the United States, Educational Theater Journal, vol. V, No. 2, May 1953. Compiled by the American Educational Theater Association.

Theater gross income and admissions tax receipts

Decline in gross income.—Gross income of the professional theater from ticket sales has steadily declined since 1947. During the postwar period of rapid expansion in national income and general business activity, theater gross income rose to a peak of $85.8 million in 1947. It then fell off steadily during the next 5 years to $72.5 million in 1952—a decline of 15 percent.

When adjusted to eliminate the effect of inflation on the purchasing power of the dollar, the plight of the theater is shown in its true light. In terms of constant dollars, total gross income of the professional theater industry, as reported by the United States Department of Commerce, dropped nearly 30 percent between 1946 and 1952.

In these same constant dollars, 1952 gross income was only 2.2 percent above that of 1942. It was lower than that of any year since 1942. In constant dollars, total personal income in the United States since 1942 has risen at nearly 16 times the rate of increase in theater income.

It should be stressed that these gross income data relate only to the professional theater. As reported by the Department of Commerce, they specifically exclude the incomes of all nonprofit theater groups.

TABLE 6.—*Professional theater gross income and personal income in current dollars and constant dollars (1942–52)*

[In millions]

Calendar year	Theater gross income [1]		Personal income	
	Current dollars	Constant dollars [2] (1935–39=100)	Current dollars	Constant dollars [2] (1935–39=100)
1942	$43.6	$37.4	$122,721	$105,295
1943	61.8	49 9	150,286	121,431
1944	69.9	55.6	165,892	132,050
1945	66.7	51 9	171,927	133,759
1946	75.8	54.3	177,724	127,428
1947	85.8	53 8	191,000	119,757
1948	80.0	46.6	209,494	121,926
1949	76 7	45 1	205,867	121,050
1950	75.0	43.6	226,706	131,943
1951	75 0	40 4	254,327	137,082
1952	72.5	38.2	269,660	142,111
Increase between 1942 and 1952, percent	66 3	2.1	119 7	35.0

[1] Includes gross income, less admissions tax receipts, of theatrical productions, opera companies, road companies, stock companies and those legitimate stage theaters, which actually present theatrical productions. Legitimate stage theaters which are normally rented to theatrical productions, stock companies or opera companies are not included.

[2] Current dollars deflated by consumer price index.

Source: Department of Commerce.

A large part of the decline in professional theater income is traceable to revenue losses in the road show business, which recently ebbed to an all-time low.

As compiled by Variety (the trade publication), road show gross receipts for 1951–52 were actually 20 percent below those for 1948–49, which itself was generally a season of recession.

In the following chart Variety's compilations are on a different basis from those of the Department of Commerce in the preceding chart and are not strictly comparable. They are for the 12 months ending May 31 each year.

CHART XI.—*Gross receipts of road shows [1] (1948–49 to 1951–52)*

Year:	*Amount*
1948–49	$23,657,900
1949–50	20,401,300
1950–51	20,330,600
1951–52	19,020,400

[1] Excludes stock, ice shows, ballets, operas, and variety shows.

Source: Variety.

Collections from Federal admissions tax.—Because of their relative insignificance to the Federal Government, the Treasury Department does not keep records which separately classify tax collections from the 20 percent admissions tax imposed on theater tickets.

However, by taking the Department of Commerce gross income data of the professional theater and applying to it the admissions tax rate, such (estimated) collections have averaged well under $20 million annually since the 20 percent wartime tax rate was imposed in 1944.

To the Federal Government, this sum represents less than three ten-thousandths of 1 percent of its total budget receipts.

To the living theater, this sum has equalled one-fifth of its total gross income in every year since 1944. To many groups it also means tickets offered at prices above those the public is willing to pay. In the aggregate, this relatively small sum means the difference between profits and losses or life and death to a great many theater groups.

CHART XII.—*Admissions taxes collected from professional theaters (1942–52)*

Year	Amount [1]	Year	Amount
1942	$4, 000, 000	1948	16, 000, 000
1943	6, 200, 000	1949	15, 300, 000
1944	12, 100, 000	1950	15, 000, 000
1945	13, 300, 000	1951	15, 000, 000
1946	15, 200, 000	1952	14, 500, 000
1947	17, 200, 000		

[1] Includes theatrical productions, opera companies, road companies, stock companies, and those legitimate stage theaters which actually present theatrical productions. Legitimate stage theaters which are normally rented to theatrical productions, stock companies, or opera companies are not included.

Source: Estimate based upon data in table 6.

CHAPTER II. FINANCIAL PLIGHT OF THE INDUSTRY

The cost-price squeeze

Ticket prices.—Ticket prices in the professional theater have been relatively stable over the years of widespread price inflation since 1944. Available statistics, going back 9 years, show an average rise since 1944 of only 34 percent in maximum box office prices of tickets for musical shows in New York City. For dramas the increase has been even less, averaging only 28 percent.

CHART XIII.—*Average maximum prices of professional theater tickets in New York City (1944 and 1953)*

	Dramas			Musicals		
	Amount		Increase	Amount		Increase
	1944	1953		1944	1953	
			Percent			*Percent*
Average price	$3.74	$4.80		$4.98	$6.66	
20 percent admissions tax	.62	.80		.83	1.11	
Price less tax	3.12	4.00	28	4.15	5.55	34

Source: The League of New York Theatres.

Prices of theater tickets in other major cities are much the same, having increased little or not at all in recent years.

The greatest increase shown in the following table is in Chicago, where ticket prices for both plays and musicals have risen 37.5 percent since 1945. However, in 4 major cities there have been no increases since 1941 in professional theater ticket prices, other than the additional 10-percent admission tax imposed beginning April 1, 1944. In Pittsburgh, the price of such tickets has not increased in 25 years.

TABLE 7.—*Maximum professional theater ticket prices in selected cities, 1941 and 1953*

City	Ticket price, less tax		
	1941	1953	Increase 1941–53
			Percent
Baltimore:			
Plays	$3.00	$3.50	16.7
Musicals	4.00	4.50	12.5
Boston	[1] 3.50	4.00	14.3
Average, all seats	[1] 2.78	3.29	18.3
Chicago	[2] 4.00	5.50	[2] 37.5
Cincinnati:			
Plays	3.00	3.00	None
Musicals	3.50	[3] 3.50	None
Average, all seats	2.50	2.50	None
Cleveland:			
Plays	3.50	3.50	None
Musicals	4.00	4.00	None
Los Angeles	3.00	4.00	33.3
Average, all seats	2.50	3.50	40.0
Pittsburgh:			
Plays	3.50	3.50	None
Musicals	4.00	4.00	None
St. Louis:			
Plays	2.50	3.00	20.0
Musicals	3.00	4.00	33.3
Average, all seats	1.80	2.00	11.1
Washington, D. C.	5.00	5.00	None
Average, all seats	3.00	3.00	None

[1] Data are for 1942.
[2] Ticket price of $4 is for 1945; therefore percentage increase is from 1945–53.
[3] For 2 musicals, the ticket price was raised to $5, making an increase of 42.9 percent.

Source: National Association of the Legitimate Theatre.

Because of the very nature of theatrical productions, prices of theater tickets have always been relatively higher than ticket prices of more recently developed competitive form of mechanized entertainment. A relatively large number of people employed over the entire run of a play, together with limitations on the sizes of audiences that can attend any one theatrical performance, works on the industry a double squeeze of sharply higher unit operating costs and ticket prices, with restricted volume of gross income from ticket sales, compared with per unit production costs and gross ticket sales income of the motion-picture industry.

Ticket price trends of nonprofessional theater groups parallel those of the professional theater. Only 1 out of 3 nonprofessional community theater groups responding to a recent questionnaire reported ticket-price increases of as much as 30 percent since the end of World War II. Yet the average ticket price charged by these groups is over $1, excluding the 20 percent admissions tax.

Theater-ticket prices have increased at a much lower rate than the increase in total disposable personal income out of which all individuals' entertainment expenditures are made. As reported by the Department of Commerce, disposable personal income rose 170 percent between 1941 and 1953. Since 1944, disposable personal income has increased by 69 percent. Since the end of World War II, it has risen nearly 60 percent.

Theater salary scales

The best available evidence of theatrical production and operating costs is the weekly salary scale of various groups employed in the professional theater.

TABLE 8.—*Weekly minimum wages and salaries in the professional theater,*[1] *pre-World War II and 1953*

Group	Pre-World War II		Present salary[2]	Percent increase	Percent increase in cost of living[3]
	Year	Salary			
Actors' Equity:					
Rehearsal	1938	0	$45.00		
New York production		$40.00	85.00	112	89
Road production		40.00	110.00	175	89
Chorus Equity:					
Rehearsal		0	45.00		
New York production		35.00	85.00	143	89
Road production		40.00	110.00	175	89
Cleaners	1939	13.75	37.51	173	92
Porters		25.00	59.29	137	92
Ushers	1942	11.00	24.75	125	64
Stage door		22.50	45.10	100	64
Ticket taker		22.50	41.80	86	64
Wardrobe attendants:					
Master	1933	50.00	90.00	80	106
Dressers		22.00	42.00	91	106
Musicians:					
Musicals	1934	80.00	139.50	74	100
Dramas		56.00	98.15	75	100
Box office:					
Treasurer	1939	80.00	115.00	43	92
Assistant treasurer		55.00	95.00	73	92
Engineers	1940	58.50	[4] 100.00	71	91
Stage hands:					
Department heads	1937	82.50	136.08	65	86
Side men		54.00	90.72	68	86
Managers	1938	100.00	150.00	50	89
Agents		150.00	210.00	40	89

[1] Except as voted for Actors' Equity and Chorus Equity members, and for wardrobe attendants, data are for New York City only.
[2] Plus vacations, except for wardrobe attendants.
[3] Percentage change in consumer price index from various years for which pre-World War II salary data are given to 1953. Consumer price index for 1953 is the average for first 9 months.
[4] In process of negotiations, with increase likely.

Source: The League of New York Theatres.

Contrary to popular opinion, salaries on the whole in the living theater are quite modest. During rehearsals of Broadway and road productions, all actors and actresses, including top stars, presently receive a flat salary of only $45 per week. Throughout a play's run, recognized stars are paid more than the minimum of $85 to $110 per week, but their earnings are determined by each individual's drawing power. This premium is usually not a fixed dollar amount, but a negotiated percentage of gross receipts.

A more realistic picture is shown by available statistics of average earnings. The average income from the living theater of all professional actors and actresses throughout the country for the 1952–53 season was only $800 per person. Many, of course, did not work throughout the entire season. The average annual earnings of all those who worked 26 or more weeks was under $6,000.

Return on investments in the industry

Except for Broadway productions, there are no records, official or otherwise, of profits on investments in the theatrical industry. Even for Broadway productions, data are not available earlier than for the 1948–49 season. Aggregate losses on Broadway productions have exceeded aggregate income by nearly $3 million in each of the past 2 years. More important, however, is the fact that the 1948–49 season was the last to show a profit, as the chart below shows.

This financial distress in the industry is a familiar theme in the recent history of show business. The 1948–49 season was the only year in the last five which showed combined gross earnings (before income taxes) greater than combined losses for all Broadway productions.

CHART XIV.—*Aggregate gross profits (before income taxes) and losses on "Broadway" stage productions in New York City (1948–49 to 1952–53)*

Year	*Profit or loss (—)*
1948–49	$921,400
1949–50	—2,144,600
1950–51	—886,000
1951–52	—2,899,700
1952–53	—2,749,900

Source: Business Week.

On the basis of average annual gross receipts of $29 million over the past 5 years, "Broadway" productions have paid about $5.8 million each year, as their share of the 20 percent Federal admissions tax. Meanwhile the average overall deficit of such productions for the same 5 years was $1.6 million.

In other words, estimated admissions tax collections exceeded the average annual deficit by 3½ times. Accordingly, repeal of this tax would eliminate the deficit, provide some return to investors, and still leave some chance of stimulating theater attendance by a reduction in ticket prices.

Under current conditions, production and operating costs are so high in relation to gross income that "Broadway" productions need an average attendance of substantially better than 75 percent of its total available seating capacity just to break even. With an average weekly gross income of 76.2 percent of capacity in the 1950–51 season, a loss of $886,000 was incurred.

At present, many shows, which otherwise could survive, are forced to suspend operation before attendance can be built up to a break-even point. In effect, every fifth seat in every theater is appropriated by the Federal Government. This fact stands out sharply in any analysis of the financial conditions of the theater in any community of the country.

Unfair competition and discriminatory taxation

Intense competition is nothing new to the living theater. The industry was hurt badly by the advent of both silent and talking motion pictures, with their mass production, low unit costs, and low ticket prices. This new competitive industry was given an unfair advantage in the form of a discriminatory method of Federal taxation which exempted the lower-priced motion picture tickets from the Federal admissions tax.

In the middle 1920's, the living theater was forced to meet another new and revolutionary form of competition—free radio entertainment, paid for, not by the public, but by commercial advertisers. Yet, the living theater was sufficiently virile to survive the competition of both motion pictures and free radio entertainment. It even overcame the ravages of the depression years to come back strongly during the early years of World War II.

The fate of the living theater has been further jeopardized in recent postwar years by the development of commercial television which also renders a novel and revolutionary form of entertainment free to the consumer.

The record shows that the theater industry is capable of meeting fair competition on equal terms, but it has been subjected to tax-free competition from other forms of entertainment. The industry cannot indefinitely survive unfair competition based upon discriminatory Federal taxation.

Just as the novelty of free television began to fade, the Revenue Act of 1951 exempted from the Federal 20 percent admissions tax many forms of entertainment directly in competition with the theater, including all opera productions and all symphony concerts. The act even divided the living theater against itself by exempting all educational institutions and certain other groups which present live stage productions.

This revenue act even fosters inequities and unfair competition within nonprofessional community theater groups. It provides that group membership dues (not exceeding $10 annually) are tax exempt, where membership carries privileges beyond the mere right to attend plays. Theater groups that attempt to increase their income by soliciting season subscriptions (rather than full memberships) are still subject to the Federal admissions tax. Closed memberships groups that sell tickets to individual performances also are liable for the tax on the single performance tickets.

Another unfair competitive advantage exists where a community theater group is located in a college or university town. The ticket prices of taxpaying community theaters are in practice limited to the ticket prices of nonpaying

theaters or colleges. The community theater is, therefore, usually forced to absorb the 20 percent Federal admissions tax.

Audiences, however, demand more of adult civic group performances in the way of props, sets, costumes, and professional standards of production than of college theaters, though both groups are nonprofit, cultural organizations.

The living theater, both professional and nonprofessional, could survive and once again even thrive under our former system of free, but fair competition. It cannot, however, much longer survive the combination of free radio and television entertainment with unfair, tax-subsidized competition based on special tax exemption for privileged groups.

CONCLUSIONS AND PROPOSALS

This analysis, based on the best available data, official and unofficial, clearly shows the imperative need of prompt action for outright repeal of the Federal admissions tax. There must be action now, if the living theater is to survive.

The Federal Government for these reasons has already officially recognized the plight of operas, symphonies, and certain segments of the living theater. In 1951 they were granted exemption from this tax. In 1953, Congress also voted to extend the exemption to motion picture theaters, but this action was vetoed by the President in his efforts to balance the Federal budget.

The living theater only asks that it be freed from taxation that unfairly discriminates in favor of some and against other segments of the entertainment industry. To survive in its highly competitive market, the living theater must be given immediate tax relief by action now.

To be of help to the living theater industry, the tax relief must be outright repeal of the 20 percent tax. Any modification of the law to exempt low-priced tickets (50 cents or $1) woud only penalize the living theater industry and favor the motion picture industry. In no major city today is the average price (before tax) of a ticket to a professionally staged play or musical less than $2 (St. Louis). In fact, the average ticket price ranges as high as $3.50 (Los Angeles). By contrast, the motion picture industry, with its mechanical reproduction processes, reported in 1953 a national average ticket price of only 47.3 cents. Because of the functional difference between the two industries and the problems facing them, it is unrealistic to attempt to solve their financial difficulties by the same tax formula.

Adequate relief would not be assured merely by cutting the tax in half. The margins of operating losses for individual enterprises are not available, but without doubt a healthy, prospering industry can best be assured by outright repeal of the tax. In any case, it should be noted that this tax is the product of war emergency legislation. It originated during World War I and its rate was doubled in World War II.

Similarly, any form of tax graduated on a sliding scale according to the price of tickets would be discriminatory against the living theater industry. Not only the living theater industry, but the Federal Government as well, would be required by such a system to keep detailed records which could cost far out of proportion to the tax revenue that would be derived.

To the United States Government, the cost of outright repeal of the tax on the living theater industry would mean a revenue loss of $16 million annually—less than three ten-thousandth of 1 percent of present Federal revenues. Since 1940, the United States Government has given away as foreign aid to the rest of the world an average of $16 million per day of the taxpayers' earnings. Elimination of the admissions tax on the living theater would represent the expenditures of one day under the foreign aid program.

To the living theater, admissions tax relief now would mean a chance for a new life. Such a stimulant would renew the vigor that the theater has enjoyed for many centuries both here and abroad. Many shows of merit are now forced to close—some are never even opened—because they are faced with almost inevitable losses, as the record of recent years clearly shows. Tax relief now would give them a reasonable chance of small profits.

Equally important, by lowering the break-even point and permitting plays to run longer, removal of the tax now would go far toward stimulating employment in the theater and related activities, whereas today (on the average) less than 1 actor in 5 is working on a normal basis.

Admissions tax repeal now would encourage greater investment in the theater. Today, new ventures are almost impossible to finance, if inducement for invest-

ment is limited to prospects of potential profits, as it should be in a free and private society. No field of endeavor is more risky than that of theatrical production. Yet, the profit margins even in successful productions are not sufficiently high to counterbalance the great risks of losses in the theater industry.

Admissions tax repeal now would encourage fuller use of idle theatrical facilities. Many theaters long closed across the country would reopen and help stabilize real-estate values in neighborhood areas.

Admissions tax repeal now would stimulate attendance by encouraging lower ticket prices which could be hoped for in time, as financial conditions of the industry improve. Not every theater could reduce its ticket price at once. Few could do so by the full amount of the tax cut. Much will depend upon varying local conditions and potential markets.

It is significant, however, to note that some theater groups, given tax exemption in 1951, did lower prices by the full amount of the admissions tax. The majority, which have been operating for years in the red, found it necessary to retain all or part of the savings from the exemption.

Offsetting, at least partially, revenues lost by repeal of the tax would be greater yields from individual and corporation income taxes, as the industry again became relatively prosperous. Revenues from these sources would increase, as the living theater once again could hope to expand and regain its former high position among the major cultural forces and artistic influences in American life.

Action now in eliminating the onerous and discriminatory admissions tax will permit the survival of a free, competitive, and private theater industry rather than one dependent upon governmental subsidies and subjected to governmental control, and doomed to eventual nationalization.

(Whereupon, at 11:30 a. m., the committee recessed to reconvene at 10 a. m., Wednesday, March 17, 1954.)

EXCISE TAX REDUCTION ACT OF 1954

WEDNESDAY, MARCH 17, 1954

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

The committee met, pursuant to recess, at 10 a. m., in room 312, Senate Office Building, Senator Eugene D. Millikin (chairman) presiding.

Present: Senators Millikin, Martin, Williams, Flanders, Malone, Carlson, Bennett, George, Byrd, Johnson, and Frear.

The CHAIRMAN. The meeting will come to order.

First, I would like to submit for the record a letter from Assistant Secretary of State Thruston B. Morton with attached notes from representatives of the Governments of the Dominican Republic, Mexico, Costa Rica, Haiti, Cuba, El Salvador, Honduras, United Kingdom, Panama, France, and the Netherlands, as well as views expressed by Ambassador Heurtematte of Panama, in regard to the excise tax on transportation of persons to these countries.

(The information referred to follows:)

DEPARTMENT OF STATE,
Washington, March 16, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance, United States Senate.

MY DEAR SENATOR MILLIKIN: The Department has been requested to bring to the attention of the Finance Committee the views of various affected Governments on the discriminatory aspects of the tax on travel of persons in the Central American and Caribbean area. The application of the tax to this area has been a disturbing factor in our relations with these countries.

It would be appreciated if the attached notes from representatives of the Governments of the Dominican Republic, Mexico, Costa Rica, Haiti, Cuba, El Salvador, Honduras, United Kingdom, Panama, France, and the Netherlands could be included in the printed record of the hearings of the committee on H. R. 8224, revising excise taxes. I am also forwarding for inclusion in the record the views expressed by Ambassador Heurtematte of Panama at the March 9, 1954, meeting between representatives of Panama and the United States to review relationships between the two countries and a resolution of the Caribbean Commission.

Sincerely yours,

THRUSTON B. MORTON,
Assistant Secretary.

Enclosures:
1. Resolution of the Caribbean Commission.
2. Views of Ambassador Heurtematte.
3. Notes from the Dominican Republic, Mexico (2), Costa Rica, Haiti, Cuba, El Salvador, Honduras, United Kingdom, Panama, France, and the Netherlands.

CARIBBEAN COMMISSION—16TH MEETING, SURINAM, MAY 11–16, 1953

United States transportation tax

The Commission, having regard to the earnest desire of the peoples of the countries served by it to stimulate the inflow of visitors from the North American Continent into the Caribbean area and the fact that the 15 percent excise tax on travel does not apply to all countries in the surrounding area, with the result that the tax has a discriminatory effect upon the countries served by the Commission, strongly urges that each national section take steps, through diplomatic channels, to make representations requesting the United States Government to give immediate consideration to abolishing the tax on travel to this area.

The Netherlands Ambassador presents his compliments to the Honorable the Secretary of State and has the honor to invite the attention of Mr. Dulles to the effect of the 15 percent transportation tax on travel between the United States and the Caribbean area.

For the Netherlands Antilles the tourist trade is of considerable importance and its promotion entails financial sacrifices of some magnitude.

The United States transportation tax was reviewed in 1947, when it was amended so as to exclude South America but maintained in respect of travel from the United States to the Caribbean area (inter alia). The Netherlands Government therefore wholeheartedly supported the resolutions, passed in December 1949 and December 1952, by the Caribbean Commission, expressing the hope that the excise tax would also be abolished for the Caribbean area.

At its 16th meeting the Caribbean Commission passed the following resolution, which was again fully supported by the Netherlands Commissioners.

"The Commission, having regard to the earnest desire of the peoples of the countries served by it to stimulate inflow of visitors from the North American Continent into the Caribbean area, and the fact that 15 percent excise tax on traveling does not apply to all the countries in the surrounding area with the result that the tax has a discriminatory effect upon the countries served by the Commission, strongly urges that each national section take steps through diplomatic channels to make representations requesting the United States Government to give immediate consideration to abolishing tax on travel to this area."

On the strength of this resolution and in the interest of the efforts made by the governments of the Netherlands Antilles for the promotion of the tourist trade to their territory Dr. van Roijen wishes to express the hope that the Government of the United States will see its way to eliminate the detrimental effect of the said excise tax on travel from the United States to the Caribbean area.

WASHINGTON, D. C., *September 22, 1953.*

STATEMENT MADE BY PANAMANIAN AMBASSADOR TO THE UNITED STATES AT THE MARCH 9, 1954, MEETING BETWEEN REPRESENTATIVES OF PANAMA AND THE UNITED STATES TO REVIEW RELATIONSHIPS BETWEEN THE TWO COUNTRIES

Your Excellency, with your permission, I'd like to make a few comments, which I think are pertinent at this time, on the matter of the 15 percent transportation tax. As is well known, when this tax was passed originally it was for the express purpose of discouraging travel. It was passed during the war at a time when the chief object of the tax was not to collect revenue but to discourage travel. Then after the war was over it was accepted in principle that one of the means by which other countries could secure dollar exchange to help the balance of payments was through tourists and that has been an esablished and accepted fact. Because of that, then, it was declared to exempt travel to Europe from the payment of the 15 percent in order to encourage it, and travel to Asia was exempted from the 15-percent tax in order to encourage it and, as the ruling reads, travel to South America.

Now, without commenting at all on whether Panama belongs in or out of South America, there is another phase of the matter that I think bears perhaps a little more detailed consideration than Dr. Fábrega chose to give it in his brief exposé. Panama is probably the nation that is affected most by that 15 percent, for two reasons: Not only because of our traditionally unique economy which lives to a greater extent upon the tourists and transients than any other country

but also because we are situated on borderline of the application of that tax. I don't wish to go into too great detail but we have felt that more severely than any other country to which that has been applied. This has been discussed in great detail with all tourist agencies and the best opinions have been selected on this subject. Incidentally, one of the interested agencies in this particular thing has been the Panama Canal Company because they operate a steamship line.

In the case of Panama, since we are on the borderline where that tax is applied it has definitely been a great burden to us. At a meeting of tourist agencies which was held in September 1951 in New York and through a previous investigation before I came up here in Panama they calculated that in one season during the winter cruises 20 ships did not visit Cristobal that might have otherwise visited Cristobal. In brief, the reason is this, in order to get the winter tourists to appeal to the mass market they have a definite limit on what the expenses should be—for the majority of them it is within the limit of maybe 12 or 14 days—and it isn't possible to stop both in the South American port, which in this case would be a Venezuelan port, and also Cristobal. They must choose one or the other as the terminal. And, as Cristobal involves payment of a 15-percent tax they choose South America and pass up Cristobal. That means that where we have traditionally lived off of tourists and transients we have a definite sanction imposed upon the economy of Panama because we are not able to take full advantage of what has been the type of business we have had because of our geographical position.

It is essential that, whereas we do not pretend or at any time presume to tell the American Government what taxes should be imposed on travel to our country, we do believe that in this case we wish our voice to be heard because of the discriminatory feature of this tax. In essence, a tourist is told, "Do not go to Panama, go to Colombia, go to Venezuela," countries which are much larger and much richer than Panama. So we very definitely feel the burden of this tax in its discriminatory feature. Perhaps now that Congress is considering this matter, if a 15 percent tax were made for everybody or a 20 percent tax for everybody or a 5 percent tax for everybody we would have little cause to complain—in fact, we would have no cause to complain. But what is affecting us very seriously is that a tax that is applied to Panama is not applied to our neighbors. In short, it is an exhortation of the American tourist to go to Colombia and Venezuela rather than to Panama.

But there is another feature of this question which is a reason why I mention it. It is that one of the agencies detrimentally affected is the Panama Canal Company. It was figured out 2 years ago that those 20 ships which did not arrive at the port of Cristobal deprived the Panama Canal Company of $100,000 in direct revenue. If the Panama Canal Company is a self-supporting commercial enterprise within the Isthmus of Panama the loss of that revenue means that they must look to other sources to get it, and we cannot possibly fail to see the connection between a loss of $100,000 revenue from the ships that come there and the possible increase in water rates and the Isthmian transfer charge and other charges that are applied to Panama. So we feel a double effect of that tax. We are not only deprived of a certain amount of tourist trade that would help us tremendously in our balance of payments position vis-a-vis the United States, which is unfavorable, but also it creates a problem of charges that are made by the Panama Canal Company to Panama itself because of their own loss.

The Panamanian delegation feels very strongly that its basic form of sustenance is being affected by a tax which is discriminatory, and on that basis we do hope that something can be done about this tax.

[Translation]

No. 402

The Embassy in France in the United States presents its compliments to the Department of State and has the honor to call its attention to the unfavorable effect produced upon the development of American tourism in the Caribbean, especially in the French West Indies, by the 15 percent tax now levied on all travel tickets issued in the United States for the Caribbean area.

As the Department of State is aware, during the past few years the powers which administer the dependent territories of this area have made an effort

to develop tourist travel from abroad and, in particular, from the American Continent. The same powers have jointly set up various organizations to encourage such travel.

The Government of the United States has participated in this undertaking through the Department of State, and is taking an active part in the organizations in question. Furthermore, the United States Department of Commerce has shown its interest in this problem in various ways, within the general framework of the effort which it has made for several years to help the European powers make up for the dollar deficit in their trade balances.

Thanks to these various undertakings, American tourism in the Caribbean area has progressed somewhat during recent years. But it is nonetheless true that the travel thus encouraged is very perceptibly hampered by the application of the aforesaid tax, which greatly affects the cost of travel in this area.

As the Caribbean Commission has pointed out several times in the course of its deliberations, and as it has quite recently again noted in its resolutions, the abolishment of this tax would undoubtedly contribute effectively to the economic development of the Caribbean peoples. In its resolution adopted at the 16th session, the Caribbean Commission also stressed the fact that the collection of the tax in question might henceforth be considered as discriminatory against the territories within its jurisdiction, since the same tax has been abolished on tickets for travel to certain neighboring countries.

The Embassy of France, acting in this matter as an interpreter of the wishes expressed by the peoples of the French Departments of Martinique and Guadeloupe, believes it advisable to bring these facts once more to the attention of the Department of State at a time when the Congress of the United States is to be called on to consider this question.

The Embassy of France avails itself of the occasion of the present note to renew to the Department of State the assurances of its very high consideration.

DEPARTMENT OF STATE, *Washington, D. C., July 1, 1953.*

The Ambassador of the Dominican Republic presents his compliments to His Excellency, the Secretary of State of the United States of America, and has the honor to express the interest of his country in the legislation proposed for the purpose of eliminating United States excise taxes upon travel from the United States to countries of Central America and the Caribbean, including the Dominican Republic.

The Dominican Government and the governments of the other countries in the Caribbean area are very pleased with the efforts of the present Government of the United States to enhance and promote good international relations between the United States and the countries of the Caribbean area. The desirability of promoting tourism for its reciprocal benefits has long been recognized; no other factor contributes more to the maintenance of sound relations between states than the friendly intercourse and cultural, social, and intellectual associations, and interchange of their peoples.

The United States Department of State is well aware of the existence of recent bilateral agreements between my country and the United States. These pacts have contributed in large measure to the friendly accord existing between the United States and the Dominican Republic. Any step which promotes the interchange of tourists between our countries is certain to further augment the existing friendly relations.

Under the existing statutes of the United States (title 26, United States Code, secs. 3469 and 1650) an aggregate tax of 15 percent is imposed upon "the amount paid within the United States for the transportation of persons by rail, motor vehicle, water, or air within or without the United States." The tax is made expressly inapplicable to "* * * transportation any part of which is outside the northern portion of the Western Hemisphere." The "northern portion of the Western Hemisphere" is defined by the statute as meaning "* * * the area lying west of the 30th meridian west of Greenwich, east of the international dateline, and north of the Equator, but not including any country of South America."

It will be noted that transportation to those countries of South America which lie within the "northern portion of the Western Hemisphere" as defined by the statute, i. e., north of the Equator and in the area between the 30th meridian west and the international date line, is specifically exempted from the tax by the language of the statute. Taxes on travel to other countries of the world have

been rescinded, but the countries of Central America and the Caribbean remain subject to the terms of this excise-tax statute.

The existing legislation has resulted in an unfortunate and onerous discrimination against the countries of Central America and the Caribbean. More particularly, it seriously affects and diminishes tourist travel. Any burden upon travel between friendly nations, and particularly one which discriminates between friendly areas applying to travel between the United States and one area but not to all, cannot fairly be justified. The tax referred to has both effects. It tends to discourage travel from the United States to countries lying within the area defined as the "northern portion of the Western Hemisphere." Moreover, its application is unequal, because it does not impose like restrictions upon travel from the United States to other countries, even those located in the same general area.

A bill (H. R. 3638) introduced in the House of Representatives, Congress of the United States, on March 3, 1953, by the Honorable William C. Lantaff, a Representative from the State of Florida, would, if enacted, eliminate the discrimination and rectify the situation. It would amend section 3469 by excluding Mexico, Guatemala, British Honduras, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, the Canal Zone, islands of the West Indies and the Caribbean Sea, and the islands of the Bahama and Bermuda Islands, as well as the countries of South America, from the area defined as the "northern portion of the Western Hemisphere."

The introduction of this bill and the fairness of the amendment which it proposes are of the keenest interest to my Government. Enactment of the bill, with consequent removal of the existing tax discrimination which restricts travel to the countries directly affected, would occasion great satisfaction to the Dominican Republic.

It will be appreciated if the Department of State will communicate these views to the executive department and the Ways and Means Committee of the House of Representatives, Congress of the United States, which presently has this matter under consideration.

DOMINICAN EMBASSY,
Washington, D. C., August 6, 1953.

DEPARTMENT OF STATE

DIVISION OF LANGUAGE SERVICES

[Translation]

EMBASSY OF MEXICO. 2509

MEMORANDUM

The Embassy of Mexico has received information that the Honorable William Courtland Lantaff, Member of the Congress for the Fourth District of the State of Florida, has submitted a bill (H. R. 3638) which has been referred to the Ways and Means Committee, to amend section 3469 of the Internal Revenue Code and consequently to exempt from payment of the transportation tax persons going to the countries mentioned in the bill in question, among which Mexico is listed.

The Embassy considers that tourism helps to establish cordial relations between peoples, since it favors the mutual understanding which so greatly influences good relations.

The flow of tourists between Mexico and the United States of America has, especially in recent years, reached proportions of no slight magnitude. A large number of the inhabitants of both countries cross from one to the other for pleasure or business. Although in absolute figures the number of Americans who go to Mexico is the greater, perhaps the relative figures do not give the same result.

Furthermore, the Embassy is not aware that there is in Mexico any law that is applied in a discriminatory way to American tourists; on the contrary, it can give assurance that the latter enjoy greater facilities for crossing into Mexico than the inhabitants of other countries. Such is not the case with the personal transportation tax collected in the United States, whereby Mexico, the Central American countries, and some others in this hemisphere, find themselves in a disadvantageous position.

The Embassy of Mexico hopes that the bill introduced by the Honorable William Courtland Lantaff will correct this situation.

WASHINGTON, *May 25, 1953.*

DEPARTMENT OF STATE

DIVISION OF LANGUAGE SERVICES

[Translation]

EMBASSY OF MEXICO. 3555

The Ambassador of Mexico presents his compliments to His Excellency the Secretary of State and acknowledges receipt of His Excellency's note of the 16th of this month, informing him that the remarks contained in this Embassy's memorandum 2509 on bill No. 3638 (H. R. 3638) have been transmitted to the Bureau of Internal Revenue for consideration.

The Ambassador of Mexico sincerely thanks His Excellency the Secretary of State for the attention given to the aforesaid memorandum and in this connection deems it pertinent to make the following additional comments:

In the Embassy's memorandum it is indicated that, far from the existence in Mexico of legal provisions that are applied in a discriminatory manner to United States tourists, such persons enjoy greater facilities than the inhabitants of other countries. While the foregoing remark is correct, in reality it should be completed to the effect that in Mexico there is no provision that is applied in a discriminatory manner to passengers who are going to the United States, be they Mexicans or foreigners.

The provisions of section 3469 of the Internal Revenue Code, although applied equally to all who are going to Mexico, the Central American Republics, Panama, and Belize—regardless of their nationality—undeniably do affect travel to those countries and constitute a discriminatory act.

The Ambassador of Mexico considers it necessary to supplement the foregoing with information which he has received concerning certain provisions the issuance of which the Government of Mexico is contemplating to facilitate the travel of United States citizens who go to Mexico for reasons of business or pleasure. Notwithstanding the financial repercussions that the said measures might signify, the Government of Mexico desires to encourage closer relations between the nationals of the two Republics and they correspond, in part, to proposals made by the Government of the United States through its Embassy in Mexico.

WASHINGTON, D. C., *July 30, 1953.*

EMBAJADA DE COSTA RICA,
Washington, August 6, 1953.

His Excellency JOHN FOSTER DULLES,
The Secretary of State.

EXCELLENCY: I have the honor to address Your Excellency in connection with H. R. 3638 introduced on March 3, 1953, by the Honorable Bill Lantaff, Member of Congress from Florida, for the purpose of exempting the transportation of persons to and from Costa Rica and other neighboring countries from the 15 percent tax now in force.

Being now informed that the Ways and Means Committee of the House of Representatives will hold a hearing on this matter on Monday, August 10, I have the honor to state that the Government of Costa Rica deems that the tax referred to is harmful not only to its welfare but to the relations between the people of Costa Rica and the people of the United States of America as well, since it tends to restrict and does restrict the exchange of travelers between the two countries.

The Government of Costa Rica would feel extremely gratified if the Department of State could see its way clear to express an opinion at the hearing of the Ways and Means Committee that might serve to facilitate the transportation of persons between Costa Rica and the United States through repeal or modification of the tax.

Accept, Excellency, the renewed assurances of my distinguished consideration.

J. RAFAEL OREAMUNO,
Ambassador of Costa Rica.

AMBASSADE D'HAITI

WASHINGTON

MEMORANDUM

The Embassy of Haiti takes the liberty of calling the attention of the State Department to section 3469 of the Internal Revenue Code of the United States, relative to a tax of 15 percent on the transportation of persons to and from Mexico, to and from Central America and to and from the Caribbean Sea and West Indies areas.

The Haitian Government views this tax as a discriminatory measure against Haiti since it does not apply to the South American countries.

The Embassy wishes to point out that the Haitian Government, in view of diversifying and stabilizing Haiti's economy, is making every effort to promote tourist travel to the country. The National Bank of Haiti has participated in that effort in financing the construction of hotels.

The discriminatory measure referred to, is an obstacle to the success of Haiti's tourist program as it affects the rate of tourist travel to that country.

Therefore, as a hearing will soon be held by the Ways and Means Committee on that matter, it is respectfully suggested that appropriate action be taken by the State Department in order to arrive at elimination of the tax of 15 percent on transportation to Haiti.

WASHINGTON, *August 7, 1953.*

EMBAJADA DE CUBA

WASHINGTON, D. C.

The Embassy of Cuba presents its compliments to the Department of State and has the honor to refer to the bill (H. R. 3638) presented in March of this year to the House of Representatives of the United States, to amend section 3469 of the Internal Revenue Code to exempt from tax the transportation of persons to and from Mexico, to and from Central America, and to and from the West Indies.

The Embassy understands that a hearing will be held on this bill, which was introduced by Congressman Bill Lantaff, and was referred to the House Committee on Ways and Means.

On this occasion the Embassy wishes to state that the passage of this bill and its ultimate approval will be seen with the greatest satisfaction by the Government of Cuba, as it considers that it will bring greater freedom of travel to and from Cuba with the consequent benefit to both countries.

The Embassy of Cuba avails itself of this opportunity to renew to the Department of State the assurances of its highest consideration.

WASHINGTON, D. C., *August 7, 1953.*

EMBASSY OF EL SALVADOR,
August 7, 1953.

His Excellency JOHN FOSTER DULLES,
Secretary of State, Washington, D. C.

EXCELLENCY: I have been informed that several diplomatic representatives of the Latin American Republics have made appropriate representations to the Department of State in regard to the 15-percent tax which is levied on the transportation of persons to and from Central America, to and from the Caribbean Sea and West Indies areas and to and from Mexico.

My Government is also greatly interested in this matter, as the removal of the above-mentioned tax will allow greater freedom of travel to and from El Salvador. My Government will fully appreciate the valuable cooperation which Your Excellency may be able to render in this matter.

Accept, Excellency, the renewed assurances of my highest consideration.

HECTOR DAVID CASTRO.

EMBASSY OF HONDURAS

WASHINGTON, D. C.

Memorandum presented by Dr. Rafael Heliodoro Valle, Arbassador of Honduras, to the Department of State with reference to resolution H. R. 3638 presented to the Congress of the United States by the Honorable Bill Lantaff, Representative, Fourth District of Florida:

The Government of Honduras has always felt concern over the 15 percent tax which is paid on travel tickets bought in the United States, which restricted the tourist movement to our country; and this concern is greaer when it is known that this tax has been abolished for European countries and for those of South America, leaving Honduras in a disadvantageous position, which causes grave harm to the national interests.

The Government of Honduras views with great satisfaction the just intervention of Representative Bill Lantaff, in introducing in the Congress of the United States resolution H. R. 3638, which advocates the elimination of these taxes which burden our country and the American tourist who desires to visit it. The Embassy of Honduras would be pleased if the Department of State would lend its valuable facilities toward the increase of American tourist travel to this country, which would be of great benefit for mutual understanding between both peoples.

NOTE No. 362

Her Majesty's Ambassador to the United States presents his compliments to the Secretary of State and has the honor to invite his attention to the effect of the 15-percent transportation tax on travel between the United States and the Caribbean area.

At its 16th meeting the Caribbean Commission passed the following resolution:

"The commission, having regard to the earnest desire of the people of the countries served by it to stimulate inflow of visitors from the North American continent into the Caribbean Area, and the fact that 15 percent excise tax on traveling does not apply to all the countries in the surrounding area with the result that the tax has a discriminatory effect upon the countries served by the commission, strongly urges that each national section take steps through diplomatic channels to make representations requesting the United States Government to give immediate consideration to abolishing tax on travel to this area."

It is felt that the tax discriminates against the Caribbean area because when the original tax order of 1941 was reviewed in 1947 it was amended so as to exclude South America, but retained in respect of travel from the United States to the Caribbean area (inter alia). One of the results of this, but by no means the most serious, is the anomaly that travel to Trinidad attracts the tax, whilst travel to Venezuela, which is within sight of Trinidad, does not.

At previous meetings of the commission held in December 1949 and December 1952 resolutions were also adopted expressing the hope that the excise tax would be abolished.

The tourist trade is of considerable importance to British territories in the area, and the Governments of Jamaica and Trinidad spend large sums of money in promoting it. Grenada, in the Windward Islands, also caters for the trade and other islands have tourist potentialities which governments are anxious to develop.

In these circumstances it is hoped that the United States Govenment will be prepared to abolish the 15 percent tax at the earliest opportunity, insofar as it affects the territories included within the scope of the Caribbean Commission. The stimulus which this would give to the tourist trade would, in Her Majesty's Government's view, be a most valuable contribution for the United States Government to make towards fulfilling the aim set out in the agreement establishing the Caribbean Commission—the promotion of the economic and social well-being of the peoples of the Caribbean area.

The imposition of this tax also has a serious effect on the volume of the tourist trade in Bermuda and Bahamas, two territories lying outside the area of the Caribbean Commission for which Her Majesty's Government are responsible. Strenuous efforts have been made here, as in many of the Caribbean islands, by the institution of trade-development boards and by waiving visa and other formalities, to assist the flow of American visitors and thereby to contribute

to the dollar earnings of the sterling area. It is requested that travel to these territories should likewise be exempted from the transportation tax.

BRITISH EMBASSY, *Washington, D. C., August 7, 1953.*

DEPARTMENT OF STATE

DIVISION OF LANGUAGE SERVICES

[Translation]

EMBASSY OF PANAMA,
Washington, August 7, 1953.

Su Excelencia JOHN FOSTER DULLES,
Secretario de Estado, Washington.

EXCELLENCY: I have the honor to acknowledge the receipt of the note of July 24, 1953, in which Your Excellency reaffirms the intention of the Government of the United States to continue applying the 15-percent tax on fares from the United States to Panama, in accordance with the requirements of section 3469 of the Federal Internal Revenue Code.

My Government could only follow with increasing concern the erection of this barrier to the development of the tourist trade on which my country depends; the status of Panama as a transit area is a major factor in the national economy, and the tax in question constitutes an actual burden on the principal support of our delicate economy.

The 15-percent tax assumes proportions of even greater seriousness for the economy of my country when it is considered that it is not applicable to a certain group of countries of the Americas, some of them neighboring or contiguous countries. Thus the application of the tax grants preferential treatment to countries in whose economy the tourist trade constitutes an element of very little importance, and at the same time imposes a definitely discriminatory burden on Panama, which, as I have said, is dependent on the tourist trade. In pointing out the discriminatory effect of this tax, I inform Your Excellency at the same time of the hope of my Government that measures will be taken to the end that all the nations of the hemisphere may enjoy equality of treatment in accordance with the sacred principles on which the inter-American system is based.

It has come to the knowledge of my Government that the pertinent committee of the House of Representatives of the Congress of the United States will in the near future begin hearings in connection with the possible reform of certain taxes, among them the tax with which we are concerned, and that an opportune moment will be afforded for informing the honorable Representatives of the points of view of Panama and of other nations concerned in this matter. Aware that on other occasions the Department of State has advocated the elimination of the 15-percent tax generally, I take the liberty of requesting that Your Excellency be so good as to bring before the Congress of the United States the points of view which my Government has been voicing in connection with the 15-percent tax, not only because of the fact that it restricts travel and makes it difficult at a time when a great deal of effort is being expended, in other ways, to render intercommunication between the peoples of the Americas easier and more frequent, but also because this tax is definitely discriminatory as regards Panama.

I avail myself of this opportunity to assure Your Excellency of my highest and most distinguished consideration.

ROBERTO HEURTEMATTE, *Ambassador.*

EMBAJADA DE NICARAGUA

WASHINGTON, D. C.

The Chargé d'Affaires ad interim of Nicaragua presents his compliments to His Excellency the Secretary of State of the United States of America and has the honor to inform him that he has received special instructions from the Government of Nicaragua to request that the Department of State express the views of the Government of Nicaragua with respect to the elimination of the United

States excise taxes upon travel from the United States of America to countries of Central America and the Caribbean, including Nicaragua.

The Government of Nicaragua has been keenly interested in this matter, and has always found it difficult to explain the existing discrimination established against the countries involved in these areas, while at the same time affording all the privileges and exemptions to several other countries of the Western Hemisphere.

Taking into consideration the above-mentioned discrimination, my Government has received with great satisfaction the bill (H. R. 3638) introduced in the House of Representatives, Congress of the United States of America, on March 3, 1953, by the Honorable William C. Lantaff, distinguished Representative of the State of Florida, in order to put an end to this policy of discrimination, which has been denounced as most irregular by the countries concerned, since all of them are aware of the facts that tourism in our time is, more than ever, one of the most solid means of promoting international understanding and good will among the governments and the peoples of the world.

In the fulfillment of his instructions, the Chargé d'Affaires ad interim of Nicaragua is pleased to express to His Excellency the Secretary of State of the United States of America that the Government of Nicaragua and its Embassy in Washington, D. C., are always prompt to give any assistance that may be needed in attaining the ultimate goal of the abolition of the discrimination imposed upon the travelers of Nicaragua, with the firm conviction that by so doing, they are wholeheartedly cooperating to strenghen the ties of friendship and mutual understanding that fortunately already exist between our two nations.

The Chargé d'Affaires ad interim of Nicaragua avails himself of this opportunity to express to His Excellency the Secretary of State the renewed assurances of his highest consideration.

WASHINGTON, D. C., *August 8, 1953.*

The CHAIRMAN. Mr. Secretary, we are very happy to have you here this morning. You may proceed.

STATEMENT OF HON. GEORGE M. HUMPHREY, SECRETARY OF THE TREASURY

Secretary HUMPHREY. Thank you, Mr. Chairman, and gentlemen. The Treasury has no statement this morning because our position is very simple. We have to have money to pay our bills with.

The CHAIRMAN. That is everybody's problem, isn't it?

Secretary HUMPHREY. It is a common problem.

The only way we know how to get money is by taxes and by borrowing. We thing we ought not to increase our borrowings any more than we have already done and as is necessary in the program that we have. We think that is the extreme limit to which we should go and that further borrowing should not be indulged in. Therefore, we feel that any loss of taxes from the program we have presented should, as the President originally stated, be made up from some other place.

The CHAIRMAN. What you lose on the banana you want to make up on the peanut, is that right?

Secretary HUMPHREY. That is exactly right, for the simple reason that we must have money to pay the bills.

With respect to these excise taxes, I do not want to appear here to defend 20- or 25-percent excise taxes on any particular items. I think those taxes are too high. They should be lowered as soon as the country can afford to lower them.

There are a few places in the excise taxes that we have spoken of many times, such as admissions, furs, and perhaps a few others, where we are convinced that the present high excise rates are actually hurting

the business, and that they should be reduced so as not to hurt the business. On the other hand, a general reduction of excises that costs $900 million, such as in the present bill, is something that the Treasury must object to unless it sees some way to get the largest part of that $900 million to pay our bills with. I don't know how we are going to pay our bills if we don't get the money.

I will be glad to answer any questions, but that is our position.

The CHAIRMAN. Are there any questions?

Senator WILLIAMS. Mr. Secretary, am I correct in understanding that to the extent that there is any tax relief given under this bill, it would necessitate a corresponding increase in your borrowing? In other words, it will all be done with borrowed money?

Secretary HUMPHREY. That is correct. It will increase borrowings over our budget estimates by whatever is taken out by this bill that is not replaced.

Senator WILLIAMS. And in reality, if this bill goes through with this $900 million tax relief, the taxpayers could thank their children and their grandchildren for the relief rather than the Congress, because they would be the ones paying it?

Secretary HUMPHREY. That is right. They had better go right home and thank their children for what they did for them today.

Senator FLANDERS. Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. I would like to bring into this discussion some points with which the Secretary is personally familiar but which ought to be expressed at this time. First, it will not be a net loss because the business in these excise-tax products will increase instead of diminishing so that there will be a somewhat larger turnover on the decreases. The second thing that should be brought into the picture—and I think it more or less follows the ideas of one of your distinguished predecessors—is that, wisely applied, certain reductions in taxation which result in increased profits, increased employment, bring in a larger measure of return to the Treasury by those means as well as by the direct means of a somewhat increased turnover of the tax articles. I think it would be necessary for you to have something to say on those two items.

Secretary HUMPHREY. Well, I am very glad to say, Senator, that, of course, I must agree with you as a matter of theory. I think that to what extent you recoup by reason of reduction of taxes depends upon the particular situation almost in each particular case.

I have mentioned some cases in which I think there would be some recouping. I think that there are other cases where perhaps there would not be any and I think that in any event the recouping is a delayed action.

The tax cut is immediate. The recouping comes over a period and is a very indefinite thing. I don't think anyone would expect that you would recoup the full amount. So there is bound to be a loss and it is just a matter of estimating, item by item, what the losses might be because they would be more in one item than in another, and estimating how long delayed it would be before the money came in. Our bills—the appropriations that Congress is approving—unfortunately require expenditures currently and we are going to have to have the money when the bills come due to pay them. I cannot

imagine that there will be any sufficient recoupment to make very much difference.

I think Senator Williams' statement is substantially correct, that whatever is cut off in taxes will add to borrowing.

Senator GEORGE. I wanted to ask one question, Mr. Secretary. Did the Treasury submit to the House Ways and Means Committee a statement on the excise taxes indicating what could be cut and what, in your judgment, could not be cut at this time?

Secretary HUMPHREY. Senator, we submitted approximately the same statement that I have made to you this morning in our discussion with the Ways and Means Committee. I have stated a number of times that we have been satisfied with reductions with respect to at least two of these items. There are others on which we are doubtful.

Senator GEORGE. I wanted to know if you did have a detailed statement that you made to the committee or was it just along the lines of the statement you have made here?

Secretary HUMPHREY. We made the same statement to the Ways and Means Committee that we are making to you.

Senator GEORGE. I have been greatly disturbed that this excise-tax bill is not a selective bill, one that would probably do the least damage to the Treasury and might stimulate certain lines of business, but, of course, the House Ways and Means Committee didn't proceed exactly on that theory. They adopted an arbitrary rule of bringing down those above 10 percent and stopping.

Secretary HUMPHREY. We asked in every way that we could that the House Ways and Means Committee be selective in their consideration of this bill. We do not think that a broad-axe approach is the proper way to do it. We think there are varying degrees of merit and that a selective approach is the proper approach to make.

Senator GEORGE. If the Treasury were in a position to lose the money outright on most of these excises, I presume the Treasury would be glad to see them go out.

Secretary HUMPHREY. We would be very glad indeed to see these high excise taxes reduced because, as I said before, I think they are all too high if we can afford to lose the money.

Senator GEORGE. Thank you, sir.

The CHAIRMAN. Mr. Secretary, I would like to point out the difficulties involved in making selective reductions. You have to weight one item against another. It involves a study of the whole economics behind each one of the items. You get into a mental snarl that I respectfully suggest it would be impossible to untangle.

Secretary HUMPHREY. I can appreciate that there would be quite a mental snarl, but doing it the other way we are getting quite a financial snarl.

The CHAIRMAN. I am inclined to take part of the view of Senator Flanders. I believe there will be a stimulation of business by the reduction of these excise taxes. I don't think that all of our witnesses are completely wrong when they tell us that.

They naturally are testifying for their own interests, and maybe some discounts have to be made, but I repeat, I don't think they are completely wrong when they tell us their business is hurt by these excises.

Secretary HUMPHREY. Mr. Chairman, of course I have to agree to that. There is some recouping in varying degrees in varying items that will be recovered at varying times.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Mr. Secretary, I wasn't so much expressing an opinion in my questions as I was asking questions, so I don't want even the distinguished chairman of this body to attribute to me ideas which might seem to be involved.

The CHAIRMAN. Let me then take full responsibility for my statement. That is my opinion. The Senator from Vermont can weasel around it as much as he wants to. That is my opinion.

Senator FLANDERS. First, let me say this, that if the Congress of the United States appropriates so much and if the Congress of the United States arranges or legislates for taxes in the amount of so much, and if there is a gap between, I and others will have to review our judgment of last fall on the deficit. We cannot have it both ways, that is, raising the limit or borrowing. We can't have it both ways. If we say that you must spend so much and must not receive so much then we have got to take cognizance of that so far as the debt limit is concerned.

I think that is obvious. I think we would be in a most embarrassing position if we should tell you to increase the deficit but not raise the debt limit.

Secretary HUMPHREY. I perfectly agree with you, Senator, and that is the position you will find yourself in.

The CHAIRMAN. That should be a position that would please the Treasury because I think maybe you will be around again asking for an increase in the debt limit.

Secretary HUMPHREY. I think probably that is so, Mr. Chairman, but that is one of the lesser pleasures of the Treasury. The Treasury doesn't get any kick out of asking for a higher debt limit.

The CHAIRMAN. I am sorry I stirred that rabbit out of the bush. Let's put that off until the evil day comes.

Senator MARTIN. Mr. Chairman, may I ask a question?

Senator FLANDERS. Do you mind if I finish? I am sure it will not take long. The gentleman I am addressing gives straight, clear, honest answers and we don't have to do any fencing. We ask questions and get answers and that is that.

I was interested in your reference to the time lag, that you had to have the money now and the results might occur later. Is that not a common business experience, that you spend money now or you lay aside immediate opportunities for profit with the expectation that 6 months, a year or a year and a half from now you are going to reap larger rewards?

Secretary HUMPHREY. Senator, that depends on two things: First, it depends upon how much you are borrowing when you start that thing. Secondly, it depends upon what you borrow for.

To borrow for the payment of current expenses in your home, in your business, in your Government, I believe, it wrong.

I do not think you ought to borrow for current expenses except in the event of great emergency. In ordinary times I think it is inexcusable to borrow for current expenses in your home, in your business or in your Government. I think you ought to pay as you go.

Senator FLANDERS. Excuse me just a moment. Would you have paid as you went in 1930 or 1931 or 1932?

Secretary HUMPHREY. I don't know just what would have happened if you had done the things that I think you should have done at that time. After you found yourself in that sort of position, I think that is an emergency that undoubtedly required some consideration. I can illustrate it much more clearly as to exactly just what I mean by a war emergency. I don't believe that this country could, when it was fighting for its life in the war, pay as it went during the war. I don't think that could have been done.

On the other hand, barring a great emergency such as a war emergency or some very great emergency, I think you ought to pay as you go for current expenses.

Senator FLANDERS. Let us suppose that this were the state of affairs and again I am referring to the greatest Secretary of the Treasury between you and former Secretary Snyder.

That is really between you and Alexander Hamilton. I say that also not entirely in a humorous vein. Supposing that by letting up on taxation and a resulting borrowing we were sure that we were going to stimulate business so that personal taxation increased, resulting in increased employment and some expansion of production of the articles on which we have the excise taxes. If we were sure of that, would we not be justified in going in the red for a short time with the prospect of higher earnings later which would take us out again?

Secretary HUMPHREY. I think, Senator, as I stated before, that the other part of the answer that I had not finished, because you have now raised it again, is that you ought to pay your current expenses as you go. You might possibly, if your debts are very low, take a chance with a small amount of borrowing on some experimental activity. But in your home, in your business—and I cannot illustrate it better than in your home and your business—when you owe a lot of money you limit the field in which you can afford to take or should rightfully take experimental chances hoping that you will do better.

The more money you owe the less chance you can take.

Senator FLANDERS. I think I can illustrate this in personal history by supposing this is the case? Here is a man whose income is such that he has a great deal of difficulty in paying his living expenses. He is offered a job the present remuneration of which is even less than that which he has been getting but in which the future looks bright.

Is he justified in mortgaging his present for the sake of his future?

Secretary HUMPHREY. If he hasn't already got a mortgage and he has a debt that he can afford to carry he probably can do it. If he is already mortgaged up to the hilt he is very limited in what he can do.

Senator FLANDERS. I think that question is a good one. I think it is parallel to our present situation, if it is true that by certain tax reductions at this time we can greatly increase the tax income 6 months or a year or a year and a half from now, if it is proven that we can do it. That is the question in my mind. Were I sure, I would be in favor of certain tax reductions at this time of which I would not be in favor if I were not sure.

Secretary HUMPHREY. Yet me just say a word about that. There has been a lot of talk and many people have suggested that Mr. Mellon kept cutting taxes and got more and more money.

Again, let me point out the importance that I think timing has and the position from which you start. If you will go back to the 1920's, you will recall that 1921 was a very bad year. Business was at a very low ebb. Starting with 1924 and gradually moving up to 1929, every year we had an increase in business because we had started from a low percentage of operation and we grew up to a full percentage of operation. I think you have an opportunity during a period of that kind to increase your revenues by encouraging activity that you don't have at all when you are starting at a very high point because there is no place above that or not much place above that to go to except normal growth.

I think this country is going to always have, and always should have, a normal growth. It will not be every single year, but over any period of years this country must grow in activity and it must grow in opportunities for employment. It must grow in jobs and it must grow in benefits for better living.

That, I think, is a part of our American system and it must be carried forward. But I think when you start at a 95-percent operation your chance to go up is very much less than when you start at a low-percent operation.

That is the difference between the two situations.

Senator FLANDERS. Mr. Chairman, I have, I think, made the Secretary's position on that point clear to me, so I will finish that particular line of questioning.

The CHAIRMAN. I read in the papers the other day that you carry a slide rule around with you. Why don't you give us the answer from the slide rule?

Senator FLANDERS. That was a little exaggeration. I have one on my desk but not in my pocket.

Senator MARTIN. Mr. Chairman, might I ask a question?

The CHAIRMAN. Senator Martin.

Senator MARTIN. Don't you think that the statement of a very distinguished candidate for President of the United States, when he said a family can spend more than it earns for a year or two but eventually it means over the hill to the poorhouse, and when he stated the same applied to the Government, that it was a sound assertion?

Secretary HUMPHREY. I believe it absolutely and I think there is no escape from it.

Senator MARTIN. Mr. Chairman, I would like to ask another question. You referred a moment ago to Mr. Mellon's decreasing of taxes which brought in more revenue. Weren't we in an entirely different position at that time? Our shelves were not filled. Right at the present time we have a great expansion of industry because of our war preparation which has been turned now to the work of peace. We don't have the same opportunity now that we had at that time.

Secretary HUMPHREY. I think, as I tried to explain to Senator Flanders, Senator Martin, that it is not so much the productive capacity that we have as it is the extent to which that productive capacity is now in operation. If we were down now, operating at a very low rate, and if, instead of operating at our present rate, we were operating at half that rate, we would have a much better opportunity to expand our economy and to expand our take out of the income and expand the income of the country than we have now.

As I said before, from 95 percent up is a much less distance than from a low level.

Senator BYRD. Mr. Chairman.

The CHAIRMAN. Senator Byrd.

Senator BYRD. Mr. Secretary, I would like to ask a few questions. As I understand your answer to Senator Flanders, you think that we are already mortgaged up to the hilt.

Secretary HUMPHREY. Senator, I don't know what mortgaged to the hilt is for America. I don't believe anybody else does. I am convinced that a nation has a limit to its credit.

I am convinced that America has a limit to America's credit. Just what that limit is, I don't know. I don't know what straw will break the camel's back. But, as I have said before, when you owe $275 billion you are a lot worse off than you are when you don't owe anything.

Senator BYRD. Isn't it true that $275 billion is twice as much as the assessed value of all the real estate, all the houses and all the things of tangible value in this country?

Secretary HUMPHREY. I don't know. I cannot answer that.

Senator BYRD. That is correct. The real estate and other things are assessed at about half value. Upon that basis we are mortgaged to the full extent of our tangible property.

Secretary HUMPHREY. We have a very heavy debt.

Senator BYRD. Likewise, 10 cents out of our tax dollar is now going for interest, which is quite an item.

Mr. Secretary, I want to ask you about the deficit and what we may anticipate if these different tax reductions come into effect.

Has there been any reason to revise the statement made in the budget as to the deficit for this year and the next fiscal year?

Secretary HUMPHREY. Not yet.

Senator BYRD. Do you anticipate any reduction in income due to this recession, or whatever we may call it, in business?

Secretary HUMPHREY. There may be, Senator. As you know, we estimated a pretty full income in making up our budget figures because we expect, and still expect, to have it.

If that should not be realized, if that forecast should be in error, we would have some loss of revenue from lesser income.

Senator BYRD. What national income did you base the tax collection on for the next fiscal year, which you have here $67,700 million?

Secretary HUMPHREY. I haven't the exact figure in mind in that form but it was estimated on activity about commensurate with the previous year's activity.

Senator BYRD. 1953 activity?

Secretary HUMPHREY. Just a little under 1953 activity.

Senator BYRD. Don't you think that is way off?

Secretary HUMPHREY. I don't know, Senator. It may be that it is on the high side, but we still believe that we are not far out of line.

Senator BYRD. Is it not true that any loss in the national income is reflected in a loss of taxes on a basis of about 28 percent?

Secretary HUMPHREY. I don't know just what the percentage is, but, of course, any substantial loss in national income, everything else being equal, is reflected in a lesser tax collection.

Senator BYRD. In any recession in business, it seems to me you have a very great menace in your revenue, that nearly one-third of what we lose in national income is reflected in lessened tax receipts.

Secretary HUMPHREY. If we should have a substantial recession our taxes would decrease.

Senator BYRD. It is my understanding that on a basis of 28 percent is how much the taxes would decline. If you have taken approximately the 1953 prosperity, which is the highest this Nation has ever known—and while we may all agree this recession is temporary, there has been a recession and it is going on now and nobody can question that—that will be reflected in the next fiscal year or whenever the recession is.

Secretary HUMPHREY. My guess is that up to now it is not anything that will be very marked in our income.

Senator BYRD. But if there is a recession it will be in the next fiscal year.

Secretary HUMPHREY. It will reduce our income if there is a recession.

Senator BYRD. And substantially. You have a deficit of 3.3 this year and 2.9 the next fiscal year. That is based on the assumption that you provide for the tax increases that have already been made of $5 billion. Then you allow, as I understand it, another billion for the revision of the tax system. It that correct?

Secretary HUMPHREY. I don't remember whether is was a billion. I think it was a little over a billion. In the budget maybe it was a billion.

Senator BYRD. On these figures that we have now it is 1 billion.

In other words, the total is 6 billion. But the difference between the receipts of the 2 years is only 5 billion. I have the budget here, in which it says that you have allowed 5 billion for the tax reduction which was effective January 1, the excess profits tax repeal and the 10 percent reduction on incomes.

Senator FREAR. Excess profits tax?

Senator BYRD. Excess profits tax repeal.

Secretary HUMPHREY. That is as I recall it.

Senator BYRD. Then, the cost of recommended tax revisions which will apply to the 1955 fiscal year on a full year basis, the revenue loss, will approach 6 billion.

Of course that is all based on the level of prosperity in 1953. That is correct, is it not?

Secretary HUMPHREY. That is on income?

Senator BYRD. Yes, in the income of the Government you have taken it into consideration.

Secretary HUMPHREY. You are talking about fiscal year 1955?

Senator BYRD. Fiscal 1955.

Secretary HUMPHREY. I see. I have the estimated income for fiscal 1955 at 62.7.

Senator BYRD. That is right. That is a difference of 5 billion between that and the income for fiscal 1954, but in the meantime you have reduced taxes by 5 billion and therefore you have made no allowance, apparently, for any recession in business from the level of 1953. That is about correct, is it not? You have based these estimates on the business activity of 1953?

Secretary HUMPHREY. There are adjustments, Senator. Our figures, as I have them here, are for individual taxes, 32.5, and we are estimating in 1955 they will be 30.3. Corporation taxes are 21.6 and 20.3. Excises, 9.9 and 10.2. Miscellaneous, 0.6 and 1.9, or the difference between 64.6 and 62.7.

Senator BYRD. Generally, you have continued on the same basis of prosperity and business activity.

Secretary HUMPHREY. We are estimating, generally speaking, 1954–55 at only a little less than 1953.

Senator BYRD. It couldn't be much less because you estimate a difference of 5 billion and you have already had two tax reductions that amount to 5 billion.

Secretary HUMPHREY. It would be 1.9 billion less than 1953.

Senator BYRD. Actually our receipts for this year will be 576 and in the next year you estimate 62.7.

Secretary HUMPHREY. That is 1954. You were talking about 1953.

Senator BYRD. I am talking about the comparison so as to make clear in my mind upon what basis you were making the estimates for receipts in fiscal 1955. Apparently you have taken the business activity of the 1953 year as that basis because you only have a difference of 5 billion and you reduced taxes 5 billion as of the first of January.

Secretary HUMPHREY. That is right.

Senator BYRD. So we are on that basis, which I think is a very dangerous basis to take because there is certain to be some reduction in taxes, I think, due to this recession.

This $1 billion that we had in this bill was not included in that estimate at all.

Secretary HUMPHREY. It was not.

Senator BYRD. And that will be added to the deficit that you anticipated?

Secretary HUMPHREY. That is correct.

Senator BYRD. If the other tax reduction bills that have been proposed by the Democrats and by the Republicans are passed, how much will that add to the deficit?

Secretary HUMPHREY. If the proposal for the change in exemptions, which is what I presume you are referring to, is adopted to the extent of $100, that will be 2½ billion. If it is adopted to the extent of $400 that will be approximately $8 billion. You see, the loss goes down a little as the exemption increases because you keep dropping so many millions of people off the tax rolls for each $100 as you go along.

Senator BYRD. Then, how much will we lose under the general-revision bill which is not included in the estimates?

Secretary HUMPHREY. The general-revision bill is in this budget.

Senator BYRD. But only to the extent of $1 billion. But I don't see where it is in the budget because there is a difference of $5 billion in the receipts for 2 years and we already have a tax reduction of $5 billion which was effective January 1. I don't see where that is in there.

Secretary HUMPHREY. Senator, it is a complicated calculation because you have to take the lags into account in collections and the basis of collections. It is, I can assure you, in here, to the extent of $1,200,000,000.

Senator BYRD. It may be in your figures in here but it is not going to come out in actual revenue because you are then figuring on more revenue this year than you took in last year after allowing for the tax reductions. Let me repeat this again. When I speak of this year, I mean this current fiscal year. Next year would be 1955. You expect to collect 67.6. In fiscal 1955 you will collect 627.

Secretary HUMPHREY. That is right.

Senator BYRD. Which is about $5 billion difference. You have a tax reduction effective January 1 which amounts to $5 billion.

Secretary HUMPHREY. You are not taking into account, Senator, the lag of the effective operation of the reductions.

Senator BYRD. But you are not taking into account, Mr. Secretary, any loss of revenue due to the reduced business activity, either.

Secretary HUMPHREY. No; that is correct. I have said that. We are not taking that into account and if we have it, it will increase our deficit. But we do have the revision bill in here for a billion two.

Senator BYRD. Let us assume that will be added to the debt. I think we would be very fortunate if we got by on these figures with only the loss of a billion dollars. That is one billion more.

Secretary HUMPHREY. What is the first billion?

Senator BYRD. This tax bill now before us, the excises.

Secretary HUMPHREY. That is correct.

Senator BYRD. Then, this other bill which I understand will be considerably over one billion, this general revision bill, if it is passed.

Secretary HUMPHREY. No; the revision bill is estimated at one billion two. There is very little difference in that. That is already in these figures, so you would not change these figures on account of the revision bill. But you would change the figures on account of any change in the exemptions.

Senator BYRD. But you haven't given yourself any balance in these figures at all. You have estimated a high business activity as we had last year.

Secretary HUMPHREY. You mean we haven't anything up our sleeve?

Senator BYRD. That is right.

Secretary HUMPHREY. That is correct. Our figures are all out on the table where you can criticize them or anybody else can. We have nothing up our sleeves.

Senator BYRD. I don't want to criticize them but just to point out the fact that we will not have the high prosperity this year that we had last year.

Senator HUMPHREY. If we don't there will be some loss but we don't know what that is yet. I have said, Senator, that up to today we don't see any reason to revise our figures substantially. We have nothing up our sleeve on the income nor have we anything up our sleeve on the expenses, and I believe that we still will pursue the same kind of policies we have been pursuing and will be making some more effective reductions in expenses. Those are not taken into account here either. So I think there is an opportunity, to some extent—not a big extent, but to some extent—to offset loss of income by an additional cut in expense. But we thought the way to prepare this thing

was to put the figures, to the very best of our ability, right down with nothing reserved at all, but to have them all right out flat.

Then you are in a position to make whatever reduction you think the future may justify and I am in a position to make whatever reduction I think may be justified. Which is right, only time will tell.

Senator BYRD. I just wanted to make it clear that you are basing these figures upon the business activity of 1953 and not of 1954.

Secretary HUMPHREY. No; not of 1953. We are basing these on approximately the same degree of activity that we had at the end of last year.

Senator BYRD. Well, that is 1953.

Secretary HUMPHREY. That is the end of 1953.

Senator FLANDERS. Mr. Chairman, I get a little confused on these dates. Can it be stated clearly each time whether we are talking about calendar year or fiscal year?

Senator BYRD. Calendar year.

Secretary HUMPHREY. We are talking about calendar year 1953, but the estimates that the Senator was talking about, I believe, are fiscal year 1955.

Senator BYRD. There is some little variation, but it will level off.

That is a very optimistic estimate and it is not going to be realized, I don't think, and there is going to be a substantial loss. Let's take your own estimate. Suppose these tax reductions are made. How much is that going to increase your indebtedness?

Secretary HUMPHREY. We start out with an estimated deficit of two billion nine. If this excise bill is passed exactly as it is before you, you can add $900 million and a little extra to that. If the increase in exemptions of $100 is made, you can add $2½ billion to that. If it is $200, you can add four billion five. So on up. I think 200 is all that is suggested for this year. So you can add either $2½ billion plus $900 million or four billion five plus $900 million.

Senator BYRD. You would certainly have to add $300 million on there on this revision bill because you have only provided in the budget by this statement for a billion two.

Secretary HUMPHREY. A billion two in this estimate.

Senator BYRD. The budget says a billion.

Secretary HUMPHREY. Mr. Folsom has just handed me the message and if you will turn to page M–28 I think you will find the figures. It is a billion two, Senator. That is the figure that is in here.

The CHAIRMAN. Mr. Secretary, if this billion should pass as is, if the revision bill should pass as is, how much do you estimate your deficit will be increased?

Secretary HUMPHREY. A little over a billion dollars because the revised bill is a little more, I think, than the billion two, and this bill adds $900 million.

The CHAIRMAN. You have got the revision in your figures already?

Secretary HUMPHREY. That is correct, and we would increase our estimated deficit of 2.9 billion by about 1.1 billion or 1.2 billion.

Senator BYRD. Then, of course, your other estimate of the $100 exemption would——

Secretary HUMPHREY. That would be 2½ billion additional and if you put another hundred dollars on it would be 4.5 billion.

Senator BYRD. Then, you have the further problem that your figures may be too optimistic.

Secretary HUMPHREY. That is correct.

Senator BYRD. So it is possible that if these different tax plans are adopted we will have a deficit of 8 or 10 billions of dollars.

Secretary HUMPHREY. That is correct. Of course, it is also possible, Senator, that some of these expenditures may be reduced. Congress may vote more and if they do there may be some addition in expenditures. If that is so that goes on.

Senator BYRD. In other words, we will be doing the inexcusable thing of borrowing money to reduce taxes.

Secretary HUMPHREY. That is my opinion.

Senator BYRD. And adding it to the public debt on which we will pay interest for years and years to come.

Secretary HUMPHREY. I believe that is correct.

Senator BYRD. And if there is anything that will lead quicker to financial suicide than that policy, I don't know what it is.

Secretary HUMPHREY. I don't either.

Senator BYRD. We are passing the burden on to our children so we can get a temporary relief in taxes because there is no permanent relief in taxes, Mr. Secretary, unless the budget is balanced. But if you have to borrow to make the tax reductions, that is not good business. We may have to stick around a year or so and put these taxes back.

Secretary HUMPHREY. I couldn't agree with you more, and at some time you are going to put them back because the only way you can ever pay off what you borrow is by increasing your taxes on your children or the young people, whenever it comes, over and above the tax that they then should be paying currently for their own expenditures. So they will have to pay currently for their own plus what we have put on.

Senator BYRD. So far as I am concerned, I don't expect to vote for any tax reduction which requires an increase in the public debt, borrowing it in order to pay for the reduction. That is false economy and will lead to certain disaster. If you once start that on a basis of $65 billion where is it going? When you reduce one tax on that basis, by the same line of reasoning others will ask for an increase and we will have started something we can't stop.

Now, just one more question, Mr. Secretary. I agree with Senator George in regard to what he has said as to these rates of the excise taxes in this bill. They are luxuries, a great many of them. Take, for example, club dues. They are reduced 10 percent. Sporting goods are reduced 20 to 10. Safe-deposit boxes and cabarets are reduced from 20 to 10. A number of the items in the luxury class are reduced while a great many more items in the necessity class are not reduced at all. Those items are in a 10-percent bracket. We have always passed some of these taxes.

I think this emergency continues now from a fiscal standpoint nearly as much as it did under war conditions because we have not been able to balance our budget. We have been under an irresponsible fiscal management of this country for nearly 21 years. The budget was balanced one year by the Mills plan which increased the receipts from corporations. That is about all that was done. I would much

prefer to see some consideration in this excise proposition given to those taxes on necessities of our life rather than on luxuries.

Secretary HUMPHREY. I have already said, Senator, that I think a selective cut is the only proper way to do it.

Senator BYRD. This bill reduces 25 items. Have you any figures as to how many other items are not reduced at all on the 10-percent basis?

Secretary HUMPHREY. No, I haven't, Senator.

Senator BYRD. There are a great many more than 25, I imagine. Have any of your aides got that?

Secretary HUMPHREY. We could work it out of this list, but I can't answer it now.

Senator BYRD There are far more, in numbers, that have not been reduced than in numbers that have been reduced Isn't that right? There are only 25 of these which are luxury items which are being reduced, while there is a great mass of the 10-percent items, as I understand it, that are not touched at all, and get no reduction.

Secretary HUMPHREY. I can't answer that right now. I don't know. It looks as though that is correct, but I couldn't tell you without checking.

Senator BYRD. Thank you very much, Mr. Chairman.

Senator CARLSON. Mr. Chairman.

The CHAIRMAN. Senator Carlson.

Senator CARLSON. The Senator from Nebraska, Mr. Butler, is necessarily absent this morning, and he asked me to submit for the record a copy of his bill S. 2238 which he intends to propose to the bill that is being considered by the committee. It is a bill to eliminate farm tractor fuel and certain other liquids from the manufacturers' excise tax on gasoline. As I understand it from Senator Butler, this amendment would not mean any loss of revenue. It would simply abolish a great amount of useless paperwork and administrative expenses. I am also advised from Senator Butler that the Treasury has no objection to this bill. I want to submit for the record a letter written to the chairman on this bill, and the amendment, itself.

The CHAIRMAN. It will be put in the record. I think the Treasury has approved that particular item.

Senator CARLSON. Senator Butler solicited me.

(The papers referred to follow:)

UNITED STATES SENATE,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
March 16, 1954.

Hon. EUGENE MILLIKIN,
Chairman, Senate Finance Committee.

MY DEAR SENATOR: Enclosed herewith is an amendment I am proposing to the pending excise-tax reduction bill, H. R. 8224. My amendment, which is substantially the same as my pending bill, S. 2238, relates to the administrative procedure in handling the tax exemption for a certain type of fuel for tractors, known as hot tractor fuel or Nebraska (type) tractor fuel.

This amendment is not a tax-reduction amendment, and will not cost the Government any revenue. Furthermore, it now has full approval by the Treasury Department.

It may have the distinction of being the one amendment you will consider to which there cannot possibly be any legitimate objection from any source. On that basis, I very much hope it will be added to H. R. 8224 by the Senate Finance Committee.

The situation involved in my amendment is this. Gasoline is at present defined in the Internal Revenue Code so broadly that it includes a special fuel of

lower gravity specifically manufactured for a particular type of tractor widely used in several States in the Middlewest, including Nebraska.

This fuel, commonly referred to as hot tractor fuel, is used only in a certain type of tractor, and can be used only in that particular type of tractor. It cannot be used in a motor vehicle.

Fuel used in tractors is exempt from tax anyway, of course. There is no question of revenue to the Treasury involved in the tax on this fuel, since the distributors of it get their tax money back from the Treasury through a refund procedure.

However, in the case of this fuel, there is not even any need for the Treasury to collect the tax and then refund it upon filing of an exemption certificate by the dealer or manufacturer. The simple way to handle this fuel would be not to collect the tax in the first place.

As stated above, adoption of my amendment would not mean any loss of revenue. Actually, it would simply abolish a lot of useless paperwork and administrative expense. The Treasury Department agrees with this view as stated in the departmental report on my bill, S. 2238.

You may recall that in the past I have proposed a somewhat similar provision several times. For various reasons, such as Treasury Department opposition, it has never been possible to get a decision on it. Now the Treasury Department, under the new administration, has at last taken the time and effort to analyze it in detail. They have approved it and have drafted the language. I do not think we have the slightest possible excuse not to put this amendment in the pending bill.

I believe the staff of the Joint Committee has approved this amendment in the past, and I am checking with them today as to any revisions in wording that have to be made.

Unfortunately, I shall be out of town for the balance of the week, or I would present this bill to the committee in person. However, it has been before the committee, before the Treasury, and before the staff of the Joint Committee several times over the last few years, and I feel sure it can be taken care of in my absence.

With kindest regards, I am,

Sincerely yours,

HUGH BUTLER.

[S. 2238, 83d Cong., 1st sess.]

A BILL To eliminate farm tractors fuel and certain other liquids from the manufacturers' excise tax on gasoline

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3412 (c) (2) of the Internal Revenue Code is hereby amended to read as follows:

"(2) the term gasoline means all products commonly or commercially known or sold as gasoline (including casinghead and natural gasoline)."

SEC. 2. SPECIAL FUELS TAX.

(a) The heading of chapter 20 of the Internal Revenue Code is hereby amended to read as follows:

"CHAPTER 20—SPECIAL FUELS"

(b) Section 2450 of the Internal Revenue Code is hereby amended to read as follows:

"SEC. 2450. TAX.

"There is hereby imposed—

"(a) DIESEL FUEL.—A tax of 2 cents a gallon upon any liquid—

"(1) sold by any person to an owner, lessee, or other operator of a diesel-powered highway vehicle, for use as a fuel in such vehicle; or

"(2) used by any person as a fuel in a diesel-powered highway vehicle unless there was a taxable sale of such liquid under clause (1).

"(b) SPECIAL MOTOR FUELS.—A tax of 2 cents a gallon upon benzol, benzene, naphtha, liquefied petroleum gas, jet engine fuel, or any other liquid (other than kerosene, gas oil, or fuel oil, or any product taxable under section 3412 or subsection (a) of this section)—

"(1) sold by any person to an owner, lessee, or other operator of a motor vehicle, motorboat, or airplane for use as a fuel for the propulsion of such motor vehicle, motorboat, or airplane; or

"(2) used by any person as a fuel for the propulsion of a motor vehicle, motorboat, or airplane unless there was a taxable sale of such liquid under clause (1).

On and after April 1, 1954, the tax imposed by this section shall be 1½ cents a gallon in lieu of 2 cents a gallon."

(c) Section 2452 (a) of the Internal Revenue Code (relating to credits and refunds) is hereby amended to read as follows:

"(a) NONTAXABLE USE OR SALE BY VENDEE.—A credit against tax under this chapter, or a refund, may be allowed or made to a person in the amount of tax paid by him under this chapter with respect to his sale of any liquid to a vendee for use as fuel in a diesel-powered highway vehicle, or with respect to his sale of benzol, benzene, naphtha, liquefied petroleum gas, jet engine fuel, or any other liquid to a vendee for use as fuel for the propulsion of a motor vehicle, motorboat, or airplane, if such person establishes, in accordance with regulations prescribed by the Secretary, that—

"(1) Either—

"(A) the vendee used such liquid otherwise than as fuel in such a vehicle, motor boat, or airplane or resold such liquid; or

"(B) such liquid was used or was resold for use for any of the purposes, but subject to the conditions, provided in section 3451; and

"(2) such person has repaid or agreed to repay the amount of such tax to such vendee, or has obtained the consent of the vendee to the allowance of the credit or refund.

No interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of this subsection."

(d) Section 2453 of the Internal Revenue Code is hereby amended to read as follows:

"SEC. 2453. TAX-FREE SALES.

"Under regulations prescribed by the Secretary, no tax under this chapter shall be imposed with respect to the sale of any liquid for the exclusive use of any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia, or with respect to the use by any of the foregoing of any liquid covered by this chapter."

(e) There is added immediately after section 2455 of the Internal Revenue Code the following new section:

"SEC. 2456. EXEMPTION OF SPECIAL MOTOR FUELS USED FOR CERTAIN VESSELS.

"The exemption from tax under chapter 29 provided in section 3451 shall also apply to the tax imposed under section 2450 (b)."

SEC. 3. EFFECTIVE DATE.

The amendments made by this Act shall take effect on the first day of the first month which begins more than ten days after the date of the enactment of this Act. However, the tax imposed under section 2450 (b) shall not apply to any liquid which has been sold by a producer or importer prior to the effective date of this Act and which is taxable under section 3412 of the Internal Revenue Code (relating to gasoline tax) as in effect prior to the effective date of this Act.

Senator CARLSON. Mr. Chairman, if I may place in the record a statement regarding some of the difficulties of the motion-picture theaters in Kansas, a statement from Robert W. Coyne, who is counsel for the motion-picture organizations, and a proposed amendment which would provide that there would be no tax imposed on amounts paid for admission if the amount paid is 50 cents or less.

The CHAIRMAN. It will be put in the record.

(The documents referred to follow:)

COUNCIL OF MOTION PICTURE ORGANIZATIONS, INC.,
New York, N. Y., March 15, 1954.

Mr. FRANK CARLSON,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR CARLSON: Mr. Don Hultz, before his return to Kansas on Saturday, requested that I forward you a short memorandum concerning the condition in which the theaters of the country find themselves with reference to H. R. 8224, which is being considered by your committee at the present time.

Mr. Hultz advised me that you welcome this information and would use your good offices to remedy certain provisions of this bill.

I should like first to direct your attention to a technical imperfection of the bill which came about by inadvertence in the drafting of the bill. The House Ways and Means Committee in all of its statements and in the speeches by the Honorable Dan Reed and others in support of the bill, expressed the intention of reducing the taxes on admissions to 10 percent. Through oversight, the phraseology of the bill does not warrant the tax on admissions to 10 percent but by reference the Internal Revenue Code provides that taxes on admissions shall revert to "1 cent for each 10 cents or fraction thereof." It can be seen that the effective rate on admissions would be much higher if this provision is permitted to stand. A 15 cent ticket would carry an effective rate of some 16 percent and hence the intent of the law would be defeated. This is a technicality and has been brought to the attention of Mr. Colin Stam who agrees that it was an oversight. I call this to your attention so that in executive session this feature may be considered and remedied and that the provision applying to admission shall read "1 cent for each 10 cents or major fraction thereof."

It was pointed out by Mr. Hultz that the industry is extremely grateful for the 10 percent reduction in admission taxes. This, despite the fact that through your good efforts last year the House and the Senate relieved the theater industry completely from the admission-tax burden. While we are most grateful for the present gesture on the part of Congress to help the industry, we feel that we would be remiss if we did not advise you of the condition of the industry which you and we are seeking to correct and how it will be affected by H. R. 8224 as presently written. Briefly, the facts are as follows:

There are at the present time 6,127 theaters in distress under the present 20 percent admission tax. Of this group, 4,820 theaters will remain in distress if the tax rate is reduced to 10 percent for this latter group are now losing more than half of what they are paying in taxes at the 20 percent rate. An estimated 95 percent of these theaters charge admissions of 50 cents or less and hence our plea to you is that an amendment be introduced in committee to H. R. 8224 providing that admissions of 50 cents or less bear no tax, with the 10 percent applying to the theaters charging more than 50 cents.

For example, in your State of Kansas, where 137 theaters have closed during the past 6 years, there remain 372 theaters, of which 96 are operating in the red and of which 72 will continue to operate in the red and hence will close if additional relief is not provided.

We have examined the situation very closely and we have evidence that losing theaters now operating have continued in business during the past year with the hope that this relief will be forthcoming.

I know your devotion to our cause and I am attaching for your information the tabulation, by States, setting forth the number of theaters that will be helped by H. R. 8224 as presently written, and the number of theaters that will remain in distress.

For your convenience, I am attaching suggested copy of an amendment which would serve the purposes that we seek.

I shall remain at the Raleigh Hotel and would consider it a privilege to provide you with any additional data that you feel would be helpful.

Sincerely,

ROBERT W. COYNE.

SUGGESTED COPY OF AMENDMENT TO H. R. 8224

Page 3, line 8, insert the following before "For":

"Section 1700 (a) (1) (relating to tax on single or season tickets and subscriptions) is hereby amended by striking out the second sentence and inserting in lieu thereof the following: 'No tax shall be imposed on the amount paid for admission if the amount paid is 50 cents or less.'"

And in line 20, strike out "(a) and (b)" and insert "(a), (b), and (d)."

STATEMENT OF ROBERT W. COYNE, SPECIAL COUNSEL, COUNCIL OF MOTION PICTURE ORGANIZATIONS

The motion-picture industry today asked the Senate Finance Committee to amend the House-approved excise-tax reduction bill (H. R. 8224) so as to exempt from the 10-percent levy all admissions of 50 cents and under.

Only through such action can the relief the measure seeks to provide be made effective for some 4,820 smalltown theaters now operating in the red and on the brink of closing their doors, the Council of Motion Picture Organizations told the committee, which is concluding hearings today on the House measure.

In a statement filed by Pat McGee, of Denver, Colo., and Col. H. A. Cole, of Bonham, Tex., cochairmen of the COMPO tax committee, which speaks for all branches of the motion-picture industry, it was stressed that 95 percent of these 4,820 theaters charge 50 cents or less.

These theaters, of which some 2,300 are the only theaters in their respective communities, are now operating at a rate of loss in excess of 10 percent of their gross, and so could not obtain adequate relief under the House proposal to continue in business, COMPO emphasized.

Citing the message of President Eisenhower last August when, in disapproving the Mason bill to repeal the 20-percent admission tax on movie theaters, which had passed both House and Senate by almost unanimous votes, COMPO said that all of the theaters presently in distress have remained open on the hope raised for early relief this session by the President's promise to recommend a reduction in the tax this January.

"We must feel that the President intended his recommendation would be adequate to save the small theaters," COMPO stated. "It is our conclusion that while H. R. 8224 accomplishes much towards the salvation of some theaters, its terms do not reach the large segment of theaters to which we now refer."

JOINT STATEMENT BY COL. H. A. COLE AND PAT MCGEE,[1] IN BEHALF OF THE COUNCIL OF MOTION PICTURE ORGANIZATIONS, INC.

We appear before this committee as representatives of the Council of Motion Picture Organizations, Inc., a New York corporation established in 1950 by the 10 principal organizations in the motion-picture industry, representing all divisions and elements in the business.

We are authorized to state to this committee that the motion-picture industry, as represented by our constituent organizations, is grateful to the House of Representatives for the passage of H. R. 8224, which is calculated to reduce the present admission taxes from 20 to 10 percent.

We do not wish this submission to be interpreted in any sense as ingratitude for the work that the House Ways and Means Committee and the House of Representatives have accomplished in forwarding this bill to this committee. But we would be remiss in our duty to our industry and to you if we did not call to your attention certain features of this legislation that fall short of the announced intention of the House and the Senate last year to save the motion-picture industry from impending disaster.

I

We first address ourselves to a technicality. H. R. 8224 was intended to reduce the 20-percent admission tax to 10 percent. This was established by a press release (copy appended), exhibit A, of the House Ways and Means Committee, of March 3, and of the supporting addresses by the Honorable Daniel Reed and others on the floor of the House. A scrutiny of the bill, and this we state after consultation with officials of the Joint Committee on Internal Revenue Taxation, has indicated that the bill as phrased, and through inadvertence, is not designed to reduce the admission tax from 20 to 10 percent but by reversion to a prior statute has spelled out the admission tax reduction to be at an effective rate of 1 cent on each 10 cents or fraction thereof. This would make an effective rate considerably in excess of 10 percent on admissions and in this respect would partially defeat the purpose of the bill. We have brought this matter to the attention of Mr. Colin Stam of the Joint Committee on Internal Revenue Taxation and he has indicated that he is in complete agreement that this error in drafting should be corrected.

The purposes of H. R. 8224 can be accomplished by a simple change in the phraseology as affecting section 1700 (a) of the Internal Revenue Code so that the applicable pharse will be "1 cent for each 10 cents or major fraction thereof."

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[1] Colonel Cole is a member of the board of directors of Allied States Association of Motion Picture Exhibitors, and Mr. McGee is a vice president of Theater Owners of America, both constituent members of the Council of Motion Picture Organizations.

II

In addition to this technical correction we must urge on this committee most serious consideration of the condition in which the motion-picture industry finds itself today. We have expressed our gratitude for the relief provided by H. R. 8224 in its present form. We are greatly disturbed, however, that the House of Representatives felt that it was unable to consider the plight of many small theaters of the Nation for which it and this committee and the Senate overwhelmingly, at the last session, voted complete relief. Despite the relief offered in H. R. 8224 we must bring to your attention with all the vigor that we can command, the fact that the reduction to 10 percent will fail to save in this Nation 4,820 theaters which are now operating at a rate of loss in excess of 10 percent of their gross. We feel free to bring the plight of these theaters to your attention, because they are spread throughout every State in the Union. And of this total, 2,300 towns are represented wherein the the theater is the only theater, and its loss would mean the complete absence of motion-picture entertainment to those communities. All of these theaters charge 50 cents or less. We do not propose in this brief statement to burden you with voluminous statistics. We have filed with the Treasury Department and with the Joint Committee on Internal Revenue Taxation complete documentation of the statements that we make here rather conclusively. Briefly, they are as follows:

As of last July 1953, approximately 5,100 theaters were operating at a loss. Since that date, 1,200 theaters have gone out of business, and approximately 2,100 additional theaters have become distressed. The figure today is, 6,127 theaters are operating at a loss in this country. H. R. 8224, in reducing the 20 percent admission tax to 10 percent, will relieve approximately 1,300 of these theaters, leaving 4,820 theaters in the red. These theaters presumably will close their doors. Of these theaters, 95 percent charge admissions of 50 cents or less.

We can state with assurance that all of the 6,127 theaters presently in distress have remained open since last July on the hope that this present Congress would grant them adequate relief. They took this comfort from the President's veto message of the Mason bill (H. R. 157) when the President stated that he would recommend to the Congress a reduction in the admission tax in January. We must feel that the President intended his recommendation would be adequate to save the small theaters. It is our conclusion that while H. R. 8224 accomplishes much toward the salvation of some theaters, its terms do not reach the large segment of theaters to which we now refer.

We suggest a solution to the problem:

The exemption of all taxes on admissions where the charges are 50 cents or under. This relief would be directed and almost entirely confined to theaters in small towns, and children's admissions.

We are appending hereto, marked "Exhibit B, General Summary of United States Theater Situation," which outlines in some detail the inadequacy of relief as afforded by H. R. 8224 on a national basis. We are appending, marked "Exhibit C, Summary of United States Motion-Picture Theater Situation by States." These figures are honestly revelatory of the situation in which the motion-picture industry finds itself and we invite your attention to the State tabulation, particularly, for this tabulation will be consonant with the facts as each of you know them to be in your home State.

We do not wish to belabor this committee with argument. Each member of your committee, by his record, has shown an active sympathy for the small town theaters. We represent all types of theaters—theaters in Times Square and theaters on Main Street. No theaterman anywhere will deny the importance of these small-town and neighborhood theaters. Their social value may even transcend their economic value. The small town theater must not pass out of the community scene. We regret the circumstances that have caused the House of Representatives to pass H. R. 8224 with such rapidity. We understand these circumstances. Our plea to this committee is to render this effort on the part of the Congress to relieve our business, even more effective, by the inclusion in this bill of the provisions that we outline. We urge the members of this committee to consult with the staff of the Joint Committee on Internal Revenue Taxation and with the Division of Tax Research of the United States Treasury for verification of all facts that we have offered.

EXHIBIT A

EXCERPT FROM RELEASE BY COMMITTEE ON WAYS AND MEANS

Chairman Daniel A. Reed (Republican, New York) announced today that the Committee on Ways and Means had agreed to the provisions of H. R. 8150. The committee made one technical amendment relating to effective dates.

A clean bill will be introduced tomorrow embodying this change.

The excise taxes which are reduced under the bill are:

	April 1 rate	Present rate
Retail excises:	*Percent*	*Percent*
Jewelry	10	20
Furs	10	20
Luggage	10	20
Toilet preparations	10	20
Taxes on facilities and services:		
1. Admissions and dues:		
Admissions	[1]	[2]
Permanent use or lease of boxes or seats	10	20
Sale of ticket outside of box office	10	20
Cabaret tax	10	20
Club dues	10	20

[1] 1 cent for every 10 cents or major fraction.
[2] 1 cent for every 5 cents or major fraction.

SINDLINGER & CO., INC.,
Ridley Park, Pa.

To: Council of Motion Picture Organizations, Inc.
Re: Summary of Theatre Situation in State of ———.

Original number of conventional theaters and drive-ins constructed in above-named State	[1]
Number of operations already closed in above-named State	-----
Number of currently operating conventional theaters and drive-ins in above-named State	-----
The financial status of the ———— operating theaters and drive-ins in:	
OR are now in distress under the present 20-percent admissions tax	-----
Will still be in distress if the tax rate is reduced to 10 percent, for they are now losing more than half of what they are paying at the 20-percent admissions-tax rate	-----
A 10-percent admissions tax rate could force closings of	-----
Theater closings in the above-named State would then total	-----

[1] The above figures include both drive-in and conventional theaters.

The confidential sources, methods, and procedures used to determine the above summary facts are made available to the Treasury and to the Joint Congressional Committee on Taxation. Facts concerning other States, as well as the entire motion-picture industry, are available.

Summary of United States motion picture theater situation by States

State	Theaters constructed				Theaters closed				Open as of February 1954	Distressed theaters		If distressed theaters closed, closings would be—	
	Prior 1946	Since 1946		Total	1946 through April 1953	April 1953 through February 1954	Total	Percent closed		With a 20 percent tax	With a 10 percent tax	Total	Percent
		4-wall	Drive-in										
Alabama	290	9	99	398	61	17	78	19.6	320	106	83	161	40.5
Arizona	96	2	31	129	23	7	30	23.2	99	28	20	50	38.7
Arkansas	342	9	67	418	89	22	111	26.5	307	125	101	212	50.7
California	1,167	96	169	1,432	344	85	429	29.9	1,003	370	294	723	50.5
Colorado	210	9	46	265	33	16	49	18.5	216	57	42	91	34.3
Connecticut	196	8	27	231	28	18	46	19.9	185	48	36	82	35.5
Delaware	38	2	8	48	5	1	6	12.5	42	15	11	17	35.4
Florida	339	21	164	524	61	18	79	15.1	445	139	106	185	35.3
Georgia	350	12	129	491	86	29	115	23.4	376	155	127	242	49.3
Idaho	144	12	34	190	14	5	19	10.0	171	39	26	45	23.7
Illinois	980	14	120	1,114	314	113	427	38.3	687	182	129	556	49.9
Indiana	456	20	116	592	117	57	174	29.4	418	154	123	297	50.0
Iowa	504	24	60	588	99	71	170	28.9	418	99	71	241	40.9
Kansas	391	20	98	509	70	67	137	26.9	372	96	72	209	41.1
Kentucky	299	16	78	393	84	40	124	31.5	269	120	101	225	57.2
Louisiana	380	11	79	470	89	49	138	29.4	332	123	98	236	50.2
Maine	161	10	27	198	23	7	30	15.1	168	31	23	53	26.8
Maryland	257	10	23	290	70	25	95	32.7	195	14	5	100	34.5
Massachusetts	404	31	59	494	141	8	140	30.2	347	70	41	190	38.5
Michigan	684	41	99	824	193	56	249	30.2	575	180	136	385	46.7
Minnesota	475	14	41	530	61	39	100	18.9	430	130	99	199	37.5
Mississippi	276	12	59	347	61	15	76	21.9	271	111	92	168	48.4
Missouri	576	22	113	711	136	74	210	29.5	501	250	209	419	58.9
Montana	141	10	35	186	23	4	27	14.5	159	68	57	84	45.2
Nebraska	326	12	36	374	56	9	65	17.4	309	118	94	159	42.5
Nevada	45	3	5	53	9	2	11	20.7	42	8	3	14	26.4
New Hampshire	90	4	19	113	28	3	31	27.4	82	16	9	40	35.3
New Jersey	408	6	26	440	174	24	198	45.0	242	70	44	242	55.0
New Mexico	108	15	45	168	28	6	34	20.2	134	44	37	71	42.2
New York	1,311	26	121	1,458	343	77	420	28.8	1,038	350	266	686	47.0
North Carolina	485	16	244	745	89	36	125	16.8	620	256	204	329	44.2
North Dakota	194	8	14	216	28	8	36	16.7	180	33	21	57	26.3
Ohio	916	10	176	1,102	296	123	419	38.0	683	241	184	603	54.7
Oklahoma	508	4	114	626	127	39	166	10.0	460	245	206	372	59.6
Oregon	245	31	62	338	52	16	68	20.1	270	103	86	154	45.2
Pennsylvania	1,237	19	184	1,440	278	140	418	29.8	1,022	342	271	689	49.2
Rhode Island	69	4	6	79	23	13	36	45.6	43	15	7	43	54.4
South Carolina	219	16	130	365	42	10	52	14.2	313	147	125	177	48.4

Summary of United States motion picture theater situation by States—Continued

State	Theaters constructed				Theaters closed				Open as of February 1954	Distressed theaters		If distressed theaters closed, closings would be—	
	Prior 1946	Since 1946		Total	1946 through April 1953	April 1953 through February 1954	Total	Percent closed		With a 20 percent tax	With a 10 percent tax	Total	Percent
		4-wall	Drive-in										
South Dakota	195	15	24	234	33	12	45	19.2	189	34	24	69	29.5
Tennessee	310	26	114	450	61	10	71	15.8	379	174	139	210	46.7
Texas	1,422	62	417	1,901	467	88	555	29.1	1,346	582	469	1,024	53.8
Utah	144	11	28	183	28	4	32	17.5	151	37	18	50	27.3
Vermont	68	6	21	95	14	3	17	17.9	78	31	16	33	35.4
Virginia	375	19	132	526	56	25	81	15.4	445	185	152	233	44.2
Washington	316	21	57	394	56	36	92	23.3	302	91	77	169	42.9
West Virginia	322	14	84	420	94	28	122	29.0	298	116	104	226	53.8
Wisconsin	426	18	55	499	70	21	91	18.2	408	140	130	221	44.2
Wyoming	61	2	23	86	9	6	15	17.4	71	28	23	38	44.1
District of Columbia	63	4	0	67	10	2	12	17.9	55	11	9	21	31.4
Total	19,019	807	3,918	23,744	4,696	1,584	6,280	26.4	17,464	6,127	4,820	11,100	46.7

NOTE.—The confidential sources, methods and procedures used to determine the above summary facts are made available to the Treasury and to the Joint Congressional Committee on Taxation.

Source: Prepared by Sindlinger & Co., Inc., for the Council of Motion Picture Organizations, Inc.

To: Council of Motion Picture Organizations, Inc.
Re: Summary of Kansas theater situation.

Original number of Kansas theaters and drive-ins constructed (100 percent)	509
Number of operations already closed in Kansas (26.9 percent)	137
Currently operating Kansas theaters and drive-ins	372
The financial status of Kansas' 372 operating theaters and drive-ins:	
Now in distress under the present 20-percent admissions-tax rate (25.8 percent)	96
Will still be in distress if the tax rate is reduced to 10 percent, for they are now losing more than half of what they are paying at the 20-percent admissions-tax rate (19.4 percent)	72
A 10-percent admissions-tax rate could force closings of	72
Kansas theater closings would then total (41.1 percent)	209

Senator CARLSON. I would also like to submit a letter and several wires from colleges in the State of Kansas regarding the tax on admissions to athletic events.

The CHAIRMAN. It will be put in the record.

(The letter and wires referred to follow:)

UNIVERSITY OF KANSAS,
Lawrence, March 9, 1954.

Hon. FRANK CARLSON,
United States Senator,
United States Senate, Washington, D. C.

DEAR SENATOR CARLSON: Thanks very much for your nice letter of March 5, I want you to know how much I appreciated your kindness in visiting with Walter Byers and his committee.

I am sending on to you a few wires that I have received from Kansas colleges, which pretty much tells the story—the small colleges are having trouble meeting their budgets.

The fieldhouse is moving along very well. I surely hope that the weather and the workers continue at the same pace. We might have a game or two there next March if we do not have too much bad weather and work stoppages.

Thanks again, and with every good wish.

Cordially yours,

A. C. LONBORG,
Director of Athletics.

MCPHERSON, KANS., *March 6, 1954.*

DUTCH LONBORG,
Director Athletics, University of Kansas,
Lawrence, Kans.:

Gross income $7,370.85, expenses $8,479.24.

SID SMITH.

WICHITA, KANS., *March 6, 1954.*

A. C. LONBORG,
Director of Athletics, University of Kansas,
Lawrence, Kans.

DEAR SIR: Gross income before taxes $4,958, gross expense $7,375. Hope this furnishes desired information. Good luck in your attempt.

EARL L. CRAVEN,
Director, Athletics, Friends University, Wichita.

NEWTON, KANS., *March 8, 1954.*

A. C. LONBORG,
Director of Athletics,
University of Kansas:

Expenditures, $9,319.82. Ticket receipts, $3,965.09.

BETHEL COLLEGE.
G. V. GALLE.

OTTAWA, KANS., *March 8, 1954.*

DUTCH LONBORG,
University of Kansas, Lawrence, Kans.:

Answering yours: Gross ticket sales, $7,581. Does not include tax collected, $1,568, and the guaranties, $1,550. Gross expense, $21,574. For 1952–53.

DON MEEK, *Coach, Ottawa University.*

SALINA, KANS., *March 9, 1954.*

A. C. DUTCH LONBORG,
Director of Athletics:

Gross income 1952–53: tickets, $11,500. Gross expenditures, $14,220.

D. T. BACKSTROM,
Director of Athletics, Kansas Wesleyan University.

Senator CARLSON. I am also submitting for the record a statement from Mr. H. B. Doering, Garnett, Kans., who operates the People's Theater in that city.

Mr. Doering called at my office in Washington and visited with me regarding the plight of a large number of small motion-picture theaters in the State of Kansas.

Mr. Doering is submitting a complete financial statement of the operation of his own theater, which shows the problem with which he is confronted, in view of the present taxes on admissions.

The undersigned, H. B Doering, is a resident of Garnett, Kans., and operates the Peoples Theatre in Garnett.

The undersigned started in theater business 32 years ago and has remained the owner and operator of the theater since that time.

Garnett, Kans., is a town of approximately 2,800 people and has a large trade area of fertile farming territory. There are no competitive theaters or other competitive amusements located within the trade area.

The undersigned charges an admission of 45 cents 5 days of the week and 35 cents on the 2 remaining days, the theater being operated 7 days a week. Matinees are run on Saturday and Sunday only.

The undersigned considers himself an average small-town operator and has the distinct advantage of having had 32 years of actual theater experience.

The undersigned manages and runs the theater personally and is assisted by his wife who acts as cashier. The only other employees of the theater consist of an operator, a bookkeeper, and a relief cashier, each of whom receive the sum of $30 a week for their services.

In submitting the following figures the undersigned calls to your attention the fact that he does not charge any salary to the theater operation for either himself or his wife.

The following figures are submitted for your consideration:

1. The theater building and the equipment located in the building, used in the operation of the theater, has a conservative value of $80,000. Both the building and the equipment are now completely paid for and there are no payments on either building or equipment considered in the following figures:

2. The Federal admissions tax at the rate of 20 percent collected during the past fiscal year was in excess of $6,000.

3. The net revenue from the operation of the motion-picture theater for the same period was approximately $5,000. In addition to the revenue from the operation of the theater, there was additional income from the operation of the popcorn machine and concession business, on which no Federal tax was charged.

4. During this same period of time, the undersigned paid approximately $8,000 as film rental for the use of the pictures exhibited in the theater.

5. If a minimum salary were paid to the undersigned for his services as manager and a minimum salary were paid to his wife as cashier, and any kind of return were figured on the $80,000 invested by the undersigned, the $5,000 net received from the exhibition of motion pictures would be completely eliminated.

6. The undersigned further points out that from January 1, 1954, to date the revenue from the exhibition of motion pictures is off approximately 20 percent from the corresponding period of last year.

The undersigned points out that because of the fact that his building and equipment are paid for, and because of the fact that he has no competition in his trade area, that his financial position is much better than that of the average small-town exhibitor.

The undersigned sincerely feels that by taking more money in the form of Federal admissions tax from the gross revenue received in the operation of the theater than is received by the owner of the business, that the tax is unfair and should be repealed.

The undersigned is vice president of the Motion Picture Theater Owners for the States of Kansas and Missouri, and has personally contacted the majority of the small operators in the State of Kansas and knows that in approximately all situations where the operator is paying rent, hiring employees, and making payments on equipment, that all such theaters are in dire distress. Unless immediate relief is given to them it is estimated that approximately 100 theaters in Kansas will not be able to continue operating except for a brief period.

The undersigned would like to further point out that if any large number of small theaters are forced to cease operation, the film rental paid by these theaters will no longer be available to the film producers. This will have a direct effect upon the film to be produced for exhibition in the larger theaters.

The undersigned further points out that in all cases of small theater operation, the cost of converting the theater for the use of stereophonic sound and Cinemascope projection is prohibitive, and that unless tax relief is granted the small theater will not be able to take advantage of the new developments of the industry.

The undersigned further states that there are approximately 300 pictures available during the currrent year for exhibition in all types of theaters. If this number should be decreased by the virtue of the closing of small theaters, the product would not be available for use by either large or small theaters. Approximately 50 of the available pictures are film for use by Cinemascope theaters only, and these pictures which are the newest and best grossing pictures are not available to exhibition by small theaters and will not be unless tax relief is given so that money paid to the Government can be invested in new equipment.

The undersigned would be happy to furnish any further information on any of the other theaters in the State of Kansas and sincerely requests that the Federal admissions tax be repealed entirely on all theater admissions of 50 cents or less.

H. B DOERING.

MARCH 12, 1954.

Senator CARLSON. Thank you.

The CHAIRMAN. Are there any further questions?

Senator FREAR. Yes, sir, if everybody else is through.

Senator JOHNSON. I have a question. I was interested in the exchange between Senator Flanders and the Secretary in regard to alternatives. As I understand Senator Flanders' theory, it is that we either have to keep taxes up or we must vote an increase in the debt limit. I want to ask if there is not a third factor that must be considered with respect to that; that is, the amount of spending. If the amount of spending is fixed, if it cannot be touched, then, of course, Senator Flanders is correct. But if the amount of spending is not a fixed figure, then you could reduce taxes without raising the debt limit if you reduced spending.

Secretary HUMPHREY. That is right.

Senator FLANDERS. May I just interrupt for a moment? My question involved both our tax legislation and our appropriations.

Secretary HUMPHREY. That is right.

Senator FLANDERS. If the appropriations go up, or stay stationary, or go down slower than our tax receipts that are legislated, then we

do have to do something. But we have to look at both the expenditures and the tax income.

Senator JOHNSON. I think that is correct if you take into account the spending, but there is something besides appropriations. Appropriations are not always current in the spending. I am talking about the spending because the spending is current. Appropriations are not current, and that leads me to the next question. I want to find out, if I can, what this backlog is that we have heard so much about of blank checks that are coming in now to be paid and all that sort of thing.

How much of a backlog is there remaining of old contracts that were inherited from the previous administration?

Secretary HUMPHREY. It was about $80.2 billion, the inherited contracts that were what we called the COD contracts. Our budget, Senator, is based on spending, not on appropriations. The way we get at our figure of disbursements is to take all of the forward appropriations that are going to be spent in the current year, and put them in, and in addition to them, we put in the current appropriations that are to be spent in the current year. So what we have are all of the expenses, both old and new, to be spent in that year, and that is what our expenditure figure is. That was the figure that Senator Flanders was referring to.

The CHAIRMAN. Senator Johnson, would you let me ask one question?

Senator JOHNSON. Surely.

The CHAIRMAN. How much remains of this COD operation?

Senator JOHNSON. That is the question I wanted answered, too. I wanted to find out how this backlog was coming along.

The CHAIRMAN. How much, at the end of this fiscal year, and at the end of the next fiscal year?

Secretary HUMPHREY. This is the estimate. It was $80.2 at the end of 1953.

Senator JOHNSON. Calendar?

Secretary HUMPHREY. No. this is all fiscal. It was $80.2. The current estimate for 1954 is $60.7, and the estimate for the 1955 budget, if carried forward with the recommendations made by the President's message, would be $56.3.

The CHAIRMAN. How much reduction does that involve in these outstanding COD's?

Secretary HUMPHREY. That is it. It goes from $80.2 down to $56.3.

Senator JOHNSON. That is the information I wanted to get. Then we are approaching the time when the spending about balances the appropriations?

Secretary HUMPHREY. No; this 56 is higher than your general turnover.

Senator JOHNSON. That is just a backlog?

Secretary HUMPHREY. I am just talking backlog, now. You asked what the backlog was. My answer was directed exclusively to the backlog.

Senator JOHNSON. How soon are we going to catch up?

Secretary HUMPHREY. I should think it would be another couple of years before you will get to the place where our current expenditures will absorb as much as we appropriate for the future. You will get

to a balance at some point, and I should think it would be 2 or 3 years, yet.

Senator JOHNSON. I am glad to get that information, because I think that is extremely important if we are going to understand the budgetary situation. My next question is this:

Is it entirely impossible to cut out some of the contracts that have been entered into for this future spending, this backlog and COD? I presume, in the reduction from $82 down to $80 to $60.7, and then to $56.3, that contracts have been canceled. I know the newspapers carry stories about cancellation of contracts.

Secretary HUMPHREY. That is right. We have reduced the estimated expenditures by about $12 billion.

The CHAIRMAN. For what period?

Secretary HUMPHREY. That is over the 2-year period. Part of that is cancellation of some of the old, and part of it is lesser current spending. It is both. The accumulation of this $80 billion of COD's was studied very, very carefully; by everybody concerned, particularly the military, because that is where most of it is.

Senator JOHNSON. And foreign programs.

Secretary HUMPHREY. Defense and foreign programs.

Senator FLANDERS. Will the Senator yield for a minute?

Secretary HUMPHREY. Just let me finish this statement, if I may.

The CHAIRMAN. Yes, please proceed.

Secretary HUMPHREY. They have been very carefully scrutinized to see what can be cut and they are being scrutinized to see what can be eliminated, so the reduction comes about first by elimination or cancellation of some of these orders, and also by absorbing them by paying them out and getting them over with.

Senator JOHNSON. I am glad to yield to Senator Flanders.

Senator FLANDERS. Just for a moment. I am somewhat dismayed by this slow decrease in the COD's. I want to raise the question as to whether the slowness of the decrease isn't due to the fact that this administration, in turn, is putting in COD orders?

Secretary HUMPHREY. Yes, we are.

Senator FLANDERS. So, it is the sum of the two that is so slow in reduction?

Secretary HUMPHREY. That is right. You see, what you do on the present basis, after the Congress changed its past practice of giving annual appropriations, plus authority to contract, and went into the appropriation field to cover it, it meant that anything that you want to buy that is going to take more than 1 year for delivery has to be added to this, so you deduct what you get delivered this year and add what you are going to buy that takes 2 years to deliver. I know of no other way to do it, unless you go back, as we have discussed many times, to an appropriation for the year only, with a contractual authority.

Senator BYRD. That is what we ought to do.

Secretary HUMPHREY. You know, Senator, I agree with you very definitely on very many of the things that you have in your mind.

Senator JOHNSON. I agree with that, also. I want to go on record as agreeing with that kind of a policy. I want to make just one little observation, and then I will be through. It would seem to

me, Mr. Secretary—and I say this with all due respect, because I don't understand all the problems that you are facing—that your position in opposing increases in taxes would be stronger——

Secretary HUMPHREY. Decreases.

Senator JOHNSON. I mean decreasing taxes. It would be much stronger if you took a position against any decrease in taxes and all decreases in taxes. But you seem to approve some of them and disapprove of the others. Of course, that is your right, but it does seem to me that your position would be stronger if you just said, "No, we can't decrease taxes anyplace along the line." When you accept some of them as being very proper, and others as throwing us into deficit spending, it just isn't too convincing to me. I like Senator Byrd's position much better.

Secretary HUMPHREY. Let me see if I can explain just why we take this position.

Senator JOHNSON. Yes; I would like to have an explanation for it.

Secretary HUMPHREY. Maybe it will help you in your thinking about it. We are on a very high level of expenditure in this country, and have been. It is a level of expenditure that, in my opinion, is too high to maintain. It must come down. I don't think this country, or any other country, can support the amount of money that we are now spending currently. I think we must bring it down, both our expenditures and our taxes. Being on that high level, we have to start to come down. The only really true way that you can come down is by reducing your expenditures and reducing your income no faster than you do your expenditures to bring them down together.

You have to make a start at that. The only way to save expenditures to cut Government expenditures—and this is a very definite statement—is to reduce either Government employment or Government purchasing, 1 of the 2. When you reduce Government purchasing, you reduce employment in the places where the people were working who made the things that you were buying.

So, a reduction of Government spending gets back to reductions of employment, either directly by the Government or indirectly for the people who were making the things that you were purchasing that you now have canceled off.

You have got to go through a transition period. Even if our security were not involved—and it is—you couldn't do this in one fell swoop, because you would put so many people out of work that you would have too many people out of work before they could be absorbed in other areas. What we have to is this:

We start from this high level and reduce our expenditures. That puts people whom we can get along without out of working for the Government. It puts people out of work where we are canceling purchases that we can get along without.

At the same time, then, we reduce taxes to approximately the amount that we have saved and give that money to the people to spend all along the line. It is not in any one place, but all along the line, to stimulate the making of the demand for other goods and the making of jobs. These people that go out of work making things for killing have to be put back to work making things for living. We have to go

through that transition as we come down, and it can't be done all at once.

To do it practically, you must bring them down together, and you can't be theoretical, but you have to be practical to keep them in balance. That is what we are trying to do.

We are in that transition. That is one of the prime reasons for our tax-revision bill. It is designed so that it will stimulate the making of jobs, the giving of employment for the people that are being put out of work who are now making things, or last year were making things, for killing, giving them jobs making things for living, to take up the slack and moving them from one kind of a job into another kind of job. That is the basis of the whole program.

It has to be done in that sort of way. Theoretically, you could just cut it off, but that wouldn't do because you are not taking care of the people.

Senator JOHNSON. I just had one other question, Mr. Chairman. Do you have any late figures on the amount of investment that is required to provide an average job, countrywide? Do you have any such figure as that?

Secretary HUMPHREY. Eight to ten has been used. I think probably that is as good a figure as any, taken on the average. In industry it is substantially higher than that. When you get into farms, you have a large investment in the farm itself that has to be taken into account. So I think 8 to 10 thousand dollars a job is about as good a figure as there is.

The CHAIRMAN. Some say 15 and 20.

Secretary HUMPHREY. In industry, it is 15 to 20, Senator.

The CHAIRMAN. Especially in dealing with some specialized product that requires high-cost machinery. That would cost more.

Secretary HUMPHREY. That is right.

Senator FLANDERS. Mr. Chairman, there are also the heavy industries in which very heavy equipment cost and a comparatively small labor cost are involved.

Secretary HUMPHREY. That is right.

Senator FLANDERS. Any tonnage industry runs way beyond 20 or 25.

Secretary HUMPHREY. That is right. I would just like to point this out, Senator, in passing. This country cannot run prosperously just making consumers' goods. In other words, just stimulating consumption. What you call consumers' goods and consumption will not give us prosperity in America. It will not employ all of our people. There are millions of people in America who are working on what we call heavy industry. Those people have got to have jobs, as well as the people who are making consumption goods. Therefore, you must have part of America going ahead, expanding, developing; and unless you have America continually going ahead and expanding and developing we cannot keep all of our people employed. That is why it is necessary that we do it, and it is right that we do it. People ought to be continually better off. We ought to be smart enough to keep the people in America better off all the time. We have done it for a good many years, and I believe we can continue to do it.

The CHAIRMAN. Mr. Secretary, I have no disagreement with anything that you have said except that you can trickle up into heavy

industry, as well as trickle down from heavy to consumer industry If I go to the grocery store and buy a can of peas, I am buying a consumer item. But finally you get into making the machine that makes the can for the peas, and you get into heavy industry. So it works both ways.

Secretary HUMPHREY. That is right. It is very direct.

As a matter of fact, the unemployment in America today is principally in the heavier lines. The biggest transition is from the heavier lines to new heavier lines. It is not to consumer lines. Consumer buying is much higher than heavier buying. The reason for that is perfectly plain. The $6 billion or $7 billion that the Government is stopping spending this year is partly direct personnel, but it is largely curtailment of purchasing. That purchasing is in heavy lines, or the largest part of it. So the job transition has to be in the heavy lines rather than just in the consumer lines. That is why just increasing consumer buying won't do the job. You have got to do both.

Senator FLANDERS. Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. I feel like standing up and making remarks every time those words "trickling down" are used.

When you devise tax measures which increase employment, that is not trickling down.

The CHAIRMAN. I have no disagreement with what the Secretary said. It works both ways. I am pointing out that when you have consumer activity, that consumer activity trickles up into heavy industry and it also trickles down.

Seantor FLANDERS. I don't object to the term "trickle up."

The CHAIRMAN. We could go crazy over these nice phrases, "trickling up" and "trickling down." I would like to see it both ways.

Secretary HUMPHREY. $6 billion to $7 billion of tax reduction is a little more than just a trickle.

Senator FREAR. Mr. Chairman.

The CHAIRMAN. I agree with that. It may be heavily——

Secretary HUMPHREY. It is a kind of a Niagara.

The CHAIRMAN. Senator Frear.

Senator FREAR. Now that it has trickled down to the last man on the totem pole, I would like to congratulate the Secretary and the administration on what you have done and what you are attempting to do, to decrease Federal expenditures and also trying to decrease the tax burden on the people of this country. Being of opposite political faith, I have nothing but praise for that which you have done along those lines. Unfortunately, I am not yet qualified to agree to the principle that you have given to the Congress to pass to accomplish those things.

Mr. Secretary, what is your opinion regarding the two theories that I have read something about as far as tax relief is concerned, that is, increased production versus increased purchasing power?

Secretary HUMPHREY. There has been a lot of talk about that. Some people liken it to the chicken and the egg. I don't think that is quite true. I think something has to be produced before it can be sold. If you have nothing, and I have nothing, we can't do much business. But if you make something and I make something, we both have something to sell. So from my point of view—I don't think it is too im-

portant which comes first—it seems perfectly obvious that production must precede distribution or sale or buying.

Senator FREAR. What is your opinion, then, regarding the productive power of this country for consumer goods for the present population? Are we in a position to supply all of those at the present time or do we need more capital resources for increased production to supply the present demand?

Secretary HUMPHREY. We need more capital resources, also, as I was saying to the Senator a minute ago, because there are millions of men in America whose job it is to make capital goods. Unless there are buyers for capital goods, as well as buyers for consumer goods, you have a lot of people out of work. It will not do to just give money to consumers to let consumers buy more. You have got to have expansion, building, construction, and all these other things going on at the same time. You have got to have both consumers buying the goods in consumer production and investors buying the goods of heavy production. If you don't have them both concurrently, you cannot have prosperity in America.

Senator FREAR. I don't know whether I am the chicken or the egg, but to start this thing we have to start at a point. We either have to give the consumer more dollars to spend in tax reduction or give the investors of capital more dollars to invest to start this.

Secretary HUMPHREY. The answer is both. It should be a balance between both, and without both, you cannot have prosperity.

Senator FREAR. Then our tax reduction program should be to give to both, is that right?

Secretary HUMPHREY. That is right, it must give to both.

Senator FREAR. Do you concur in this excise tax bill as brought over from the House by Mr. Reed, as accomplishing that purpose?

Secretary HUMPHREY. I think, Senator, perhaps you came in after I stated when I first came here that the Treasury is opposed to this flat cut in this bill. It is not because we object to reducing high excise taxes. We think high excise taxes are a deterrent to activity. We object because we can't afford it. We have got to have money to pay our bills with.

Therefore, we object to this flat reduction. We don't think it is as wise as a selective reduction would be. It costs more and is not as wise.

Senator FREAR. I am glad to hear you say that. I was late getting in and perhaps I ought to offer an explanation because some of our very fine friends from the State of Delaware were giving me some advice on this tax bill and I was delayed while I received it.

Now, perhaps the chairman will rap my fingers a little bit for getting into a broader tax, but as a general principle, regarding any reduced taxes, as far as the administration is concerned, have you anything to offer, any broader field, any sources of taxation that are not now being taxed, to compensate for any tax reduction? We have had, as Senator Byrd has said, an automatic reduction of about $5 billion that became effective the first of this year. Have you or the administration any ideas on increasing the platform by which we might get more taxes, any untaxed fields that would be subject to a Federal tax?

Secretary HUMPHREY. We went over this program in great detail

with the Ways and Means Committee. The way this program was developed was this: We took all of the many things that were suggested by many witnesses over a long period of time and selected those things which we thought would be the most effective for the least money to stimulate the economy and to assist us in this transition that we are in, making the first step in the transition which will be repeated, I think, as we go on down.

It may be thought that we have not made the wisest selection, but I think we did. It was done with the greatest care and it took about a year to do it.

The CHAIRMAN. You worked in cooperation with the House Ways and Means Committee?

Secretary HUMPHREY. Continuously.

Senator FLANDERS. Senator Frear——

Senator FREAR. Yes, sir, I am glad to yield to the Senator from Vermont.

Senator FLANDERS. I would like to pursue a little further one of your questions. I would like to ask the Secretary whether, in a condition in which the inventories of consumer goods are high, and apparently are interfering with employment on account of their volume, whether he would still feel a little preference for the relief for the production end, rather than the consumer end?

Secretary HUMPHREY. I think, Senator, it has to be both. I think you have to have a balanced program to carry this whole thing forward. To the extent that inventories are your difficulty, that is not too long a problem. That will work itself out. As a matter of fact, it is already working itself out in several lines. There are other lines where it still isn't done.

Accumulations of inventory come and go in any operation of this economy. You never can hit it right on the button. You always will have either a little too much or a little too little. You will have little periods where you have adjustments to make in inventory. I don't regard that as too serious.

Senator FLANDERS. And you think the figures indicate that they are moving in the right direction?

Secretary HUMPHREY. They are moving in the right direction. There is no doubt about it.

Senator FREAR. May I proceed?

The CHAIRMAN. Senator Frear.

Senator FREAR. I believe, Mr. Secretary, you made an earlier statement referring to 1942, that we were in a field of about 45 percent in relation to something, and now we are in a 95-percent field, so the area of expansion is much more limited than it was at that time. Do you not think that the new methods of living, the things that have been invented and the new products that have come on the market, will serve as a stimulant in inviting the public to spend more dollars, because they want a better way of life, they want to improve their way of living? I am always afraid to use the figure 20, so I had better say 25 years. In the past 25 years, things have come about to increase the pleasures and all the things that we, as Americans, want to have our people enjoy. Do you not think that with all of those, there is still more than 5 percent for expansion?

Secretary HUMPHREY. Senator, I think you have two things a little mixed up as to what I said. I was relating that simply to the currency. I think the opportunities for expansion and development in America in the future are so much greater than they were in the past that there is no comparison.

Senator FREAR. I have always thought that of you.

Secretary HUMPHREY. There is no question about it. My only regret is that I am not 25.

The CHAIRMAN. May I share that regret.

Senator FREAR. There is one thing on which both sides agree. I don't want to monopolize the time, because one of the great assets of our chairman is patience, and I don't want to overdo it, but if I may continue, I do have a couple more questions, Mr. Chairman.

I suppose, of course, Mr. Secretary, you and the administration do have some ace in the hole, so to speak. Should the Congress not abide by your desires and wishes in tax legislation and do not raise the revenue that you have asked us to raise, back in your mitt somewhere you have something that you can propose at a later hour that may bring in some additional resources for the Federal Treasury.

Secretary HUMPHREY. I am very sorry to say we went all out. Maybe we ought to hold out. I am inexperienced in politics, and maybe you ought to hold something up your sleeve, but we haven't. I don't know how to deal that way. You have got the story, and it is yours.

Senator FREAR. In your own mind, you have nothing that you could bring down here to raise any considerable amount of revenue? I don't mean just $2 or $3 million, but I mean a considerable revenue to the Treasury such as a half-billion dollars or a billion dollars.

Secretary HUMPHREY. Nothing that I think is desirable or suitable, as compared to the present program. I think the present program is our sincere judgment as to the best thing to do after spending a year at it and hearing everybody we could hear and studying it in every way that we could. It is all here, and we haven't a thing that we want to substitute or spring on anybody.

Senator FREAR. So that figure that would come from now on would have to come out of the clear blue?

Secretary HUMPHREY. We would have to start all over and I don't think it would be as good as what we have.

Senator FREAR. Do you think in that excise tax bill that the administration sent down here that you did relieve a number of inequities?

Secretary HUMPHREY. I am sure of it. Millions of people will have benefits from the revision bill.

The CHAIRMAN. Were you talking about the revision bill or the excise bill?

Senator FREAR. I was talking about the excise tax bill, Senator. I am glad to have your comments on the other, too, sir.

The CHAIRMAN. Let's be careful about the revision bill, now. We have only enough time to cover this one without covering the revision bill.

Senator FREAR. Will you permit me to ask one more question, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator FREAR. I will not get off the subject again. You did make a statement this morning, Mr. Secretary, or it has been stated, that the revision bill may be attempted to be altered in the House by increasing the exemption. I believe you said if that were increased $100, it would cost the Treasury about 1½ billion.

Secretary HUMPHREY. That is 2.5 billion.

Senator FREAR. Is that taking into account any recoupment?

Secretary HUMPHREY. No, there is no recoupment anywhere.

Senator FREAR. You don't think there would be any recoupment to the Treasury if that personal exemption were increased?

In other words, you would have a dollar loss of $2½ billion?

Secretary HUMPHREY. There would be an immediate loss of that much. How much we get back is a matter of judgment and calculation. There will be some return, relatively slow, but there will be a lag in practically all of it.

Senator FREAR. But you get an immediate loss?

Secretary HUMPHREY. A loss right now of money to pay our bills with.

Senator FREAR. Of $2½ billion, and if it went to $400, it would be $8 billions?

Secretary HUMPHREY. That is right.

Senator FREAR. That is one where we will have to stand in disagreement, but I am glad to have your opinion. Thank you very much, sir.

Secretary HUMPHREY. Maybe you will pay some of the bills if I send them down to you.

Senator FREAR. Would you briefly tell me what is the difference, in your opinion, between an unbalanced budget and a cash unbalanced budget, that is, whether the budget is a cash balance or a budget balance?

I am unable to distinguish the difference.

Secretary HUMPHREY. The difference is very simple. We collect from the people for various funds, approximately $3 billion, just as a round figure, in a year. If our expenditures are more than $3 billion over our income, we can sell to those funds, and do sell to those funds, Government bonds. That makes a readymade purchaser for Government bonds to the extent of about $3 billion.

Senator FREAR. Are they always a willing buyer?

Secretary HUMPHREY. Yes, and there is nothing else that they can do with their money.

Senator FREAR. Congress made them a willing buyer by making that statute, did they not?

Secretary HUMPHREY. Private funds and businessmen all over the country do the same thing. I don't think there is any obligation with respect to that. I don't know what else you could do with it that is as good as that. That means that to that extent, we do not have to go to the public to sell additional securities. That is the only difference. That is quite an important difference.

Senator FREAR. In the small way that I know figures, a cash balance to me means the cash income and the cash outgo of the bank account for a 12-month period. But to keep the budget in balance, you have to take into consideration future contracts.

Secretary HUMPHREY. No; we balance on a cash basis.

Senator FREAR. Has that always been true?

Secretary HUMPHREY. Sure.

Senator FREAR. Then a lot of this talk that was made 18 months ago and every 2 years previous to that has given me some false impression, because I have always heard about balancing the budget in one manner and then I hear of balancing the budget in a cash manner. What is the difference?

Secretary HUMPHREY. The difference is just as I explained it to you, exactly. It is about $3 billion, and it is the difference between having to sell bonds to the public and offering to sell bonds to the funds.

Senator FREAR. But we always had that in cash, sir.

Secretary HUMPHREY. Yes.

Senator FREAR. How many years have we had a cash balance since World War II?

Secretary HUMPHREY. I think it was one, and you did it that year by anticipating a lot of taxes that were due the next year.

Senator FREAR. What year was that?

Secretary HUMPHREY. Either 1950 or 1951. I can't remember. But there was one year when you put in the Mills bill and jumped a lot of corporate taxes ahead, throwing them from one fiscal year into the next fiscal year, and you balanced the budget by that maneuver. There was also a cash surplus in 1947, I believe.

Senator FREAR. How about 1948?

Secretary HUMPHREY. I will have to look at the figures.

Senator FREAR. Mr. Chairman, I realize this is getting entirely off the subject, and I don't want to delay, but may I ask, for the record, if you would permit me, to permit the Secretary of the Treasury to put in the cash receipts and cash expenditures, beginning with 1946, or since World War II, up to and including the last year for which you have figures?

Secretary HUMPHREY. Fine.

(The information referred to follows:)

Federal Government surplus or deficit administrative budget basis and cash basis, fiscal years 1940–55

[In billions of dollars]

	Budget surplus, or deficit (−)	Cash surplus, or deficit (−)		Budget surplus, or deficit (−)	Cash surplus, or deficit (−)
Fiscal year:			Fiscal year—Continued		
1940	−3.9	−2.7	1948	+8.4	+8.8
1941	−6.2	−4.8	1949	−1.8	+1.0
1942	−21.5	−19.4	1950	−3.1	−2.2
1943	−57.4	−53.8	1951	+3.5	+7.6
1944	−51.4	−46.1	1952	−4.0	+.1
1945	−53.9	−45.0	1953	−9.4	−5.3
1946	−20.7	−18.2	1954 (estimated)	−3.3	−.2
1947	+.8	+6.6	1955 (estimated)	−2.9	+.1

NOTE.—Estimates from Budget Document, January 1954.

Senator FREAR. Mr. Secretary, I thank you for being such a willing witness, and I appreciate the patience of the chairman.

The CHAIRMAN. Senator Malone.

Senator MALONE. Mr. Secretary, I think we are lucky to have you in the position we are in, and I congratulate the President for appoint-

ing you. It puts some of us behind the eight ball a little bit on this bill you sent over, because I have had a bill in since April 2, 1953, to repeal wartime excise taxes.

I would like, Mr. Chairman, to make it short and just let this be put in the record.

The CHAIRMAN. It will be put in the record.

(The material referred to follows:)

[S. 1566, 83d Cong., 1st sess.]

A BILL To terminate the war rates of certain excise taxes, to repeal certain excise taxes, and for other purposes

Be it enacted the Senate and House of Representatives of the United States of America in Congress assembled, That (a) effective with respect to the period after June 30, 1953, the following sections and subchapters of the Internal Revenue Code are hereby repealed:

(1) section 1650 (war tax rates of certain miscellaneous taxes);

(2) section 1651 (retailers' excise tax on luggage, etc.);

(3) section 3406 (a) (10) (manufacturers' excise tax on electric light bulbs and tubes);

(4) subchapter B of chapter 30 (taxes on telegraph, telephone, radio, and cable facilities); and

(5) subchapter C of chapter 30 (taxes on transportation of persons).

(b) The "rate reduction date" defined in section 1659 of the Internal Revenue Code shall be July 1, 1953.

SEC. 2. (a) Section 2400 of the Internal Revenue Code (tax on jewelry, etc.) is hereby amended by adding at the end thereof the following new sentence: "The tax imposed by this section shall not apply to articles sold at retail for less than $50."

(b) The amendment made by subsection (a) of this section shall apply only to articles sold on or after July 1, 1953.

SEC. 3. (a) Section 3406 (a) (4) of the Internal Revenue Code (manufacturers' excise tax on photographic apparatus) is hereby amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum."

(b) The amendment made by subsection (a) of this section shall apply only to articles sold on or after July 1, 1953.

SEC. 4. Effective with respect to amounts paid after June 30, 1953, for the use of any safe-deposit box, chapter 12 of the Internal Revenue Code (tax on safe-deposit boxes) is hereby repealed.

Senator MALONE. I have always thought that when we have wartime taxes of any kind, they are a rush job. Nobody knows very much about them. Immediately the war is over, they ought to be repealed. That has not been done; has it?

Secretary HUMPHREY. I think this, Senator Malone, that I would agree completely if the war was all over. I don't know that you can say the war is over; can you? At letst we haven't got what you and I would like to think of as peace. We have a very serious and complicated situation that has confronted this country ever since the end of the war.

Senator MALONE. I would like to say to you that I think a lot of it has been a fictitious matter. We will go into that sometime in a different manner.

I don't know who started this idea of Congress regulating the amount of money people have to spend through taxes. They used to say when I first came here that they were going to siphon off a certain amount of income so there wouldn'd be so much money to spend and there wouldn't be inflation. That is unthinkable, in my opinion, and it is the wrong thing to do. Even if it is the right method, Congress doesn't know how to do it.

Secretary HUMPHREY. That is right.

Senator MALONE. I would like to make one comment on your opportunities here and we will talk about that in another manner. I think you have an industry right in front of you, and it will be a $10 billion a year industry pretty soon. That is the titanium industry. The nuclear-energy industry is another tremendous industry. I don't think you have to worry if you let the people have some money. But if you pay them high wages and take it away from them, I don't think you are going any place.

I would just like to ask you one question. I will not go into it any further because time is short and I am due at another meeting, as you probably are. In these contracts that we are still paying for, I presume—I missed your early testimony—that were let before you were Secretary of the Treasury, I would like to ask you again, as I did once before here, what examination has been made of these contracts as to the up-to-date equipment that is being manufactured or how much of it is obsolete that is going over to Europe in storage and that will never be taken out.

Secretary HUMPHREY. Senator, I personally haven't been able to do any of it but Joe Dodge and I have done everything possible in talking to the proper people to have those things examined in the minutest degree. I have a great deal of faith in Charlie Wilson and Roger Kyes and in their ability. I have known them for many years. I have seen them handle millions of dollars worth of inventory in business and account for it and keep track of it. I think they took on a terrific job in trying to find out what they had and where it was and what it was about.

I am sure that they have given as much study to the reduction and cancellation of these expenditures and checking their inventory as they have been able to in the time they have been there. It is a long way from complete.

Senator MALONE. This is another field and we will go into it in another committee. Right at the moment, with all the testimony we have under a certain resolution in the Senate, you are not even going to get an opportunity to take your stuff out of storage in Europe. Hours after the war starts, you can't reach it. Still we are piling it up there. We must go into it sometime. I have every confidence in the world in Charlie Wilson, as you say. I do not know him like you do, or Mr. Kyes, but they must take somebody's word for this because they are not military strategists any more than I am or you are.

You think they have gone into this with their military strategists and have canceled all the contracts they can?

Secretary HUMPHREY. Up to date. I don't think they are anywhere near through.

Senator MALONE. Somebody is going to ask you this question sometime, and I am not going to ask it now. How many of these contracts are we keeping up there for fear of unemployment and not for national defense?

Secretary HUMPHREY. They are moving it around just as fast as they can.

Senator MALONE. I thank you very much, Mr. Secretary. I have not made up my mind on this bill. I have made so many arguments in the last 3 or 4 years that it ought to be redistributed. I have got my little bill in there trying to get some attention paid to it.

It has to come from you. It can't start with this committee. And it hasn't come from down there. It didn't come from there in the other administration. I know that you must be doing the best you can. I am certain that that is the best that can be done because I like the way you approach the question.

Secretary HUMPHREY. Senator, we have presented a rounded financial program for this country for this year.

Senator MALONE. That may be.

Secretary HUMPHREY. I hope you will think that that is right and that we have done the best we can to give you a completely rounded picture of what we believe is the right thing to do.

Senator MALONE. Here is what I do know, and I do not know the entire picture. I am going to try to study it as you have put it down here in the record. We are breaking many businesses in my State and other States. They are just simply passing out of existence. There is no use arguing the point. I don't know of any way to help them except to reorganize the tax structure. If you are right about this equipment you are manufacturing up there, which I don't think you are—I think there is a lot of it that is as obsolete as a dodo bird that you are manufacturing——

Secretary HUMPHREY. Don't misunderstand me. I didn't say any of it was obsolete. I said I didn't know.

Senator MALONE. But there are these little businesses that we are pushing out of existence. Our mineral business is out of existence. Textiles are being hurt. You are in the machine tool business, which is going to be hurt right quick, if it is not already. Your crockery business is out. I intend to make some mention of it on the Senate floor next week in some detail.

We are talking about depressed areas when we are depressing them ourselves. It is a bigger subject than we should handle here today. I don't want to take any more time and I appreciate the answers you are giving me, but I don't want it understood that I am going along with them yet.

Secretary HUMPHREY. All right.

The CHAIRMAN. Are there any more questions?

Senator BENNETT. I have just one more area that I would like to go into for a minute or two, Mr. Secretary. I think you have given us a very clear picture of your concept of the need to provide tax help for the production side of the economy as well as the consumption side.

Is it fair to say that the changes in personal income taxes as of the first of January were beneficial to the consumption side of the program?

Secretary HUMPHREY. I think so.

Senator BENNETT. How much did that amount to?

Secretary HUMPHREY. About $3 billion.

Senator BENNETT. Is it not also fair to say that the taxes in this proposed excise tax bill, however they finally come out—and assuming that the bill is passed as it is now before us—are all consumption?

Secretary HUMPHREY. That is correct.

Senator BENNETT. On January 1 the excess profits tax was eliminated. How much money was involved in that?

Secretary HUMPHREY. About $2 billion.

Senator BENNETT. Let us put it down as two billion. Was that tax spread generally over all industry?

Secretary HUMPHREY. No; I don't think so.

Senator BENNETT. It is my memory that there were some 44,000 companies that had been paying excess-profits tax out of some 4 million corporations that there are in the country. Out of 4 million businesses and some 400,000 corporations. The relationship is about 10 times 10 times 10. So it is not entirely fair to say that the change in the excess-profits tax provided a uniform benefit to the productive side of the industry.

Secretary HUMPHREY. I think that is right.

Senator BENNETT. I hate to get into this field. We have been warned by the chairman, but we have all jumped the fence a little bit, Mr. Chairman.

The CHAIRMAN. One little jump might not hurt.

Senator BENNETT. In the proposed general revision bill, can you suggest how much of the 1.2 billion that is involved in that bill might be considered to be beneficial to the production side of industry? You are not changing the corporate rates at all, so whatever benefits industry would get out of that bill would be much smaller than that total.

Secretary HUMPHREY. I think in the neighborhood of a half.

Senator BENNETT. So that is half a billion dollars?

Secretary HUMPHREY. It would be six or seven hundred million.

Senator BENNETT. Just doing a little quick arithmetic, in the last 10-percent increase we have consumption benefits of 3.9 billion. In the revision bill we have a fairly firm production benefit of six-tenths of a billion.

Secretary HUMPHREY. Something like that. They both benefit each other to a certain extent, so it is hard to make a definite cleavage.

Senator BENNETT. The point has been made in discussing these tax bills that this is all for the benefit of the rich man or all for the benefit of the poor man. As a matter of fact, if consumption and production are partners, then the consumption side has been helped substantially in excess of the total that might be available to the production side?

Secretary HUMPHREY. That is correct.

Senator BENNETT. And if you throw the whole 2 billion relief from excess-profits tax on the production side, the ratio is 1½ to 1.

Secretary HUMPHREY. That is right.

Senator BENNETT. I just wanted to get that in the record, particularly because of your splendid explanation of the interrelationship between these two parts of our economy.

Secretary HUMPHREY. That is right.

Senator BENNETT. Thank you, Mr. Chairman.

Senator FREAR. I think the Senator from Utah should go a little further and also tell what benefits will be derived if the anticipated or the end of the 52-percent bracket for corporations goes back to 47 percent, and also what percentage of the stock income——

Secretary HUMPHREY. We are hoping that it will not go back. We are asking that it shall not go back. We are asking that it shall stay at 52, which more than offsets the rest of the money.

Senator BENNETT. I didn't include that because it was obviously the Treasury's position that they were opposed to it. I am assuming that

the House will follow the Treasury's recommendations with respect to that in its vote tomorrow.

Secretary HUMPHREY. I hope so.

The CHAIRMAN. Are there any further questions?

Senator CARLSON. Mr. Chairman, I don't know that I should take more than a minute here. We have been hearing so much about taxes and the present pressing problems that it might be well to look ahead just for a little bit and have an optimistic note at the conclusion of this hearing. I am going to quote from a very substantial citizen. This statement is by Mr. Benjamin Fairless, chairman of United States Steel, and I was making this statement at a recent meeting at which it was mentioned that our population will increase 45 million in the next 20 years. In 1975 we will have 45 million more people. This is an interesting statement as to the great possibilities that this Nation has. We get concerned about the present situation.

> Within the next 20 years we are told we will have 45 million more people to feed and to house and to clothe. Can you imagine what that means to our economy? Well, let me simply tell you what it means in terms of steel.

Of course, we are hearing a little about steel being back to 65 or 70 percent of capacity.

> Last year, as you know, we completed our new Fairless works up on the river in Delaware. That is the largest single steel plant that has ever been built at one time, but if the per capita consumption of steel remains what it is today, even if it does not rise, as it always has throughout this century, it will still take 14 more plants of that size to meet the demands of these 45 million new people. That means a new Fairless works every 17 months for the next 20 years, and it took us 30 months to build the last one.

I thought that was an encouraging statement. About 2 weeks ago they had the Midcentury Conference on Resources, a meeting in Washington. They also were anticipating 1975. They stated:

> The national product may hit 750 billion, about double the present rate. Electric power will face demands amounting to 1.6 trillion kilowatt-hours. The current demand is about 445 billion kilowatt-hours. Minerals, up 75 to 100 percent over today's consumption. It will involve greater reliance on foreign resources for nonmetallic minerals such as sulfur and potash and the increase will be even greater. The farm output will have to jump 35 to 45 percent, putting a terrific strain on America's crop production.

I just wanted to get that in the record.

The CHAIRMAN. Thank you very much. Is there any further question?

Senator BYRD. Mr. Chairman, there is one thing I would like to suggest. I would like to put with Senator Frear's request the cash budget to go in the record. I would like to put the administrative budget so we can see the difference between the two. I have always contended the cash budget includes funds that don't belong to the United States budget and shouldn't be regarded as an asset of the Government because it is paid in by individuals for their own benefit under social security. (See p. 257.)

Secretary HUMPHREY. In line with Senator Byrd's recommendation, I don't say, and I don't want anybody else to say, that you balance the budget when you use the funds. That is not a balanced budget. We agree on that 100 percent. It simply, Senator, as I said

to Senator Frear, means that you do not have to go to the public for that amount of debt.

Senator BYRD. It is all right to bring that out and you have always stood strongly on the administrative budget. I thought it would be confusing if you brought in the records on a cash budget and not on the administrative budget.

Senator FREAR. I agree with you, and I am sorry I did not ask the Secretary for it.

Senator WILLIAMS. Mr. Secretary, in relation to that, you have no legal right, to say nothing of a moral right, to count those cash funds. They are more or less a trust fund.

Secretary HUMPHREY. They are trust funds and all they are is a purchaser for securities of the Government.

Senator WILLIAMS. And neither from a legal nor a moral standpoint do you have any right to tap those funds and use them.

Secretary Humphrey. We cannot count on them except as a purchaser for our securities.

Senator WILLIAMS. Mr. Chairman, one further question. There has been quite a little emphasis placed on the fact that this $900 million proposed cut, if it goes into effect, would not really mean $900 million. I agree that there would be some of it that would go back, but nevertheless is it not also a fact that that assumption is based largely upon the assumption that the industries affected which are getting this relief would not pass it on to the consumer but would incorporate it into their own profits and thereby pay corporation taxes, which would nullify the arguments that the consumers are getting it, and if it is passed on to the consumers a much less percentage of it would be included in the recovery percentage.

Secretary HUMPHREY. I think that is right. Anyway you figure it, it is not going to be in your checkbook when you write checks.

Senator WILLIAMS. And you will have to borrow that much additional money to pay for it?

Secretary HUMPHREY. That is right.

The CHAIRMAN. Are there any further questions? Thank you very much, Mr. Secretary.

Secretary HUMPHREY. Thank you very much, indeed.

The CHAIRMAN. The committee will meet at 10 o'clock tomorrow in executive session.

Senator GEORGE. With the permission of the chairman, I would like to insert in the record a statement submitted by the National Automobile Dealers Association.

The CHAIRMAN. That has already been made a part of the record.

Senator GEORGE. Thank you.

Senator JOHNSON. Mr. Chairman, I would like to speak briefly in support of an amendment which I have proposed to H. R. 8224, to provide excise-tax relief for the small brewers.

The present tax rate discriminates against small plants. The present flat tax rate of $9 per barrel upon all beer imposes an unequal tax burden upon the small brewers who sell their product at lower prices than the nationally advertised brands. The large brewers charge higher prices for their merchandise, and spend a large percentage of

their gross receipts in expanding plant facilities, and in large-scale advertising programs, with which the small operator cannot compete.

The price charged by large brewers for their nationally advertised brands is uniformly above the level of prices charged by local and regional competitors. Consequently, with a flat tax rate of $9 per barrel applicable to all production, it is obvious that the tax represents a substantially higher percentage of the sales price of local brewers, than in the case of nationally advertised brands. This is illustrated by the following example:

In the District of Columbia the spread in price between regional beers and national brands runs about $1 per case. The local beers sell for approximately $3 per case, and the national brands for around $4 per case. On the basis of these sales prices, a tax discrimination against local plants arises, as follows:

1. National brands at $4 per case retail:	
Price of 6 bottles	$1.00
Tax on same	[1].17
Beer cost	.83
2. Local brands at $3 per case retail:	
Price of 6 bottles	.75
Tax on same	[2].17
Beer cost	.58

[1] Tax equals 17 percent of sales price.
[2] Tax equals 22½ percent of sales price.

In other words, generally speaking 22½ cents of each consumer's dollar spent for local packaged beer represents the Federal excise tax; whereas only 17 cents of each consumer's dollar spent for national brands represents Federal excise tax.

The imposition of a lower excise tax on the first 100,000 barrels sold by each brewer annually would be administratively feasible. Beer excise taxes are now paid in advance of removal or sale by purchasing stamps of proper denomination from the Director of Internal Revenue, and canceling such stamps in the required amounts at the time of removal or sale. Even if this system of tax collection were continued, officials of the Treasury Department have informally indicated that no administrative difficulty would arise in providing stamps of proper denominations to small brewers who would benefit by the tax reduction.

However, the administrative problem is further simplified by section 5061 of subtitle E, chapter 40 of H. R. 8300 (recommended by the Treasury Department and the industry, approved by the Ways and Means Committee, and to be voted on in the House March 19, 1954), "A bill to revise the internal revenue laws of the United States," which contemplates that excise taxes on alcoholic beverages, after January 1, 1955, will be paid by return, after removal and sale, instead of by tax stamps before removal, as heretofore.

The loss in revenue would be nominal, especially considering the desirability of preventing the continued growth of a beer monopoly in the United States. With beer sales currently approximating 90 million barrels annually, the Federal excise tax at $9 per barrel amounts to about $810 million. The loss of revenue resulting from

this amendment is estimated at $30 million, or about 3½ percent of the total collections. However, much of this loss will be returned to the Treasury in the form of income taxes paid by small brewers who will be enabled to remain in business, and by the thousands of employees who are dependent upon them for a livelihood.

If the tax rate were reduced on April 1, 1954, from $9 to $8, as contemplated by the present law, the revenue loss in the next 12 months would amount to about $90 million, the bulk of which would go to the million-barrel plants. Anheuser-Busch and Schlitz alone would divide nearly $14 million. The Big Ten would benefit to the extent of over $30 million. However, this Congress will not allow the tax rate to drop $1 a barrel on April 1, 1954. Under the circumstances we can afford to sacrifice a few dollars in revenue to curtail the growing beer monopoly and help the small units of the industry stay in business.

The following breakdown of breweries according to annual sales volume is provided as an aid in determining just how many small plants will be kept in business by this proposal, and what it will cost in terms of revenue.

Sales in barrels

	Fiscal 1952	Fiscal 1953
Breweries selling less than 10,000	28	30
Breweries selling from 10,000 to 25,000	48	46
Breweries selling from 25,000 to 50,000	50	41
Breweries selling from 50,000 to 100,000	54	50
Breweries selling from 100,000 up	151	147
Total	[1]331	314

[1] This represents actual brewing plants in operation, and not brewing companies. Many of these plants in category No. 5 were part of a chain operation owned by large brewing companies.

BREWERS OPERATIONS IN STATES REPRESENTED ON SENATE FINANCE COMMITTEE

Colorado.—Three breweries in the State:	*Sales in barrels* 1948	1952
Tivoli	61,000	51,000
Walter	60,000	45,000
Coors	470,000	757,000
Total	623,000	853,000

Total sales in 1953, [1] 908,423.

[1] Aided by 76-day Milwaukee beer strike.

Nebraska.—The 4 breweries in the State sold over 1 million barrels in 1948, and dropped to 863,000 barrels in 1952. This was a loss of over 16 percent. Sales recovered to about 1,030,000 barrels in 1953 due to the 76-day Milwaukee beer strike, but are now dropping again. January 1954 sales were 60,750 barrels, as compared with 67,618 barrels in January 1953.

Pennsylvania.—

Breweries operated in the State in 1948	62
Breweries operated as of June 30, 1952	45
Operating on Feb. 1, 1954	36

Pennsylvania beer sales in barrels: 1948, 8,837,000; 1952, 6,946,000; 1953, 7,397,000.

There was a loss in business of about 16 percent in 1953, as against 1948, even though 1953 sales were aided by the long Milwaukee beer strike.

Pennsylvania brewers' sales in January 1954 were 7 percent below January 1953.

Delaware.—One brewery in operation. Sales in barrels: 1948, 56,000; 1952, 27,000; 1953, 17,794. There was a loss in sales of about 68 percent from 1948 to 1954, and the trend continues downward.

Nevada.—One brewery in operation. Sales in barrels: 1948, 28,000; 1952, 13,000; 1953, 7,823; January 1954, 354. There was a loss in sales of about 70 percent from 1948 to 1954, and the trend continues downward.

Utah.—Two breweries in operation. Sales in barrels: 1948, 173,000; 1952, 163,000; 1953, 155,437. There was a loss in sales of about 10 percent from 1948 to 1954, and the trend continues downward.

Georgia.—One brewery in operation. Sales in barrels: 1948, 62,000; 1952, 52,000; 1953, 49,751. There was a loss in sales of about 20 percent from 1948 to 1954, and the trend continues.

North Carolina.—One brewery in operation. Sales in barrels: 1948, 69,000; 1952, 47,000; 1953, 47,745. There was a loss in sales of about 30 percent from 1948 to 1954.

Louisiana.—Four breweries now in operation, these are mostly large, including Falstaff; two small breweries closed since 1948. Sales in barrels: 1948, 1,754,000; 1952, 2,060,000; 1953, 2,345,000. New Orleans has become a prominent brewing center. Anheuser-Busch plans a $20 million brewery there with an annual capacity of 1 million barrels. According to trade reports, Schlitz is also looking around. This spells trouble for at least 2 of the 4 Louisiana breweries, which sold in 1952 only 154,000 barrels and 207,000 barrels, respectively.

Kansas, Oklahoma, Vermont.—There are no breweries operating in these States.

ONE-LINE BREWERY NEWS BRIEFS FROM 1953 TRADE MAGAZINES

Anheuser-Busch

Anheuser-Busch brews 6 million barrels in 1952.
Anheuser-Busch breaks ground for new California plant.
Anheuser-Busch buys St. Louis Cardinals baseball team.
Anheuser-Busch opens large Boston distribution center.
Anheuser-Busch earnings after taxes jumped to $6,463,363 for first 6 months of 1953.
Anheuser-Busch buys time on 350-station network for Bill Stern's sportcasts.
Anheuser-Busch entertains 30,000 legionnaires at a 2-day party in St. Louis.
Anheuser-Busch announced plans for a $5 million yeast plant at its new California brewery.
Anheuser-Busch votes to increase the number of authorized shares by 1½ million.
Anheuser-Busch sets industry sales record with 6,734,302 barrels in 1953.
Anheuser-Busch has announced plans to build a brewery in New Orleans at a cost of $20 million.

Schlitz

Schlitz reduces wholesale prices in Southwest area.
Schlitz Brewing Co. sets world record with its sixth million barrel in 1952.
Schlitz starts construction on new $20 million west-coast brewery.
Schlitz will have California beer on market next summer.

Pabst

Pabst Brewing Co. builds million-bushel grain elevator.
Pabst doubles malt-storage capacity with its new $500,000 elevator.
Pabst will complete first coast-to-coast brewing system with December opening at Los Angeles plant.

Miscellaneous large brewers

P. Ballantine, of Newark, N. J., is leading advertiser in New England newspapers.
Falstaff's sales for June quarter are a record $16,381,445.
Miller Brewing Co. announced a definite decision to build a brewery away from Milwaukee.
Jacob Ruppert sales for first 6 months top last year by 19 percent.
Theo. Hamm Brewing Co. begins rebuilding its California plant.

Theo. Hamm pays $1,809,937 for the brewery of Rainier Brewing Co., of San Francisco.

Regal Amber Brewing Co., of San Francisco, opens aggressive campaign to hold its California market against eastern competition.

Falstaff announces plans for expanding San Jose brewery.

Falstaff breaks sales records with $18,341,476 total for the first 3 quarters.

Falstaff New Orleans plant mashes in a record one millionth barrel.

Liebman announces sale of record six millionth ½ barrel of Rheingold in New York area.

Miller Brewing Co. expects 1954 production to exceed 3,500,000 barrels.

States in which local brewers' beer sales dropped in 1953 under 1952

	Percent		Percent
Connecticut	5.6	Ohio	.4
Delaware	33.0	Oklahoma	10.1
District of Columbia	9.1	Oregon	20.1
Georgia	4.4	Tennessee	24.2
Hawaii	4.2	Utah	4.6
Idaho	13.2	West Virginia	7.4
Massachusetts	13.8	Wisconsin [1]	21.0
Nevada	29.5	Wyoming	23.1

[1] Due in large part to 76-day Milwaukee beer strike.

List of small brewers forced out of business in 1952

1.	Bluff City Brewery, Alton, Ill	Aug. 18
2.	Cold Spring Brewing Co., Lawrence, Mass	July 1
3.	Star Brewing Co., Boston, Mass	July 15
4.	Brewery Enterprises, Inc., Flint, Mich	Nov. 20
5.	Franklin Brewing Co., Columbus, Ohio	Dec. 31
6.	Pioneer Brewing Co., Walla Walla, Wash	Oct. 31
7.	Burlington Brewing Co., Burlington, Wis	Oct. 24
8.	Mound City Brewing Co., New Athens, Ill	Mar. 17
9.	Fox Deluxe Brewing Co., Grand Rapids, Mich	Feb. 8
10.	Phoenix Brewing Co., Bay City, Mich	Mar. 25
11.	Goodhue County Brewing Co., Red Wing, Minn	Apr. 7
12.	Cleveland Home Brewing Co., Cleveland, Ohio	Mar. 27
13.	The Webb Corp., East Liverpool, Ohio	Feb. 27
14.	Glasgow Brewing Co., Norfolk, Va	Jan. 14
15.	Haffenreffer & Co., Boston, Mass	Jan. 1
16.	Kamm & Schellinger Co., Mishawaka, Ind	Do.

List of small brewers forced out of business in 1953

1.	Keeley Brewing Co., Chicago, Ill	July 9
2.	Koller Brewing Co., Chicago, Ill	June 22
3.	Homestead Ice Co., West Homestead, Pa	July 28
4.	Ziegler Brewing Co., Beaver Dam, Wis	June 11
5.	Grace Bros. Brewing Co., Santa Rosa, Calif	June 30
6.	Yoerg Brewing Co., St. Paul, Minn	June 12
7.	Kalispell Malting & Brewing Co., Kalispell, Mont	June 10
8.	Washington Breweries, Inc., Columbus, Ohio	June 30
9.	Sick's Brewing Co., Salem, Oreg	June 22
10.	Boyertown Brewing Corp., Boyertown, Pa	June 29
11.	Chester Brewing Co., Chester, Pa	Apr. 6
12.	Altes Brewing Co., San Diego, Calif	Mar. 30
13.	Colorado Brewing Corp., Trinidad, Colo	Jan. 1
14.	Lafayette Brewery, Inc., Lafayette, Ind	Do.
15.	Wiessner Brewing Co., Baltimore, Md	Mar. 31
16.	Croft Brewing Co., Boston, Mass	Feb. 27
17.	Greenway's, Inc., Syracuse, N. Y	Jan. 20
18.	Hudepohl Brewing Co., Cincinnati, Ohio	Mar. 6
19.	George J. Renner Co., Akron, Ohio	Feb. 24
20.	Jacob Hornung Brewing Co., Philadelphia, Pa	Nov. 15
21.	Matz Brewing Co., Bellaire, Ohio	July 7

Breweries in operation and sales volume, 1933–54

Fiscal year ending June 30—	Breweries operating	Barrels produced	Fiscal year ending June 30—	Breweries operating	Barrels produced
1934	725	37,678,313	1944	463	81,725,820
1935	702	45,228,605	1945	461	86,604,080
1936	711	51,812,062	1946	465	84,977,700
1937	703	58,748,087	1947	466	87,856,902
1938	658	56,340,163	1948	448	91,291,219
1939	622	53,870,553	1949	412	89,735,647
1940	580	54,891,737	1950	392	88,807,075
1941	537	55,213,850	1951	361	88,976,226
1942	492	63,716,697	1952	334	89,573,158
1943	467	71,018,257	1953	314	90,200,000

Number of breweries in operation Feb. 1, 1954 298
Number of brewing companies in business Feb. 1, 1954 ..... [1] 273

[1] Many large brewers own and operate more than 1 plant.

The march of the Big 10

[Sales volume in thousands of bbls.]

Brewer	1943	1952	Brewer	1943	1952
1. Schlitz	3,172	6,347	7. Schaeffer	1,801	2,485
2. Anheuser-Busch	3,565	6,034	8. Falstaff	1,226	2,277
3. Pabst	2,211	4,047	9. Ruppert	1,371	1,800
4. Ballantine	2,630	4,038	10. Blatz	920	1,662
5. Miller	720	3,043			
6. Liebman	1,160	2,875	Total	18,776	34,608

All these except Miller, Ruppert, and Blatz have become multiple-plant operators. Schlitz and Busch will be selling beer this summer out of their California plants. Busch plans a $20 million brewery in New Orleans, and Schlitz also has similar plans, according to trade reports.

The 4 top breweries in 1952 accounted for over 25 percent of the business, as compared with 11.8 percent of the business in 1945.

The 7 top brewers accounted for over 34 percent of the total business in 1952, while the 25 top brewers enjoyed approximately 60 percent of the total business in 1952, as compared with 36 percent in 1943.

Complete sales figures for 1953 have not yet been published. However, Busch broke all previous records with sales of 6,734,000 barrels in 1953; and with their California breweries now in production both Schlitz and Busch are expected to sell over 7 million barrels in 1954. This will represent for each of them an increase in sales volume of over 100 percent in a 10-year period.

(By direction of the chairman, the following is made a part of the record:)

MEMORANDUM OF G. KEITH FUNSTON, PRESIDENT OF NEW YORK QUOTATION CO., CONCERNING THE REDUCTION OF FEDERAL EXCISE TAXES ON LEASED WIRES AND ON WINE AND EQUIPMENT SERVICES (INCLUDING QUOTATION AND INFORMATION SERVICES)

The Internal Revenue Code now imposes an excise tax of 25 percent on amounts paid for leased wires, teletypewriters, or talking circuits. Such tax is not applicable to leased wires used exclusively in rendering a "wire and equipment service" (for example, a stock quotation and information service) (secs. 3465 (a) (2) (A) and 1650, I. R. C.). A separate tax is imposed at the rate of 78 percent on amounts paid for "wire and equipment" services (including stock quotation and information services) (secs. 3465 (a) (2) (B) and 1650, I. R. C.).

The Excise Tax Reduction Act of 1954 (H. R. 8224, 83d Cong., 2d sess.) would reduce the tax on leased wires to 10 percent, but would retain the present 8 percent tax on wire and equipment services. The proposed act, in failing to

reduce the tax on wire and equipment services, unjustifiably disregards the historical rate differential between the two taxes and the inherent difference in the base upon which such taxes are imposed.

There has always been a differential between the excise tax rate on leased wires and that on wire and equipment services. When the initial 5 percent wire and equipment service tax was enacted by the Revenue Act of 1941, the tax rate on leased wires was 10 percent—a ratio of 2 to 1. The tax on leased wires was increased by the Revenue Act of 1942 to 15 percent, but the wire and equipment service tax remained at 5 percent—a ratio of 3 to 1. The Revenue Act of 1943 imposed a tax rate of 25 percent on leased wires and a rate of 8 percent on wire and equipment services—a ratio of 25 to 8, or approximately 3 to 1. The increases in rates enacted by the Revenue Act of 1943 were attributable to the necessity for increased revenue during World War II. The proposed Excise Tax Reduction Act of 1954 would establish a ratio of 10 to 8, or almost 1 to 1.

A lessor of wires, teletypewriters, or talking circuits purchases only the use of a means of communication. The Federal excise tax on such leased wires is a percentage of the charges for such communication medium. On the other hand, a user of a wire and equipment service (for example, a stock quotation service) purchases information and a means of communication for the conveyance of such information. The total payments made by a recipient of quotation services are, therefore, attributable to both the information received and the communication medium. While the Federal excise tax on quotation and information service is assessed at a flat percentage of the total charges, the Congress has to this date recognized that this tax base does not represent solely charges for the use of a means of communication. In fact, in the average case the portion of the total charges that properly are attributable to the information is relatively large. Therefore, the tax has been levied at a rate greatly below that assessed on leased wire, the charges for which represent solely payments for a means of communication.

Because of the difference in the basis of the two taxes, and because of the historcial tax rate differential, the tax on wire and equipment services should currently be reduced to 5 percent—the rate in force prior to the Revenue Act of 1943. While such action would not restore the 3 to 1 ratio existing since 1942, it would produce a 2 to 1 ratio, which would more correctly reflect the fact that only a portion of the amounts paid for quotation and information services are attributable to the use of wire communications and would be consistent with past tax policy.

SAN FRANCISCO CHAMBER OF COMMERCE,
San Francisco, March 15, 1954.

Subject: H. R. 8224—On reduction of excise taxes

The COMMITTE ON FINANCE, *United States Senate, Washington, D. C.*

GENTLEMEN: Your committee has before it H. R. 8224, to reduce certain wartime excise taxes including reduction in the tax on charges for the transportation of persons from 15 percent to 10 percent. We are wholly in accord with this reduction, as it accomplishes in part at least what we have advocated for the past several years.

We have felt, however, that both the 15 percent tax on transportation of persons and the 3 percent tax on transportation of property should be repealed entirely and I am authorized to say that our board of directors restated its position in favor of repeal only a few days ago.

We believe that these wartime excise taxes have no place in the permanent tax structure of the country. Further, they discriminate against the Pacific coast in that they place a greater burden on the long-haul traveler and shipper. The passenger tax militates against tourist travel to the Pacific coast and the Hawaiian Islands. Potential cruise passengers often find the tax of sufficient volume to persuade them to make a cruise to countries which can be reached without payment of any such tax.

The 3 percent tax on freight is likewise discriminatory and is particularly burdenesome to shippers of many leading California commodities which encounter direct competition in eastern markets with similar commodities in areas located closer to such markets. Further, the disadvantage of the California shipper has increased by nearly 80 percent as the result of several nationwide rate

increases. If at all possible we would like to see the pending bill amended to completely repeal both forms of taxes. If that is not possible because of the time limitation in the bill, we earnestly request that repeal be accomplished as soon as possible in some other bill.

Yours very truly,

WALTER A. ROHDE,
Manager, Transportation Department.

PRIVATE TRUCK COUNCIL OF AMERICA, INC.,
Washington 5, D. C., March 17, 1954.

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Building, Washington 25, D. C.

DEAR SENATOR MILLIKIN: The Private Truck Council of America is a voluntary, nonprofit organization of private motor-truck owners and operators in the United States and it is estimated that it's membership represents the ownership of approximately 1 million motor trucks. This council is the only national organization which speaks and acts exclusively for those who own, or lease, and operate motor trucks as part of their businesses of farming, manufacturing, mining, processing, wholesaling, retailing and servicing. Its members operate fleets of from 3 or 4 units up to 15,000 vehicles.

Council members are not in the transportation business but their many types of business all require transportation. Among these, the private motor truck provides local distribution of goods and services, moves commodities to and from railheads and performs many other specialized transportation functions.

Our immediate interest is to present to this committee our position with respect to the imposition of the 8 percent Federal excise taxes on trucks, parts, and accessories.

Although as a group we purchase more transportation than we operate ourselves, still as operators of our own equipment we have been unduly discriminated against, since the truck is the only item of freight transportation equipment called upon to pay an extra and added share of the general tax burden in the form of automotive excise taxes.

The council holds that the costs of transportation must be the lowest consistent with adequate and efficient service; that there must be a constantly wider and more efficient distribution of goods and services in order to maintain the expanding economy on which the prosperity of the Nation depends.

It is for these reasons that so many businesses operate their own motor trucks. Such operations benefit the consumer as well as the private motor truck operator.

Today, the private motor truck operator, engaged in hauling his own goods in his own vehicles, vastly outnumbers the for-hire carrier. Current accurate figures are not available but it is believed that at least 87 percent of all trucks registered in the Nation are engaged in such private operations; the remaining 13 percent being operated for hire.

No current authentic statistical breakdown of the Nation's truck fleet by occupational use is available, but during World War II the Office of Defense Transportation compiled certain data (as of August 31, 1944) which showed that:

Farmers operated 35 percent of the total property-carrying commercial motor vehicles then certified by the ODT. Such motor vehicles being used primarily and almost solely in agricultural operations where no other transportation was available.

Industry operations including lumber, logging and milling, mining, general contracting, meat packing houses, metal and metal product concerns, flour and feed mills, building materials and supplies, plumbing and heating, hardware, furniture and home furnishings, oils and gasoline, utilities, produce and commission merchants, coal, coke, ice, machinery and tools, drugs and chemicals, and food processing accounted for almost 30 percent of the commercial motor vehicles operating under certificates of war necessity. Business enterprises engaged in consumer distribution such as bakers, dairies, retail merchants, etc., operated 14 percent of all property-carrying vehicles.

This review of the ODT figures shows that automotive excise taxes place an undue burden upon private truck owners, resulting in higher costs to the consumer for his essential needs. One of the primary concerns of private business today is distribution costs which must be, in the final analysis, paid by the con-

sumer. The imposition of the 8 percent excise tax on trucks, parts, and accessories, means that the American citizen must pay more for commodities and services. If it were not for these excise taxes more consumer income would be available in the form of increased purchasing power.

Therefore, it is the position of the council that since the motor-vehicle user pays general taxes for the support of the Government in the same manner as other citizens, the exaction of excise taxes from motor-vehicle users by Government is discriminatory and provides added burdens to the commercial motor-vehicle operator.

The council opposes any application of an excise tax on private operation of motor vehicles or other transportation facilities by nontransportation enterprises.

This does not mean that the council does not favor any taxation of highway transportation. The council believes that all highway users, along with other beneficiaries of public highways, should pay their fair and proper share of the cost of building and maintaining such facilities. Private motor-truck owners want improved highways which make for more efficient transportation and are willing to pay for adequate facilities when the allocation of cost is proportionately distributed and equitably shared by all classes of highway users and beneficiaries.

We are fully aware of the need to reduce the public debt and to balance the budget, but we believe that this committee in its wisdom can work out an equitable plan that will remove the present discrimination, in the form of automotive excise taxes, against private motor truck owners.

Yours very truly,

JAMES D. MANN,
Managing Director.

NATIONAL ASSOCIATION OF MOTOR BUS OPERATORS,
Washington, D. C., March 16, 1954.

Re: H. R. 8224, Excise Taxes.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR GENE: Because of the limitations announced by the Senate Finance Committee concerning the current hearings on H. R. 8224, we are taking the liberty of writing this letter to you as chairman of that committee.

The bill, as approved by the House, contemplates a reduction in the excise tax on the transportation of passengers from 15 percent to 10 percent. We had urged the House committee with all the earnestness at our command to approve a complete repeal of the tax. Our primary grounds were that the tax was originally imposed, not so much for revenue purposes but in order to discourage travel during the last war when our transportation capacity was so severely limited; that the principal reason for its enactment no longer exists; and that because of the present general economic situation and the precarious financial condition of our commercial carriers of passengers, travel should now be encouraged rather than the converse.

We fully recognize the need of the Federal Government for adequate revenues, but there is also a most vital and important need for a self-sustaining and financially healthy national transportation system.

If outright repeal of this tax appears to be unwise or beyond the bounds of reasonable possibility, then we desire to submit for your consideration an amendment of the provision fixing the price of tickets which are now exempted from the imposition of the tax. The present law provides that passenger tickets costing 35 cents or less shall not be taxable. That figure was probably quite proper in 1941 and 1942, but intervening inflation and other changed conditions have made it inadequate. Our motor carriers of passengers have many thousands of fares in short-distance classifications. A typical illustration of the need for an increase in the exemption figure is in the case of a 35-cent fare which probably was reasonable and compensatory 10 years or more ago, but which because of increased costs has now had to be raised to 40 cents. Being thus subject to the tax, the ticket costs the passenger 46 cents, an increase of 11 cents, of which the carrier receives only 5 cents. It is earnestly hoped that the Finance Committee and the Senate will see the reasonableness and need

of an increase in the exemption figure from 35 cents to not less than 50 cents, if repeal of the tax cannot be effectuated.

We do not have any information available to show to what extent such an amendment would result in reduced revenues to the Government, but we are convinced that it would be comparatively insignificant. Certainly, however, it would be a boon to the millions of short-distance travelers and to the hard-pressed carriers themselves.

With my appreciation for your serious consideration of the foregoing suggestions, I am

Very sincerely yours,

JACK GARRETT SCOTT, *General Counsel.*

STATEMENT OF JOSEPH H. FRANCIS, EXECUTIVE DIRECTOR, AMERICAN FUR INDUSTRIES TAX COMMITTEE

The American fur industry appreciates the opportunity to file with the Committee on Finance of the United States Senate the following statement with respect to H. R. 8224, the Excise Tax Reduction Act of 1954.

Now that the opportunity has arrived wherein tax adjustments can and will be made on a basis of eligibility, the fur industry is most certainly justified in requesting that maximum tax relief be given.

The Government's own figures bears out the fact that the fur industry is in the most precarious and depressed position of any industry whose products or services are subject to excise taxes.

As there is no better barometer than the Government's receipts from excise taxes to reflect business activity the attached table tells the story.

Three general classifications are shown, including collections from (1) retail excise taxes, (2) communications, (3) transportation, (4) admissions. Of the 9 items shown, only 3 show a decrease in business activity since 1947. Sales of furs top the list with a decrease of 48.9 percent; admissions a 20.4 percent, and jewelry a 0.8 percent decline; all others show a small to substantial increase.

As there has been no new competitive products to furs placed on the market, the severe decline in sales of furs is wholly attributed to the consumers refusal to pay the exorbitant Federal retail tax on furs.

Proof that the fur industry is being taxed out of business, and that Government is taxing itself out of taxes, is shown by the fact that during the calendar year 1943 when the fur excise tax rate was 10 percent, excise tax receipts on furs amounted to $52 million. During the calendar year 1952 under the 20 percent rate excise tax receipts were $51 million or $1 million less than was collected 10 years ago when the rate was only 10 percent.

As a result of continuation of the high war-rate tax beyond the period and purposes for which it was intended the fur business has been reduced to less than one-half its normal business operation in 1943, the result being that the Government is collecting less taxes on a high rate than on a lower rate, plus the loss from income and other tax sources.

Further evidence that the 20 percent excise tax is making a Government liability out of the fur industry is borne out by the following figures released by the United States Treasury Department on May 20, 1953.

Corporation income tax returns for the year 1950 covering the fur-manufacturing industry shows the following:

Total number of returns filed	1,017
Number of returns showing net income	523
Number of returns showing losses	494

Though there are no available figures for 1951 to 1953, it is estimated that there the fur-manufacturing firms remaining in business today over 65 percent are operating at a loss.

The National Institute of the Fur Industry reports show that during the past 3 years over 400 firms in the fur manufacturing and retailing business have gone bankrupt, representing losses of over $25 million.

It is estimated that 40 percent of the fur workers in the processing and manufacturing branch of the fur industry are out of work and receiving unemployment compensation.

Impact on the raw fur industry is evidenced by the fact that the State of Louisina, one of the large raw fur producers, shows income to that State from sale of furs dropped from $15 million in 1946 to $2 million in 1952.

During the past several years, the price of furs have demained relatively the same, though higher costs have required lower profits to be taken. The primary cause of the depressed condition of the industry is, that because of the tax the industry has lost 50 percent of its consumer market. The industry is aware of the fact that its only possible chance of regaining its volume of business is to pass the tax reduction on to the consumer. With storehouses bulging with raw furs and 40 percent of the fur workers on relief, fur prices will not rise.

The public is simply fed up with paying discriminating high special taxes on furs. The period of consumer resentment is over. They have reached the state where they are actually revolting against the injustice of this tax.

For several years the fur industry has been pleading for relief from this discriminatory tax that has been steadily destroying our industry. Procrastination on the part of Government to do anything about the matter has resulted in forcing the fur industry into its worst depression in history.

Under such circumstances complete repeal of this obvious tax is necessary if the industry is to regain a normal healthy operation.

Now that the opportunity has arrived wherein some tax adjustments can and will be made, the fur industry is most certainly justified that this maximum relief be given.

Federal excise tax receipts, fiscal years 1947–53

[In millions of dollars]

Year	Retail excise taxes				Communications		Transportation		Admissions—general admissions
	Furs	Jewelry	Toilet preparations	Luggage	Local telephones	Long-distance telephone, telegraph	Persons	Property	
1947	97.4	236.6	95.5	84.5	164.9	252.7	244.0	275.7	392.9
1948	79.5	217.8	91.8	80.6	193.5	275.3	246.3	317.2	385.1
1949	61.9	210.6	93.9	82.6	224.5	311.4	251.4	337.0	385.8
1950	45.7	190.8	94.9	77.5	247.3	312.3	228.7	321.2	371.2
1951	57.6	210.2	106.3	82.8	290.3	354.7	237.6	381.3	346.5
1952	51.4	220.4	112.8	90.7	310.3	369.7	275.1	388.5	328.8
1953	49.8	234.6	115.6	95.7	357.9	417.5	287.4	419.5	312.8
1947–53 [1]	−48.9	−.8	+21.0	+13.2	+117.0	+69.1	+17.8	+52.2	−20.4

[1] Percent increase or decrease.

NOTE.—Calendar year receipts from excise tax on furs:

1943 (10% rate)	$52,000,000
1952 (20% rate)	51,000,000
1953 (20% rate, estimated)	48,000,000

STATEMENT ON BEHALF OF THE AMERICAN SHORT-LINE RAILROAD ASSOCIATION BY WILLIAM J. HICKEY, VICE PRESIDENT AND GENERAL COUNSEL

My name is William J. Hickey. I am vice president and general counsel of The American Short-Line Railroad Association, and I appear on behalf of the Association, whose offices are located at 2000 Massachusetts Avenue NW., Washington, D. C.

As most of the committee know, The American Short-Line Railroad Association is a voluntary unincorporated association with a membership of more than 300 railroads, located in 46 States. The association has been in existence for over 40 years.

At the association's annual meeting in June 1953, the membership approved and adopted a statement of legislative policies, one of which of great importance to each of the member lines favored the repeal of the Federal excise tax on the transportation of persons and property.

H. R. 8224, in its present form provides for the establishment of 10 percent as the highest level of excise taxes. If enacted in its present form it would

mean that existing 15 percent excise tax upon amounts paid for the transportation of persons would be reduced to 10 percent. It would, however, afford no relief from the 3-percent tax upon amounts paid for transportation of property.

We, of course, are hopeful that this committee will add to the constructive work of the House committee and make further reduction in the rate of the excise tax upon amounts paid for the transportation of persons. The committee is informed that the tax was initially imposed effective November 1, 1941, at a rate of 5 percent. The rate was successively increased to 10 percent on November 1, 1942, and to 15 percent on April 1, 1944. It is unquestioned that these increases were imposed for the purpose of discouraging civilan travel under the emergency conditions existing during World War II. It seems altogether appropropriate that those conditions being absent the justification for the tax is removed, and in this stage of our national economy every effort should be extended to bolster the economy by deliberately encouraging passenger travel. Complete removal of the excise tax upon amounts paid for the transportation of persons would do much to bring about beneficial results.

It is apparent to the committee that by its very name this association represents what might be fairly described as the small-business interests in the railroad industry. Mainly by reason of their physical establishments and the contribution they make to the national transportation program, as well as developments and changes in the transportation mediums, the short-line railroads do not transport any appreciable number of passengers. It will be seen, therefore, that our members do not stand to benefit along with other transportation facilities by the reduction in the excise tax imposed on passenger travel. No reduction in the excise tax imposed on the transportation of property amounting to 3 percent has been incorporated in H. R. 8224 as it is now before you for consideration. This tax became effective December 2, 1942. Whatever might have been the basis for the original determination of the rate of 3 percent has in experience been shown to be misleading. The tax applicable to materials and other property used in the manufacture of other property pyramids many times and of course is reflected in the final cost of property to the ultimate consumer. It is apparent, therefore, that elimination or even a partial or equivalent reduction in this tax would afford substantial relief to consumers of the country and stimulate business, including transportation of property by railroads throughout the country. We again urge that it is highly desirable in the interests of the national economy, not only as it relates to the transportation industry, for this committee to use every opportunity available to it to stimulate the indusrial economy and foster sound conditions in the transportation industry for the purpose of preserving a national transportation system adequate to meet the needs of commerce, the postal service, and the national defense.

We therefore petition this committee to extend equitably the benefits sought to be provided by H. R. 8224, as passed by the House of Representatives, and provide for the repeal of or equivalent reduction in the rate of the tax upon amounts paid for the transportation of property. We believe this committee has an interest in and desire to assist all forms of transportation, but it is clear that a number of small, but we believe important, segments of the railroad industry will not share equally in the program unless some measure of relief is provided by adjustment of the tax on transportation of property. We seek your earnest consideration of this request.

STATEMENT OF CHARLES N. FORD, COUNSEL, BEAUTY & BARBER SUPPLY INSTITUTE, INC.

My name is Charles N. Ford. My home is in Arlington, Va., and I am engaged in private law practice at 201 Barr Building, Washington, D. C. I am appearing as Washington counsel for the Beauty & Barber Supply Institute, Inc,, with principal offices at 19 West 44th Street, New York, N. Y. The institute is a trade association representing some 650 wholesale dealers in beauty and barber supplies throughout the country. In addition, approximately 320 manufacturers of beauty and barber supplies are associate members of the institute.

Recognizing the virtue of brevity of statement, particularly where busy Senators are concerned, I wish only to stress briefly the position of the Beauty & Barber Supply Institute with respect to H. R. 8224 and the major reasons impelling that position.

When hearings were held by the Ways and Means Committee on excises last August, the institute went on record with that committee in favor of outright

repeal of excises on toilet preparations. We still believe the reasons advanced for that position are sound and that excises on such products as cosmetics should not be continued in peacetime any longer than absolutely necessary. These excises in large measure are imposed upon the daily necessities of every household. Cosmetics make us look better, feel better, and smell better, and we think the policy of the law ought to be to encourage rather than discourage their use. Excises are highly discriminatory, particularly in our own industry where many taxed cosmetic products are in direct competition with untaxed medical or antiseptic products. They discourage consumption of the products upon which they are imposed, which has a depressive effect all through the channels of trade from the retailer to the supplier of raw materials. Excises, on products at least, are self-defeating as a revenue measure because of the depressive effects they have on business, resulting in less revenue from corporate and individual income sources. For these reasons, which are abbreviated here, the institute holds that excises on such products should be repealed entirely at the earliest possible date.

But our industry seeks no special treatment or unfair advantage over other industries. We recognize that we now have an armed truce economy and that only limited tax relief can be granted at this time. We further recognize that fair play requires the granting of tax relief on an equitable basis. Moreover, we appear to be faced with a choice between half a loaf and no loaf at all. Practical considerations, therefore, as well as considerations of fair play, dictate that we fight for the half loaf at this time by supporting H. R. 8224 and oppose all amendments which may imperil that measure. The institute takes this position with the full expectancy of requesting the Congress to repeal excises on toilet preparations as soon as the Federal budgetary situation is brought under control.

The institute believes that H. R. 8224 is fair as a tax-reduction measure. It makes reductions first on those rates which are excessively high and for that reason it will result in excises being imposed on a more equitable basis. Therefore we strongly support the principle of reducing those excises which are above 10 percent to that figure before reducing those excises which are now 10 percent or under.

It is believed that the 50 percent reduction in excises provided for in H. R. 8224 will bring a substantial measure of relief to our industry. If this bill is enacted into law, it will provide a powerful stimulus to business during this period of economic adjustment. Partial removal of the tax will stimulate consumer purchase of the affected products which in turn will stimulate business all through the channels of trade. It will mean increased sales at the retail and wholesale levels throughout the land. It will mean increased production by manufacturers of these products and by the suppliers of raw materials. It will mean increased employment at all of these levels of our economy. And it will mean increases in revenues from corporate and individual sources which will substantially offset any losses in excises because of the reduction.

For these reasons, the Beauty and Barber Supply Institute endorses H. R. 8224 and respectfully urges the committee to report it favorably without amendments.

ELKHART, IND., *March 17, 1954.*

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

Grave inequity in present excise tax structure needs correction in new bill. Tax on musical instruments is tax on education. Over 80 percent of all musical instruments purchased for educational purposes but mostly by parents. Exemption provisions of present law are inadequate. Our testimony before Ways and Means Committee proves this. See General Revenue Revision hearings, part 4, page 2874. Ralph Rush, president of Music Educators Nations Conference, a department of National Education Association, stated in letter to Ways and Means Committee, "entire removal of reduction of these taxes would greatly facilitate our work." Would appreciate opportunity for representative our industry to testify. Please advise collect.

JACK FEDDERSEN,
Chairman, Excise Tax Committee, National Association of Piano Manufacturers, care Selmer, Elkhart, Ind.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: Reference is made to H. R. 8224 which is now before your committee having to do with excise taxes.

The Alaska Steamship Company, which operates between Washington State and Alaska ports, is particularly interested in reduction of the present 15 percent transportation tax and 3 percent freight tax now imposed. In that connection, I am quoting here a letter sent to me by Rear Adm. F. A. Zeusler, executive assistant to the President of the Alaska Steamship Company, the original of which went to Chairman Reed of the House Ways and Means Committee; this deals with H. R. 8150 which was replaced by H. R. 8224:

"On March 2 you introduced H. R. 8150, a bill to reduce excise taxes and for other purposes.

"This Company is vitally interested in section 401, tax on telegraphy, telephones, radio, and cable facilities, section 503, tax on transportation of persons, etc., section 504 and section 505 and section 601 (a), repeal of certain reductions in excise tax rates on diesel oil.

"At the present time the United States steamship companies in the Alaskan trade are faced with a very serious situation that cannot be adjusted without the specific action of your committee. Although shipping laws prevent foreign lines from transporting passengers or freight between United States ports, or between ports in the United States and its Territories, including Alaska, Canadian lines have for years given the American operators very strong passenger competition in the Alaskan trade. This has been possible because their Alaskan voyages originate and terminate in Vancouver, B. C., while a local service is used between Seattle and Vancouver. There is, therefore, no violation of our coasting laws, consequently, no objection has been raised in this competition.

"During the wartime period, in an effort to reduce unessential travel to a minimum, a 15 percent tax was placed on passenger transportation, and at the same time a 3 percent tax was placed on freight transportation. The Canadian Government assessed identical taxes which kept the competitive relationship stable.

"Now, however, this balance has been completely overturned. Canada has repealed the 15 percent tax on transportation of passengers as well as the 3 percent tax on freight, while our taxes run on. From the point of view of the American operator, this gives the Canadian lines a very serious competitive and unfair advantage.

"In addition to the American Steamship companies, American railroads, bus lines, and airlines are seriously affected by the Canadian tax repeal.

"Passage of H. R. 8150, especially those sections referred to, would be beneficial to the operations of the American merchant marine, and would effect some necessary relief that is so badly needed because of the ever-increasing operational costs. We would like to recommend, also, the repeal of the 3-percent tax placed on freight transportation. In order to meet the present pressing need for adjustment of a situation wholly unfair to American transportation companies, we urge early favorable action on this legislation."

It is my desire to associate myself with the persuasive arguments set forth in this letter. I believe that the continuation of the transportation and freight taxes of 15 percent and 3 percent respectively imposes an unfair hardship on American transportation companies serving Alaska in competition with Canadian companies.

Sincerely yours,

E. L. BARTLETT.

BOISE, IDAHO, *March 12, 1954.*

Senator HERMAN WELKER,
Senate Office Building, Washington, D. C.

We request your support in reducing excise taxes on new cars, trucks, parts, and accessories effective April 1 this year as previously scheduled and that in addition protection be provided for tax refund on floor stocks as in House Bill 8224. Absolutely unfair to reduce tax on luxuries while retaining tax at present level

on new automobiles and trucks which are essential commodities to the American people. Appropriate your strongest efforts on this matter with members of Senate Finance Committee.

IDAHO AUTOMOBILE DEALERS.

ORLANDO, FLA., *March 12, 1954.*

Hon. GEORGE A. SMATHERS,
United States Senator, Senate Office Building.

Regarding excise tax bill passed by House March 10, we strongly urge that excise taxes on new cars, trucks, parts, and accessories be reduced on April 1 this year as previously scheduled with further addition of floor stock tax refunds as provided in H. R. 8224. We feel it unfair to American people to reduce tax on luxury items while retaining tax at present level on essential transportation commodities. Please relay this message to the members of the Senate Finance Committee. I will appreciate an answer. Best regards.

EUGENE R. ELKES,
Florida Automobile Dealers Association, Tampa, Fla.

BAR HARBOR, MAINE, *March 12, 1954.*

Hon. MARGARET CHASE SMITH,
Senator from Maine:

While recognizing that repeal of excise taxes on new cars, trucks, parts, accessories impractical at this time, we most strongly urge that taxes on these essential transportation commodities be reduced April 1 this year as previously scheduled and that with further addition of floor stock tax refunds as provided in H. R. 8224.

D. W. MACLEOD, Jr.,
MacLeod Motors, Inc., Bar Harbor, Maine.

CONCORD, N. H., *March 12, 1954.*

Senator ROBERT W. UPTON,
House of Senate:

We are sending you a copy of a telegram sent this morning by Styles Bridges. We trust you will give this matter your most serious consideration. "As both Maurice Grant and Gordon Wentworth have already indicated the automobile dealers of this State believe that it is utterly unfair to reduce excise tax on luxury items and at the same time cancel scheduled reductions in excise tax on essential commodities such as automobiles and trucks. I have deliberately refrained from asking the dealers of New Hampshire to express their opinions to you in telegrams inasmuch as I know you realize this one message plus Grant's and Wentworth's telephone calls express the combined sentiments of every auto dealer in New Hampshire. Would you be disposed to exercise your influence in advocating the restoration of scheduled excise-tax cuts in autos from 10 percent to 7 percent and in trucks from 8 percent to 5 percent, effective at once? There is no question that automobiles are an essential commodity and we sincerely believe that the economic advantages to be gained by a reduction in excise taxes on automobiles will far offset the apparent revenue loss. I fully realize that this request is a large one but we hope that your careful analysis of this problem will prompt you to take the action which we so sincerely advocate."

JOHN D. ORR,
Executive Vice President, New Hampshire Auto Dealers Association.

BISMARCK, N. DAK., *March 12, 1954.*

Senator MILTON R. YOUNG,
Senate Office Building, Washington, D. C.:

The automobile and truck dealers of North Dakota do not understand the House retaining present excise taxes on cars and trucks and the classifying of them with liquor, beer and wine, and other luxuries. Can taxes on luxuries as furs be honestly reduced at the expense of essential commodities such as cars and trucks. Are the cars and trucks used in the towns, villages, and on

the farm in North Dakota luxuries? Repeal of excise taxes on essential transportation commodities may be impracticable at this time but strongly urge and justly so that H. R. 8224 allow the reduction of taxes on these items as called for in present law. We ask for the addition of the floor stock tax refunds as provided. Our business and industry need a stimulant at this time and the reduction of the excise tax on cars and trucks is essential to the economy of our Nation. Please relay this message to members of the Senate Finance Committee.

WILLIAM C. DAVIS,
North Dakota Director, National Automobile Dealers Association.

MONTANA AUTOMOBILE DEALERS ASSOCIATION, INC.,
HELENA, MONT., *March 10, 1954.*

Senator EUGENE D. MILLIKIN,
United States Senate, Washington, D. C.

Hon. EUGENE D. MILLIKIN: It is my understanding the revised excise tax bill is now before your committee.

I do not feel that motor vehicles are entitled to any special consideration, however, if excise taxes are going to be cut on furs, jewelry, and cosmetics which are very definitely luxuries, then it is my firm conviction that taxes should certainly be cut on motor vehicles; which by no stretch of the imagination can any longer be classified as luxury items. Next to food, clothing, and housing they are the most necessary part of our physical life today and in any tax program I think they should be treated as such.

I shall sincerely appreciate it if when this tax bill is considered by this committee, you will give motor vehicles the consideration they are justly entitled to receive.

Respectfully yours,

H. M. HENDRICKSEN, *President.*

THE AMERICAN ASSOCIATION OF MUSEUMS,
Washington, D. C., March 12, 1954.

Senator EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

MY DEAR SENATOR MILLIKIN: Complying with your suggestion that I leave a memorandum with the Senate Finance Committee office and your office, I hasten to give you the enclosed draft of a paragraph touching exemption of public museums (just as symphony orchestras are exempt) from collecting the admissions tax.

Museum trustees over the country have been asking for years that a suitable change of this kind be made in the excise tax law. The subject is not controversial. When we presented it before a Ways and Means Committee hearing, Chairman Reed said that it was a good illustration of the many inconsistencies in the law since some museums have exemption now in one or another way, whereas some do not.

The amount of money that would be involved under the proposed 10 percent rate is only about $125,000. Everybody seems agreed that museums should be exempt but we cannot compete for attention with the greater forces that are now shaping the new tax law.

I enclose a draft of our suggestion and also a copy of our brief supporting it. Your help would be appreciated by museums everywhere.

Sincerely yours,

L. V. COLEMAN, *Director.*

To exempt public museums (as some are already exempt) from collecting the tax on admissions, it is suggested:

That section 1701 (e) of title 26, United States Code, be amended by adding thereto a new subsection to read as follows:

"(3) Historic sites and museums: Any admissions to historic sites, houses, and shrines, and to museums of history or art or science, including planetariums, and to exhibitions in connection therewith, operated by the United States or any

agency or instrumentality thereof, or by any State or political subdivision thereof, or by any municipality, or by any nonprofit institution or organization, if no part of the net earnings thereof inures to the benefit of any private stockholder or individual."

EXEMPTION OF ADMISSION CHARGES TO MUSEUMS AND PLANETARIUMS FROM THE FEDERAL TAX ON ADMISSIONS

Museums have been put in a position that is inconsistent and widely believed to be wrong, by the duty laid upon sume museums to collect the admissions tax. Under the last Revenue Act about 1,000 historic houses and other museums connected with historic sites are justly relieved of this duty, but public museums of history or art or science, including planetariums, are given no help. Some public museums have been ruled to be exempt as educational institutions, but others of essentially the same character have been refused exemption. Some public museums are exempt because they carry on health education, but their sister institutions of science have to collect the tax. All museums would be relieved by the collective provisions of five bills now before the Committee on Ways and Means (H. R. 1934, 2288, 3416, 3590, 4640, and 5104) which seek exemption of admissions to museums run by Government, by nonprofit organizations, by tax-exempt organizations. This we believe to be right, and we are offering herewith a suggested wording for the law.

Museums are well known as educational and cultural establishments. They are tax-exempt as nonprofit entities operated by the United States or a State or municipality or by nonprofit organizations. They are publicly supported, through appropriations or contributions or both. They are charitable in the sense of being broadly humanitarian.

The case for exemption of admissions to museums is that (1) the admissions tax produces a negligible total of revenue whereas (2) collecting it interferes with educational public services, and (3) hurts museums generally and therefore is against the public interest.

1. THE REVENUE SO DERIVED IS SMALL

A survey made for the purpose of this statement shows that hardly 50 museums collect the tax but that a great many take losses in their work rather than to incur the adverse effects of the tax. The reported total, which we believe to be practically complete, is $252,000. The taxes collected run from less than $10 a year, through $5,000 or more in only 11 cases reported, to a single high figure of $69,000. Planetariums, which are one kind of museum or part of a museum, are included by these figures, but of the 6 big planetariums only 2 report amounts of $15,000 or more.

Most public museums are open free, but within the museum or under its auspices there may be charges for special features including temporary art exhibitions and operating science exhibits. Lectures and courses of instruction may carry charges for defraying part of the cost. Museum services are customarily rendered at a planned loss, and in this sense too museums are charitable institutions.

2. THE TAX INTERFERES WITH PUBLIC EDUCATIONAL SERVICES

The handling cost is reported as commonly between 5 percent and 15 percent of the amount collected. Museums, which many times run deficits that their trustees or other backers have to meet simply cannot afford the unproductive levy that is placed on them by the tax job. Small museums, which incur the least cost in this way, are those least able to take care of any cost at all, and their difficulties from lack of facilities for handling the tax are not unimportant to them.

The tax also interferes with management of visitors under museum conditions. For example, in some cities the public schools appropriate to one or more museums an annual stipend for admission and instruction of visiting classes of children. Such payments have been ruled as tax exempt, but classes from schools that have not made this provision must pay the tax. Teachers thus have to collect from some children but not from others, and the resulting outcry of parents hurts museums.

Museums have noted that the tax has an adverse effect on attendance and on enrollment in courses. One reason for this is seen where there is a reduced

student rate, which has to be taxed at full rate that can be then as high as 40 percent. Besides, much of museum instruction is like college teaching, for which payments are not taxed.

3. THE TAX IS HARMFUL TO MUSEUMS

Museums see their hard-won educational standing, which they need to hold public support, being undermined day after day by the working of this entertainment tax. When appropriating bodies question, or the public objects through the press or otherwise, there is the embarrassing point that the Congress seems to have disqualified museums. The tax, small as it is, may thus strike heavily at museum support.

Like other nonprofit institutions, museums have traditionally been exempt from taxation and—equally important—from involvement in tax procedures. Now there is widespread belief among museum trustees, many of whom are legal counsels, that the admission tax, without touching the institution directly, does in principle contradict the State and city charters under which museums exist as nonprofit, educational, and charitable public establishments.

Respectfully submitted.

AMERICAN ASSOCIATION OF MUSEUMS.
By LAURENCE VAIL COLEMAN, *Director.*

FRIDEN CALCULATING MACHINE CO., INC.,
San Leandro, Calif., March 11, 1954.

Hon. EUGENE D. MILLIKIN,
Senate Office Building, Washington, D. C.

DEAR MR. MILLIKIN: Inasmuch as the question of excise taxes is now or will undoubtedly receive consideration by the Senate Finance Committee, we are addressing this letter to you as chairman of that committee.

We wish to urge that the excise tax on office machines be repealed outright. This tax on office machines was one of the few taxes imposed by the Revenue Act of 1941 not for purposes of revenue. It was a World War II temporary emergency measure designed to limit purchasing so as to save strategic materials and to enable the industries to utilize its facilities in war production.

The reasons which prompted Congress to impose this tax, of course, no longer exist, and to permit it to remain in effect is, in our opinion, a serious discrimination and its imposition levies a direct burden on production in that it unduly increases the cost to industry, Government and general business on tools which are absolutely essential to those businesses. Business machines bear the same relationship to business that machine tools do to factories and that farm machinery does to the farm.

It would be impossible to conduct any governmental or business activities without the use of such business machines as typewriters, calculators, adding machines, etc. The excise tax on these machines results, therefore, in a direct increase in the cost of doing business. It not only increases the price to the immediate user, but this cost must obviously be passed on in the product or the service supplied by the user.

This may be said to be true to some extent of all taxes, but as mentioned above, this tax is peculiarly discriminatory against our industry, and its justification was based on the necessity of diverting materials and facilities to war production. This reason no longer existing, we sincerely feel that we should be relieved of this discrimination which unduly adds to the selling price of our products.

Yours very truly,

WALTER S. JOHNSON.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D. C., March 16, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Finance Committee,
The United States Senate, Washington, D. C.

MY DEAR SENATOR: The Chamber of Commerce of the United States urges that your committee report favorably H. R. 8224, the Excise Tax Reduction Act of 1954, in the form passed by the House of Representatives.

The national chamber has long advocated revision of the excise taxes to eliminate those wartime taxes imposed primarily as controls, to reduce excessive rates, and remove the discriminations between products which now exist.

We believe the present bill is a useful step in this direction, and that it merits your favorable action.

Cordially yours,

CLARENCE R. MILES,
Manager, Legislative Department.

STATEMENT OF ARTHUR J. PACKARD, MOUNT VERNON, OHIO

Mr. Chairman and gentlemen of the committee, I am Arthur J. Packard of Mount Vernon, Ohio. I operate seven hotels in that State. I am chairman of the board of directors of the American Hotel Association, and chairman of the governmental affairs committee of that body. May I respectfully address you briefly with reference to H. R. 8224, to reduce certain excise taxes.

The hotel industry feels very strongly that passage of the bill, in the form that it was approved by the House, would provide a tremendous stimulus to business generally, and would open up substantial areas of new employment in the hotel industry. It is our earnest hope, therefore, that no major change will be written into the bill by the Senate.

In all our testimony on excises heretofore, including our appearances before the Ways and Means Committee and before your committee, we have never asked for any special consideration. We ask only that we be given equal relief and equal treatment with other industries covered by the same section of the Internal Revenue Code.

But we are concerned over repeated statements in the press that your committee is being importuned to repeal the tax on theater tickets. And we are well aware of the fact that the Congress last year passed bills repealing the theater tax. It so happens that the 20 percent cabaret tax comes under section 1700 of the Internal Revenue Code, which also applies to the admissions tax on theater tickets. We would be indeed unhappy if a discriminatory reduction were made in some categories under section 1700, and not in others.

The cabaret tax passed the point of diminishing returns in 1946. There was a time when there were estimated to be 700 rooms in hotels of the country upon which the tax was applicable. Guest resistance to that 20 percent levy has been so great, however, that today our records reveal that there are no more than 250 rooms in hotels throughout the entire country where this tax is applicable.

National receipts from the cabaret tax declined from $72 million in 1946, the all-time peak, to $41 million in 1950. The income has mounted approximately 10 percent in the last 3 years, but this is accounted for by approximatetly 25 percent increase in food prices over that period. Actually, the yield represents a continuing decline in patrons ever since 1946.

It is our honest belief, however, that if this tax were reduced to 10 percent, as is proposed in the House bill, guest resistance would be lessened to a point where many hotels would reopen entertainment rooms, providing employment for thousands of entertainers, waiters, janitors, electricians, etc. And the Treasury itself might well enjoy increased revenues from a lesser levy. This actually happened once before, in 1944, when the tax was reduced. In 1945 the Treasury received more than twice as much revenue under a 20 percent levy as it had received under a 30 percent tax the preeding year.

In preparation for this statement before your committee, the AHA sent out a quick spot-check inquiry, and we invite your attention to the attached list. The majority of the hotels reporting therein have either closed their entertainment rooms entirely, or terminated the entertainment, in order to relieve their guests of the heavy 20 percent tax.

A case study of this list reveals clearly the 20 percent tax on cabarets is drying up, for all time, this source of revenue. So we do earnestly petition your committee to reduce this levy to 10 percent. In any event, we hope the Senate bill will not take on discriminatory features by lifting out certain segments of the entertainment field, such as moving-picture theaters, and granting them relief, while denying similar relief to cabarets, club memberships, general admissions, etc.

A SPOT CHECK OF LIMITED NUMBER OF HOTELS REVEALS THE FOLLOWING AS HAVING ELIMINATED ALL ENTERTAINMENT OR CURTAILED ENTERTAINMENT, UPON WHICH CABARET TAX WAS APPLICABLE

Taft Hotel, New Haven, Conn.,: "We closed our Colonnade Room some time ago. Until the 20 percent cabaret tax went into effect we operated our room 6 nights a week. Business gradually fell off until we were forced to close the room altogether. Later we tried operating this room Friday and Saturday nights, but the public reaction to the tax was too strong and this entertainment room was finally closed several years ago and never reopened. In our locality the so-called night clubs are operating on Friday and Saturday nights with apparent success as far as patronage goes. Many advertise New York shows that are really a cheap display of obnoxious talent and are by no means an asset to the community."

Winona Hotel, Winona, Minn.: "We do not use entertainment of this type because of the tax. We might, however, if the tax were more favorable."

Congress Hotel, Pueblo, Colo.: "Because of the 20 percent cabaret tax we were forced to discontinue dancing in 1946. Since that time we have been employing an organist and not paying tax."

Hotel William Penn, Pittsburgh, Pa.: "Guest resistance to the 20 percent cabaret tax compelled us to close our last taxable room a year ago."

Hotel Eugene, Eugene, Oreg.: "Not subject to 20 percent cabaret tax any longer."

Sheraton Hotel, Rochester, N. Y.: "We discontinued our dine and dance operation early in 1946 because of the sole reason that the 20 percent cabaret tax prohibited sufficient patronage of such an operation in the city of Rochester."

Sheraton Plaza, Boston, Mass., and Sheraton-Biltmore, Providence, R. I.: "Have closed entertainment rooms during 1953. These rooms, and many others throughout the country which have closed, are definite proof of the burden of the cabaret tax, inasmuch as the drop in patronage stemmed from the customer resistance of the excessive tax."

DuPont Hotel, Wilmington, Del.: "The Grille Room, which was a dine and dance operation, was closed in 1948 and is now operated as a cafeteria."

Hotel Woodruff, Watertown, N. Y.: "Through the year 1948 and the first 2 months in 1949 we operated a supper-dance room. In March of 1949 dancing was discontinued in the room due to a dropoff in business which can be attributed to guest opposition to the 20 percent tax. This is especially true in the northern part of the State, where there has been strong opposition to this nuisance tax."

The Olympic, Seattle, Wash.: Dancing has been curtailed to only Thursday, Friday, and Saturday evenings.

Bellerive, Kansas City, Mo.: "1951 our El Casbah was open and our other cocktail lounges had entertainment that was not taxable. In January 1952 the El Casbah was closed and our entertainment was shifted to the Zephyr Room, but it is impossible to give a count of the number of people served as no record was kept for the Zephyr Room. In April 1953 we shifted to instrumental music only, no tax."

Edgewater Beach Hotel, Chicago, Ill.: "It is only through continuous improvement in our type of talent in our dining-room shows, with resultant increased costs, that we have been able to maintain our cabaret business. Even there the number of covers served is declining. Entertainment costs are constantly increasing and are becoming the principal problem of hotels that operate cabaret rooms. Our own entertainment costs in the past 2 months of our fiscal year have increased from $54,000 to $66,000. The 20 percent tax on food and beverages sold in cabaret and entertainment rooms has long outlived its original intent, and I am of the firm belief that with the very first decline in business conditions our cabaret rooms will experience very disastrous results."

Statler Hotel, St. Louis, Mo.: Dancing was discontinued during the dinner hour, and in a very short time dancing will be discontinued altogether.

Forest Hills Hotel, Forest Hills, N. Y.: Formerly had entertainment 6 nights a week, but due to business slack only have entertainment Friday and Saturday nights. Dancing starts after the dinner hour.

Hotels in New York City

Astor Hotel: No dancing or entertainment subject to cabaret tax during dinner.

Biltmore Hotel: Closed entertainment room subject to cabaret tax.

Commodore Hotel: Closed entertainment room subject to cabaret tax.

Belmont Plaza: No dancing or entertainment subject to tax during dinner.

Park Chambers Hotel: Closed entertainment room subject to 20 percent tax.

Fifth Avenue Hotel: "Prior to the increase in the cabaret tax we had dancing nightly in our large dining room, and singing and other entertainment in our smaller dining room. We found we had to discontinue this program because of the decrease in business due to the 20 percent tax, and we now only have dancing and entertainment 1 night a week in the large room. To make adequate comparison, before the tax was passed, at dinner on Saturday we would average 150-250 guests. The number has decreased from these figures to between 50–125 remaining after 8 p. m., when the tax becomes effective."

New Yorker Hotel: No dancing or entertainment subject to tax during dinner.

Waldorf Astoria: No dancing during dinner hour.

Bossert Hotel: Closed entertainment room subject to cabaret tax.

St. George Hotel: Entertainment and dancing rooms closed.

Granada Hotel: Entertainment and dancing room closed.

Essex House: Dancing discontinued in the Casino in the park.

Warwick Hotel: Closed entertainment room in 1953; will not reopen.

McAlpin Hotel: Discontinued entertainment and dancing altogether in Marine Grille.

Knott Corp.: "Entertainment tax—20 percent—practically forbids entertainment and dancing in hotels."

Hotel Victoria: Now have dancing 2 nights a week, instead of 6.

STATEMENT OF A. E. LITZENBERGER, CHAIRMAN, LEGISLATIVE COMMITTEE OF THE ROLLER SKATING RINK OPERATORS ASSOCIATION OF AMERICA

We are basing our appeal upon a gross inequity which was legislated against our small-business operated skating rinks and swimming pools in the General Revenue Act of 1951, page 227, lines 1 to 15, inclusive, section 401, subsection 1701–d, which explicitly exempted from the admissions tax municipally operated swimming pools and skating rinks.

"SECTION (d). MUNICIPAL SWIMMING POOLS, ETC.—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing activities for physical exercise, operated by any State or political subdivision thereof or by the United States or any agency or instrumentality thereof: If the proceeds therefrom inure exclusively to the benefit of the State, political subdivision, United States agency, or instrumentality. For the purposes of this subsection the term 'State' includes Alaska, Hawaii, and the District of Columbia * * *."

Due to the inequity which is clearly described in the foregoing, our small businesses are now confronted with a crisis. Mushrooming municipally owned skating rinks and swimming pools now operating and proposed are going to eliminate private enterprise in skating and swimming under the provisions of the law as it now stands. This is only an eventuality. Any admissions tax differential imposed on private small business creates a burden which is not only unfair but impossible to carry. We have no choice except in this case to appeal to fair play and sincerely hope that the Senate and this committee can help us before it is too late.

This disastrous tax inequity has already caused many small-business men to go completely out of business because it is simply not possible to compete with tax-free Government operations. Government-operated facilities are rapidly taking over the recreation field. They are constructing elaborate facilities at the taxpayers' expense. They do not pay licenses, insurance, income taxes, real-estate taxes, or any other taxes which normally affect the small-business-operated recreational facilities. The destruction of private enterprise could readily eliminate a source of tax revenue and could deprive many citizens of their chosen livelihood—a livelihood which is a definite benefit to the community; one which contributes to the reduction of juvenile delinquency to a large extent. It must be pointed out at this place that the majority of customers of these two small-business enterprises are teen-age children and we call attention to the fact that all types of government are prone to be very laudatory in their verbal praise of good operations of this type and yet no business can say that it is more heavily tax-ladened. Unfortunately there is a tendency to first tax this type of recreational facility and to give the last relief to this type of recreational facility.

Now how does the 20 percent or 10 percent tax or any admissions tax affect the pocketbook of these teen-agers? It may be argued that 2 cents does not make a great deal of difference. Let us look at the present financial condition through-

out the Nation and we find that the first source of revenue among our 161 million citizens to "dry up" is that of the teen-age youngster. When dad hasn't got that extra dollar, junior does not receive it, and furthermore junior probably cannot earn the extra dollar on an odd job because of present difficult economic conditions.

Let us look at the orther participating sports similar to swimming and skating. There is golf, tennis, bowling, billiards, skiing, and horseback riding among them. Out of all these recreations, swimming and skating are singled out for the attention of the admissions tax collector. In addition to the differential granted between the municipal operation and the private small-business-owned operation, swimming and skating must then compete with other recreational sports which also are exempted from admissions taxes. This appeal is made to correct a gross inequity which cannot be adjusted without your specific assistance and legislation. We are therefore asking you to consider the incorporation of an amendment to H. R. 8224 as worded in H. R. 3421, a copy of which is attached to this statement. We appeal to you to correct a wrong which has faced us for 3 years.

[H. R. 3421, 83d Cong., 1st sess.]

A BILL To amend section 1701 (d) of the Internal Revenue Code to provide that the tax on admissions shall not apply in the case of admissions to privately operated swimming pools, skating rinks, and other places providing facilities for physical exercise

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1701 (d) of the Internal Revenue Code (relating to exemptions from the admissions tax in the case of municipal swimming pools, etc.) is hereby amended to read as follows:

"(d) SWIMMING POOLS, ETC.—Any admissions to swimming pools, bathing beaches, skating rinks, or other places providing facilities for physical exercise; or".

SEC. 2. The amendment made by this Act shall apply only with respect to amounts paid on or after the first day of the first month which begins more than ten days after the date of enactment of this Act for admission on or after such first day.

AMERICAN MERCHANT MARINE INSTITUTE, INC.,
Washington, D. C., March 15, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee, United States Senate,
Washington, D. C.

MY DEAR SENATOR MILLIKIN: As a result of recent action by the House of Representatives, H. R. 8224, now before your committee, would reduce the tax on transportation of persons from 15 to 10 percent. We hope that this legislation will receive favorable consideration by your committee and by the Senate.

The American Merchant Marine Institute, representing a preponderance of American-flag steamship lines, has consistently urged the repeal of this entire tax on the realistic ground that it has already been repealed for Asia, Africa, Europe, and South America, and now applies only to the Caribbean area, Central America, Alaska, and Hawaii.

A number of American steamship lines, members of this institute, are adversely affected by the continued operation of the tax to these countries and regions. This obvious paradox, we believe, should receive the close consideration of your committee. We earnestly urge that the committee consider the repeal of this remaining transportation tax and thus correct an anomalous situation, which reacts severely on our members.

Yours very truly,

FRANCIS T. GREENE,
Executive Vice President.

To: Senate Finance Committee.
From: D. D. Bean & Sons Co., Jaffrey, N. H.
Subject: Revision of section 3409 of Internal Revenue Code by H. R. 8224.

PRESENT LAW

H. R. 8224, the Excise Tax Revision Act of 1954, now pending before your committee reduces certain excise tax levies on various articles intended to be dis-

tributed at consumer level to an amount not to exceed 10 percent of the manufacturer's sales price. One article which is generally distributed at the consumer level, at no cost to the consumer, has not been granted relief comparable to that relief granted similar articles by H. R. 8224.

Section 3409 of Internal Revenue Code levies an excise tax upon the manufacture, production, and importation of matches which amounts to 2 cents per 1,000 lights on matches manufactured in the United States, and a tax of 5½ cents per 1,000 on matches which are ordinarily imported into the United States.

MATCH BUSINESS

Book matches

The match industry in the United States includes manufacturers of four principal types of matches. The first two categories are roughly comparable. They are paper book matches, divided into "resale" matches and "reproduction" matches.

"Resales"

The "resale" matches are the familiar giveaway matches which are given freely to customers in tobacco stores, drugstores, supermarkets, and other mass distribution outlets. These resale matches generally contain a printed advertising message from manufacturers of widely distributed consumer products. The average price of these matches to the merchants who give them away range from $4.25 per case of 50,000 matches to $4.80 per case.

"Reproductions"

"Reproduction" paper book matches are generally higher priced to the distributor who similarly gives them away. They generally contain a specific advertising message from the person who gives them away and are normally printed in much smaller quantities, and with more specialty type advertising messages. Because of the smaller quantities sold with each order, and because of the complications of printing differing advertising messages, this type sells at a substantially higher price than the resale paper book match. Normal prices, per case of 50,000 matches varies from $12.50 to $20 per case. For both of these matches the tax levied by section 3409 of the code equals $1.

Wooden matches

The third and fourth types of matches manufactured in the United States are the so-called household type of wooden match which are produced as kitchen matches (strike anywhere) and safety matches (strike on book). Prices on these matches, per case of 40,000 lights, range anywhere from $4.25 to $8 per case.

IMPACT OF TAX

Because H. R. 8224 reduces the tax on competitive lights (mechanical lighters) by 33⅓ percent it is suggested that the maintenance of ad valorem tax which, for at least 60 percent of the industry, is equivalent to a percentage tax of between 21 percent and 25 percent creates an inequitable competitive burden on the match industry. The D. D. Bean & Sons Co. earnestly suggests that the Congress should remove this legislated inequity by reducing the tax on matches to a rate comparable with that of competitive articles. We believe that a reduction of tax from 2 cents per 1,000 to 1 cent per 1,000 lights would correct this inequity.

It is respectfully suggested that, since the entire revenue collected from the match excise tax, including the import excise tax, is only approximately $8,750,000, a reduction of the tax to an amount comparable to that of competitive articles cannot logically be refused because of any substantial effect on revenue yields.

JUSTIFICATION OF REDUCTION

There are many additional arguments which could be advanced in connection with this burden tax. We believe, however, that the inequity of discrimination with competitive taxable commodities, the fact that matches are basically a necessity in many rural homes, the fact that war-induced competitive products have seriously retarded the continued growth of the match industry, and the fact that the Revenue Act of 1941 imposed the present excise tax on matches as wartime tax all tend to support the request that if these excises cannot be eliminated that the burden imposed by them may be at least reduced.

PROPOSED AMENDMENT

It is respectfully requested, therefore, that the Senate Finance Committee amend section 3409 of the Internal Revenue Code by striking the words "2 cents per 1,000 matches" and insert in lieu thereof the words "1 cent per 1,000 matches."

Very truly yours,

D. D. BEAN & SONS CO.,
D. D. BEAN, *President.*

THE BALTIMORE & OHIO RAILROAD CO.,
EXECUTIVE DEPARTMENT,
Baltimore Md., March 15, 1954.

Hon. EUGENE D. MILLIKIN,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKIN: The excise tax reduction bill, H. R. 8224, I understand, is now before the Finance Committee for consideration and will soon be reached for final action by the Senate. The bill provides for a reduction of present excises to a ceiling of 10 percent. This will reduce the tax on passenger transportation from 15 percent to 10 percent, and is a most welcome measure of minimum relief to all the traveling public.

The bill does not, however, grant any relief from the transportation tax on property, which is fixed at 3 percent. Since this tax applies to all commodities, it necessarily results in a pyramiding of the tax with each process of refining or manufacture. The tax applies to the transportation of raw materials to the factory, from factory to assembly plant, from assembly plant to distributor, and from distributor to retailer; thus, in many cases resulting in an ultimate tax to the public of many times 3 percent. Its burdensome effect tends to divert freight traffic from public carriers where it is subject ot the cumulative tax to private carriers to which the tax does not apply. Its reduction, therefore, should result in an increase of transportation of property by common carrier subject to the tax, with resulting increase in revenues to the Government.

For this reason and because it is the purpose of the 10 percent ceiling on excise taxes to give some measure of relief where the tax is in excess of that ceiling, I strongly urge you to support a reduction in the 3 percent rate on transportation of property.

Yours very truly,

H. E. SIMPSON, *President.*

AMERICAN FARM BUREAU FEDERATION,
Washington, D. C., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR MILLIKIN: The resolutions adopted at the last annual convention of the American Farm Bureau Federation contain some recommendations relative to Federal excise and sales taxes, which are pertinent to the consideration of H. R. 8224—the proposed excise tax reduction bill of 1954. These recommendations from our resolutions are as follows:

"Federal excise and sales taxes

"Federal excise taxation should be limited largely to taxes on nonessential and luxury goods. All purchasers of items on which an excise has been paid should be informed of the amount of such taxes.

"A general Federal sales tax should be avoided. Such a tax would create inequities, increase production costs, and further increase the overlapping of Federal and State tax systems. Elimination of the existing excise taxes on communications and transportation should be given high priority whenever tax reduction legislation is feasible without impairing the objective of a balanced budget. Taxes of this type are undesirable because they increase the cost of doing business."

"Transportation taxes

"Reduction or elimination of transportation taxes should have a priority in any tax reduction program. Transportation taxes are hidden taxes which bear directly upon industry and commerce and on the marketing of farm products irrespective of the earnings of those taxed."

"Highways

"The Federal gasoline tax should be terminated, leaving this source of revenue available to the States. The Federal Government should continue to have a responsibility for the development of an integrated highway system. However, we recommend that substantial reductions be made in Federal finance and regulation of highway construction."

Since the present Federal budgetary situation limits the amount of tax relief that can be granted in this bill, it becomes necessary to set some priorities for excise tax reductions.

In accordance with the principles set forth above, we strongly urge that the following priorities be observed in any reduction of excise taxes that may be made by the Congress:

(1) The Federal gasoline and diesel fuel excise taxes of 2 cents per gallon should be repealed. This action should be accompanied by substantial reduction in the Federal highway-aid program. We appreciate the fact that this committee does not have jurisdiction over the authorizations for Federal aid to highways but we are confident that the committee handling these authorizations will be influenced by this committee's decision on the gasoline tax.

(2) Federal transportation taxes should be repealed. Transportation taxes, and particularly the excise tax on the movement of goods, enter directly into the cost of doing business. This can only increase costs to consumers or reduce returns to producers. There is reason to believe that farmers are sometimes hit both ways—that is, the tax on transportation increases the cost of the things farmers must buy, and reduces the price the market will pay for farm products. Another objection to a tax on the movement of goods is the pyramiding which arises out of the fact that in our complex economy it is often necessary to move the same goods several times to complete the production and distribution process.

The tax on passenger transportation also enters into the cost of doing business although not to the same extent as the tax on the movement of goods. Furthermore, it should be recalled that this tax was originally adopted to discourage travel during the war. We do not believe it is sound public policy to continue to discourage people from traveling. After all, if the railroads lose money on their passenger business, they have to have higher freight rates, and if the airlines lose money they become eligible for bigger subsidies.

(3) The excise taxes on communications, i. e., telephones, telegraph, and related types of communication services should also be eliminated. There again we have taxes which enter into the cost of doing business. Our resolution relates this action to a time when it is feasible to reduce tax revenues without impairing the objective of a balanced budget. While it is not clear that the Excise Tax Reductions Act is warranted by this objective, it does seem to us to be clear that a tax of this type should be given priority as compared with other types of excises when reductions are considered.

The bill as it passed the House provides for a reduction in a number of retailer excise taxes covering furs, jewelry, luggage, toilet preparations; and also reductions in a number of manufacturers excises which are in the category of nonessential or luxury goods such as mechanical pens, pencils, lighters, firearms, shells, cartridges, cameras, lenses, and films. Reduction of the taxes on such items at this time is questionable in view of more desirable principles which can be served by repealing the excise taxes on gasoline, transportation, and communications.

We urge therefore that the Senate Finance Committee amend the bill in harmony with the principles outlined above. This can be done and still fulfill the most persuasive arguments that have been advanced for excise-tax reductions at this time which are to achieve a more equitable tax system and to stimulate business and employment.

Very sincerely,

ALLAN B. KLINE, *President.*

MID-STATE THEATERS, INC.,
Clearfield, Pa., March 15, 1954.

The SENATE FINANCE COMMITTEE,
The United States Senate, Washington, D. C.

Honorable GENTLEMEN: It is with extreme disappointment that we note the failure of the administration to take cognizance of the special and particular factors involved in the admission tax as it applies to smalltown theaters.

We are most grateful for the proposed reduction from 20 percent to 10 percent—please believe us—but we must try to convey to you the fact that complete elimination is necessary to meet the situation in small theaters.

You see, I am not referring to the deluxe first run, downtown showcases, the key movie palaces and more expensive kinds of entertainment—but rather the smalltown, sub-run, neighborhood movie that provides bread-and-butter entertainment to the family at minimum cost.

We are not asking for special favors, but rather for the recognition that the Government usurped what would have been a modest, reasonable, natural increase in the price of admission. How much do you suppose we can charge in smalltowns for admission tickets in a highly competitive situation? That 8 cents or 10 cents in Federal admission tax makes the difference.

Our circuit lost $23,431.54 in the year 1953 while paying $77,102.83 in admission taxes. (Figure from the statement of our C. P. A. are available to any responsible person.) If the admission taxes were turned into income, the circuit would show an extremely modest profit equivalent to 2 percent before income taxes on the depreciated value of the corporate assets.

The 50-cent theaters are not asking you to turn taxes into profits—but merely for the opportunity to pay their own way.

In our particular situation, the elimination of the tax will take people off the unemployment compensation rolls and put them on the Federal income tax roll again.

WILLIAM B. WAY.

MINNESOTA STATE AGRICULTURAL SOCIETY,
St. Paul, Minn., January 26, 1954.

Senator EDWARD J. THYE,
Senate Office Building,
Washington D. C.

DEAR SENATOR THYE: As you know, prior to World War II, based upon their educational function, agricultural fairs were granted an exemption of the amusement tax at the outside gates and for grandstand performances staged for the benefit of the fair.

When the exemption was restored, the entire exemption was not activated and was limited to the outside gates.

The rulings of the Internal Revenue Department have not been uniform in various sections with reference to the grandstand. The International Association of Fairs and Expositions representing more than 3,000 agricultural fairs will seek to have this clarified at this session. Any advice, counsel, or assistance that you can give in this matter will be appreciated by the thousands of volunteer workers in the fairs of Minnesota, as evidenced by the following resolution adopted at the annual meeting of the state agricultural society.

"*Be it resolved by the Minnesota State Agricultural Society (Minnesota State Fair) in annual meeting assembled this 13th day of January 1954,* That thanks be extended to the Members of Congress who passed the legislation granting exemption from tax on admissions to the outside gates of agricultural fairs, in accordance with the program presented by the International Association of Fairs and Expositions; and be it further

"*Resolved,* That we urge upon all Members of Congress to give favorable consideration to the request of the International Association of Fairs and Expositions calling for restoration of the former tax exemption on admissions to grandstand performances staged by agricultural fairs for the sole benefit of extending their educational programs."

Sincerely,

D. BALDWIN, *Secretary.*

NATIONAL ASSOCIATION OF TRAVEL ORGANIZATIONS,
Washington 5, D. C., March 16, 1954.

The Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building,
Washington 25, D. C.

MY DEAR SENATOR MILLIKIN: Attached hereto is a statement of the views of this association concerning H. R. 8224 which I hope will receive your considera-

tion and that of your committee. I hope, also, that it will be possible for this to be included in the record of the hearings pertaining to H. R. 8224.

Sincerely yours,

JAMES L. BOSSEMEYER,
Executive Vice President.

STATEMENT OF THE NATIONAL ASSOCIATION OF TRAVEL ORGANIZATIONS

My name is James L. Bossemeyer. I am executive vice president, National Association of Travel Organizations, 1424 K Street NW., Washington, D. C. I wish to present to you the views of this association concerning H. R. 8224. I shall refer to the association during my statement by its initials NATO. Our organization was founded in 1941. We claim prior rights to our famous initials over a more recent user of them, the North Atlantic Treaty Organization.

NATO, the travel organization, is the national trade association of the United States travel industry. Its members include the transportation lines, hotels, resorts, motels, sightseeing companies, automobile clubs, newspapers and magazines which cater to travel, travel agencies, map makers, advertising agencies, oil companies, and manufacturers of special clothing and equipment used by travelers.

An extremely important segment of our membership is made up of the nonprofit public and semipublic organizations which promote travel to communities, cities, and States, as, for example, the Michigan Tourist Council, which is the official travel promotion agency for the State of Michigan. We have more than 150 members in this category.

Our association has since 1947 worked for the repeal of the 15 percent tax on the transportation of persons. We welcome the 5 percent reduction contemplated under measures now before the Congress. If granted, it would provide some measure of relief from the burdensome tax on travel. It would free approximately $100 million per year which would be spent on travel and for other consumer goods and services. This expenditure would bolster our economy at a time when we need to do everything possible to maintain a high level of prosperity and full employment. We have steadfastly held that reduction or repeal of the excise taxes on transportation would increase general prosperity and overall taxpaying power to a degree sufficient to offset the direct loss of the revenue received from these taxes.

In gratefully accepting the 5-percent reduction, we nevertheless would continue to press unrelentingly for complete repeal of the excise taxes on transportation. The 15-percent tax on the transportation of persons became a regulatory tax in 1944. Its purpose was to discourage civilian travel in wartime. We still consider it a regulatory tax.

Travel has become one of the primary means of distributing the wealth created in this Nation. Travel money is new money pumped into the channels of trade in all parts of the country. Every wide-awake community in the land recognizes the importance of attracting travel dollars. It is, to us, unthinkable that the Congress of the United States should leave in effect a regulatory tax designed to discourage travel, now so important to our economic welfare.

We are fully aware of the need for keeping the movement for the reductions of excise taxes confined to the main objective—reduction.

But we wish to point out that among the many injustices and inequities of the excise tax on travel, two important ones could be corrected at this time without substantially affecting the tax-revenue situation.

One of the inequities to which I refer is the situation whereby the excise tax on travel to overseas points outside of the United States of America, except the Caribbean area and Central America, was removed several years ago. Why? Are our relations with our close neighbors in the Caribbean and in Central America of less concern to us than our relations with our neighbors in more distant places? On the contrary, it seems to the members of NATO that no effort should be spared to strengthen our ties with our close neighbors. This we can do by removing the ban upon travel to these adjacent areas, and thus demonstrate that we value their friendship at least as much as we do that of people in more distant places.

The other inequity is that under which it is possible to purchase transportation within the United States of America tax free if such transportation is purchased outside of this country. This practice is commonplace in cities in Canada and Mexico, particularly those close to the international boundaries. It leads to a

substantial loss of business by United States travel agents, and is a great injustice to them.

We have not had an opportunity to formulate a recommendation as to the precise mechanics for stopping these losses, but we are informed that the Air Transport Association of America is submitting a recommendation to the committee. We earnestly recommend that the committee give full consideration to this and similar recommendations designed to plug this serious loophole in section 3469 (a) of the Internal Revenue Code.

One closing thought. If the 5-percent reduction in the travel tax is made effective, this association and the other organizations affected by the excise taxes upon transportation and the users of transportation will redouble their collective efforts to bring about complete repeal of the excise taxes on transportation. We will do everything in our power to combat any tendency toward acceptance of a feeling that the sharp edge may have been removed from these taxes and that the lowered tax and the unaffected taxes may well remain in effect permanently as tax-revenue sources. This would have a persistent harmful effect upon the prosperity and security of the Nation which the members of this association will not voluntarily accept.

Thank you very much for the opportunity of presenting our views to the committee.

MARCH 9, 1953.

FEDERAL AUTOMOTIVE EXCISE TAXES

Whereas House and Senate joint resolution, memorializing Congress for repeal of the Federal automotive excise taxes on motor vehicles, automotive parts and accessories, tires and tubes, motor fuel and lubricating oil, has been enacted by the New Hampshire Legislature; and

Whereas similar legislation, seeking the repeal of one or more of the various Federal automotive excise taxes, is pending in the legislatures of 24 other States; and

Whereas the Governors' Conference, the National Grange, the 11th General Assembly of States sponsored by the Council of State Governments, the Western Governors' Conference, and the American Farm Bureau Federation, are among the prominent organizations which are urging the Federal Government to withdraw from the field of gasoline taxation, and leave this source of revenue to the States; and

Whereas the New Hampshire Highway Users Conference has always taken the position that the Federal automotive excise taxes—which were born of war and depression and are not earmarked for highways—are temporary, emergency taxes which should be repeapled: Therefore be it

Resolved, That the New Hampshire Highway Users Conference hereby goes on record as commending the New Hampshire Legislature of enacting this resolution, and urges that Congress give prompt and favorable consideration to the recommendations contained therein; and be it further

Resolved, That copies of this resolution be sent to Gov. Hugh Gregg, the president of the State senate, the speaker of the house of representatives, all members of the New Hampshire congressional delegation, and to the press.

UNITED STATES SENATE,
COMMITTEE ON ARMED SERVICES,
May 8, 1953.

SENATE FINANCE COMMITTEE,
Senate Office Building,
Washington, D. C.

GENTLEMEN: Please find enclosed copy of a letter I have received from Reverend Adam, of Greybull, Wyo., which I would appreciate your including in hearings held before your committee, having to do with tax matters.

Very truly yours,

LESTER C. HUNT,
United States Senator.

PRESBYTERIAN CHURCH, *Greybull, Wyo.*

Senator LESTER C. HUNT,
Washington, D. C.

DEAR SIR: There are two matters which I am asking you to consider.

* * * Second, the Federal tax on gold reward pins for church school attendance. I recently ordered 6 pins which cost $1 each, plus 20 percent Federal tax or 20 cents each. Can something be done so that the churches can be excused from this tax?

Sincerely,

THOMAS ADAM, *Pastor.*

WASHINGTON, D. C., *March 15, 1954.*

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:

On behalf of the 34 State and 26 national retail associations representing in their combined membership over 600,000 individual retail establishments, I wish to urge your committee to take favorable action on H. R. 8224.

We strongly urge, however, that you give prompt and favorable consideration to correcting the one glaring inequity in the bill which fails to give to essential family and household articles such as ranges, laundry equipment, water heaters, refrigerators, business machines, television sets, radio sets, and other electrical appliances the same measure of relief afforded other items burdened with excise taxes and covered by the bill. It is inconceivable that Congress should feel that household articles essential to everyday family life in the United States should continue to be taxed at the wartime level while reducing excise taxes in other fields. We commend what must be an oversight in the House-passed bill to your attention for immediate and corrective action, and ask that this statement be made a part of the record of the current hearing.

ROWLAND JONES, Jr.,
President, American Retail Federation.

DECATUR, ALA., *March 12, 1954.*

Hon. JOHN J. SPARKMAN,
United States Senator,
United States Senate, Washington, D. C.:

We understand the Senate Finance Committee will consider tomorrow morning excise tax bill passed by House yesterday. We recognize that repeal of excise taxes on new cars, trucks, parts, and accessories may be impracticable at this time. We most strongly urge that taxes on these essential transportation commodities be reduced on April 1 this year as previously scheduled and, further, addition of floor stock tax refunds as provided in H. R. 8224. We feel that it is utterly unfair to reduce tax on luxury items while retaining tax at present level on new cars, trucks, parts, and accessories which are essential comodities to the American people. We strongly urge you to relay this message to members of Senate Finance Committee.

DECATUR AUTOMOBILE DEALERS ASSOCIATION,
R. S. HICKS, *President.*
F. O. SMITH, *Secretary and Treasurer.*

GREAT FALLS, MONT, *March 11, 1954.*

Hon. EUGENE D. MILLIKIN,
United States Senator, Washington, D. C.:

We have telegraphed Senators Murray and Mansfield that today's Associated Press dispatch states Federal excise tax cut wins House approval but states the President recommends that tax on automobiles and few other commodities not be reduced to 7 percent. We the 16 members of this organization in an official meeting today emphatically urge that the excise tax on automobiles be left at 7 percent as originally recommended. This particular commodity is

scheduled in the general overall reductions. We respectfully urge that you do just as important to a reduction toward living expenses as are the other items everything possible to have automobiles included in the excise tax reduction bill now before Congress. Thanks for your consideration. The following dealers are subscribing to this request. Bennett-Pontiac Motors, Bison Motor Co., Eneboe Motor Co., General Truck & Tractor Co., Great Falls Motor Co., Great Falls Nash, Inc., Kearns Motor Co., Olson Motors, Inc., Rice Motors, Robinson Motor, Schroeder-Oldsmobile Co., Seese Chevrolet Co., Silver State Auto Co., Strobel Motors, Suhr Motor Co., Thisted Motor Co.

GREAT FALLS DEALERS ASSOCIATION,
A. J. BREITENSTEIN, *Secretary.*

RUTLAND, VT., *March 12, 1954.*

Senator GEORGE D. AIKEN,
Senate Office Building, Washington, D. C.:

Strongly urge you protest excise tax reduction on luxuries while tax on cars and trucks remain at present level. Recommend that previously scheduled April 1 reduction on cars and trucks should take effect and dealers be protected on new cars and trucks in stock as provided in H. R. 8224 believe it is utterly unfair to reduce tax on luxuries and extend present high tax on essential transportation units. Please express our sentiments to Senate Finance Committee.

SAMUEL B. BABBITT,
Vermont Director, National Automobile Dealers Association.

SIOUX FALLS, S. DAK., *March 12, 1954.*

Senator KARL E. MUNDT,
Washington, D. C.:

Important for survival of dealers in South Dakota that excise taxes on automobiles, trucks, accessories, and parts be reduced April 1 as scheduled. Also, that arrangements be made for dealers to be reimbursed for merchandise they have on hand. Believe it will stimulate sales considerably.

DUKE TUFTY.

SIOUX FALLS, S. DAK., *March 12, 1954.*

Senator KARL E. MUNDT,
United States Senate Office Building, Washington, D. C.:

Understand that Senate Finance Committee discussing excise tax tomorrow. Certainly approve protection for retail floor stock in new bill and tax reduction for 1955, but heartily disapprove of tax reductions on luxuries and maintaining usurious taxes on essential cars, trucks, and parts should the scheduled automotive tax reduction for 1954 be allowed. Would appreciate provision for refund on floor stock. You are urged to make the South Dakota dealers' position known to the committee and any additional support you might render.

D. B. BRICK,
South Dakota Automobile Dealers Association.

FORT WORTH, TEX., *March 12, 1954.*

Hon. LYNDON JOHNSON,
Senate Office Building, Washington, D. C.:

I strongly urge reduction of excise taxes on most essential items, including automobiles, immediately. Any reduction should include provision for refund of tax reduced on floor stocks of dealers.

ERNEST ALLEN.

FORT WORTH, TEX., *March 12, 1954.*

LYNDON B. JOHNSON,
Senate Office Building,
Washington, D. C.:

Would appreciate your contacting Senate Finance Committee and propose that while recognizing repeal of excise taxes on new cars, trucks, parts, and accessories may be impractical at this time we most strongly urge that taxes on these essential commodities be reduced on April 1 this year as previously scheduled, and that with further addition of floor stock tax refund as provided in H. R. 8224 utterly unfair to reduce tax on luxury items.

While retaining tax at present level on new cars, trucks, parts, and accessories the automobile is an essential commodity to our American people. Your continued support in our behalf will be greatly appreciated.

RYAN MOTOR CO.,
W. T. RYAN.

WASHINGTON, D. C., *March 15, 1954.*

EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.:

The American Home Economics Association on behalf of the 21,000 members urges the Finance Committee to remove the 10-percent manufacturers' tax on household equipment. This tax, levied to conserve materials, has outlived its purpose. To remove this tax would enable more homemakers to purchase labor-saving devices. The use of such equipment tends to increase the efficiency in the management of the home, releases valuable time which could be profitably used in promoting better family living and better family health.

BERTHA AKIN GREGORY,
Chairman, AHEA Committee on Legislation.

WASHINGTON, D. C., *March 16, 1954.*

Senator EUGENE D. MILLIKIN,
Senate Office Building:

The 7,500 member stores of the National Retail Dry goods Association hope that your committee will expedite the passage of H. R. 8224, the Reed bill, providing relief in the field of retail excise taxes. We also belief that the Congress should, as soon as economically possible, grant relief for those items in the consumer durable field as well as automobiles on the same basis.

WADE G. MCCARGO.
President, National Retail Dry Goods Association, New York, N. Y.

BOISE, IDAHO, *March 13, 1954.*

HERMAN WELKER,
United States Senator,
Senate Office Building, Washington, D. C.:

We request your support in reducing excise taxes on new cars, trucks, parts and assessories effective April 1 this year as previously scheduled and that in addition protection be provided for tax refund on floor stocks as in House bill 8224. Absolutely unfair to reduce tax on luxuries while retaining tax at present level on new automobiles and trucks which are essential commodities to the American people. Appreciate your strongest efforts on this matter with Members of Senate Finance Committee.

Boise Auto Co., Boise Implement Co., Boise Nash, Campbell Simpson Motors, Larry Barns Chevrolet, Custom Motor Car Co., Boise Auto Co., Roy C. Davidson Co., Dufresne Auto Co., Gem State Motors, Harrison Motors, Hopper Motor Co., Logdson York Motor Co., Motor Center Inc., Parks Auto Co., Peterson Motor Co., Jensen Motor Sales.

THE UNIVERSITY OF WYOMING,
DEPARTMENT OF ATHLETICS,
Laramie, Wyo., March 11, 1954.

Hon. LESTER C. HUNT,
United States Senator, Wyoming,
Senate Office Building, Washington, D. C.

DEAR DOC: It has come to my attention that the matter of Federal admissions tax as it relates to college and university athletic events will soon come before the Senate Finance Committee and thence, if favorably reported, to the floor of the Senate.

Naturally, we who are primarily concerned with the numerous budgetary problems incident to college athletic events greatly favor the elimination of this Federal tax. As you undoubtedly recall, 3 years ago Congress exempted high schools and elementary schools from such taxation. We believe the colleges and universities are entitled to the same treatment and that a failure to eliminate this tax would be both unfair and discriminatory.

At any rate, I wish you would peruse the attached material in which we have attempted to outline our arguments for the complete elimination of this tax. If you feel this cause to be just and fair, which I know that you do in light of your background and experience, I would appreciate your consideration and support.

I know full well the pressures brought to bear on yourself and others for straight across-the-board reductions with no exemptions but this appears to me to be a most shortsighted policy. The elimination of discriminatory procedures of any kind is certainly the ultimate goal of all thinking people. However, I would certainly appreciate both your personal and official reaction in this matter when convenient to your already saturated schedule.

Dorothy joins me in sending our warm personal regards to you and your fine wife.

Sincerely yours,

GLENN J. JACOBY,
Athletic Director.

1. *Just cause.*—Congress exempted high schools and elementary schools from Federal admissions tax in 1951; colleges are only educational institutions not exempt.

Colleges do not seek special treatment or special exemption. We ask for elimination of existing discrimination. The colleges' case is separate and distinct from that of theater owners, cabaret operators, professional sports promoters, and operators, etc. The colleges are nonprofit, educational institutions whose athletic programs form backbone of Nation's physical fitness and physical preparedness.

2. *Participation.*—More than 100,000 students compete in intercollegiate athletics and 710,000 in intramural competition annually, not to mention thousands taking part in physical education training * * *. World tomorrow demands healthy body with alert mind.

3. *Finances.*—Gate receipts fell below costs of overall athletic programs at 93.5 percent of Nation's colleges during last academic year (1952–53). Aggregate figures for the year show:

Cost of program	$52,708,000
Ticket sales	40,314,000
Deficit	12,394,000
Tax paid	8,062,000

Educational funds are used to make up athletic deficits.

4. *Consistent.*—Thoughtful congressional leaders are seeking ways and means of providing financial aid to colleges without danger of interference and controls. * * * College athletic deficits are paid from educational funds; elimination of Federal tax provides education with potential $8 million in financial aid.

5. *Future.*—Present outlook indicates mounting deficits which means increased burden on educational funds or decreased sports competition. * * * Cutbacks will result in discontinuance of nonprofit sports unless relief is in sight. * * * Generally, football and occasionally basketball represent only profit-producing sports.

6. *Profits.*—Those 6.43 percent of colleges which realize net gains from gate receipts plow profits back into additional athletic buildings and grounds.

7. *Taxpayer.*—Nation's taxpayers are saved additional taxation as long as athletics' drain on educational funds is held to minimum.

8. Overall college athletic program, with intercollegiate athletics as its backbone and motivating force, is essential part of college educational processes * * * it is particularly needed in preparing young men for useful careers in our democracy, and in developing physical fitness and potential leadership for defense of our country.

9. Admissions tax, insofar as colleges are concerned, is not tax on customer * * * it is direct tax on colleges because overwhelming majority of educational institutions have absorbed tax and not realized any price increases to offset skyrocketing operating costs.

ADDRESSOGRAPH-MULTIGRAPH CORP.,
Cleveland, Ohio, March 9, 1954.

Removal of excise tax on business machines (Sec. 3406 (a) (6) IR Code).

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
United States Office Building, Washington, D. C.

MY DEAR MR. MILLIKIN: We urge repeal of the excise tax on business machines. Our letter of February 28, 1950, to the Committee on Ways and Means, urged repeal.

The Office Equipment Manufacturers Institute, of which we are a member, submitted a brief on July 31, 1953, to the Committee on Ways and Means. We endorse the arguments offered, and wish to present our own:

1. To tax business machines—but not factory machine tools—is discriminatory.

2. Both types of equipment are purchased and used to reduce production costs and to save man-hours.

3. The excise tax on business machines is a direct burden upon production, rather than upon the profits resulting from production.

4. The 1941 act imposed the excise tax as a temporary restrictive measure, and not for permanent purposes of revenue.

5. The need of these restrictive measures, which were directed in War II and Korea toward reduced civilian consumption, safeguard of use of strategic materials, and diversion of plant productive capacity to the war effort, no longer exists.

6 Civilian business has softened. Throughout the period that the subject of excise taxes has been in the "conversation stage," prospective purchasers of business machines have postponed purchase action in order to avoid the tax.

7. This sales resistance is contributing to the downward trend of business.

8. The revenue from excise tax on business machines is revenue in name only. The customer who pays the excise tax deducts it from business income—which otherwise would be subject to a 52 percent corporate rate. The remaining "48 percent net" excise revenue to the Government is "net" in name only, if the customer does not buy.

Repeal of the excise tax on business machines will eliminate sales resistance and release a flood of withheld customer orders. The use of these machines by the customer, and the production and sale of these machines in greater quantity by the office equipment industry, will produce 2 sources of increased business profits * * * subject to a normal and surtax rate of 52 percent as an offset.

9. We recognize the need of a balanced budget and a sound fiscal policy, but the excise tax on business machines is a retrogressive step. Therefore, we strongly urge repeal of the excise tax on business machines.

10. The "break-even" level in business is so high that corporate profits and tax revenue on such profits could diminish rapidly unless business can hold sales levels as high or higher than was the case in 1953.

Inversely, if by elimination of sales resistance, the 1954 sales level can be increased over 1953 levels, the taxable profit on such increase will be a far greater percentage of sales than was the case in 1953.

Logically, elimination of sales resistance will increase corporate income-tax payments in 1954.

We believe it is time that this controversial but thoroughly unproductive tax measure be recognized for what it is * * * and therefore repealed.

Respectfully submitted.

J. B. WARD, *President.*

UNITED STATES INDEPENDENT TELEPHONE ASSOCIATION,
Washington 4, D. C., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance, United States Senate,
Washington 25, D. C.

DEAR MR. CHAIRMAN: The action of the House in putting a 10-percent ceiling on telephone calls, along with other items, was indeed heartening to the independent telephone companies of the country. It will also be most welcome to telephone subscribers.

Indeed, Mr. Chairman, an excellent case can be made for the repeal outright of the excise tax on telephone service, now set at 25 percent on long-distance calls and 15 percent on local. Most definitely, telephone service is not a luxury. It is indispensable to the business and social economy of the country. Water, gas, and electric service, likewise regarded as so important to the public interest as to be subject to public regulation, both State and Federal, are free from the imposition of any excise tax. To tax telephone service in the face of this does smack of a discrimination which we think Congress should wish to remove.

There is of course still other evidence of discrimination, having in mind the truly essential character of telephone service. That evidence consists of the fact that the 25-percent tax on long-distance calls is in the highest excise bracket. It is taxed higher than such luxury items as jewelry, cabarets, and furs, which carry a tax of 20 percent. Local telephone service, with a levy of 15 percent, is taxed higher than fishing equipment, television sets, and musical instruments—items which carry a tax of only 10 percent.

A Gallup Poll published last September showed that telephone taxes are the most unpopular of all excises now on the statute books. The national organization of State public service commissioners has by formal resolution condemned these taxes as inimical to the public interest. We know that the widespread adverse reaction from telephone subscribers which all along has been in evidence is increasing manyfold. When hearings were held by the House Ways and Means Committee, the grievances of both telephone users and telephone companies were set forth at length.

We hope that Congress will provide for the repeal of the telephone levies. But of course it goes without saying that if this does not seem possible in view of the revenue needs of the Treasury, then we ask most earnestly that the 10-percent ceiling proposed by the House be certain to be retained in the measure which your committee reports to the Senate.

With high respect, I am
Sincerely yours,

CLYDE S. BAILEY,
Executive Vice President.

CHICAGO, ILL., *March 17, 1954.*

Hon. EUGENE D. MILLIKIN,
Senate Finance Committee, Senate Office Building, Washington, D. C.:

As president of the Bowling Proprietors Association of America and on behalf of the bowling public I desire to support the request to your committee made by the National Bowling Council for a reduction in the occupational tax on bowling alleys in the excise tax bill. At the same time that it has reduced excise taxes on golf club and country club dues and initiation fees, jewelry, mink coats, and safe deposit boxes, the House has penalized the poor man's club—the bowling alley—by increasing its occupational tax.

The occupational tax on bowling alleys was increased from $10 to $20 as a temporary wartime matter along with other excise taxes. We cannot understand why the House at the same time that it has reduced many of these other taxes has taken this discriminatory action against bowling. In all fairness the tax on bowling should come down at the same time as the other taxes which were increased when the tax on bowling was increased. The 3½ million unemployed will not benefit from tax reductions on golf clubs, mink coats, jewelry, and safe deposit boxes nor will the thousands of small-business men who operate the Nation's bowling alleys. They will benefit along with the millions of ordinary workers who bowl regularly, from a reduction of the tax on bowling. We ask that you vote in the Senate Finance Committee to revise section 503 (d) of the excise tax bill so as to reduce the occupational tax on bowling to $10 per alley.

BENJAMIN M. BERINSTEIN,
President, Bowling Proprietors Association of America.

BROTHERHOOD OF RAILROAD TRAINMEN,
Cleveland, Ohio, March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKIN: I am writing to you to request consideration by the Senate Finance Committee of an amendment to the bill on excise taxes, H. R. 8224, that would repeal the excise tax of 15 percent on passenger transportation. The reduction in this tax from 15 to 10 percent which has been voted by the House is a step in the right direction but conditions in the passenger transportation industry requires the elimination of this tax.

The excise tax on passenger transportation served a useful purpose in the war years when, in the acute shortage of passenger transportation facilities, the Government was able to move military personnel and insure essential civilian travel because of the discouragement and reduction of nonessential civilian travel effected by the tax. But these reasons for the enactment and enforcement of the tax have long since disappeared and its enforcement today means that the Government takes positive action to depress the railroad industry. The tax discourages and reduces passenger travel, adds to the abandonment of passenger services, creates unemployment among railroad workers, requires the overpricing of freight services to make up for the passenger deficit, and discriminates against the lower-income groups of our population.

If it were Government policy to discourage industries by levying excise taxes on their products, an excise tax on passenger transportation would have a prime justification. But that is not Government policy, and as I understand the principles of equitable taxation, it should be the objective of Government to levy taxes that result in the least possible interference with the development of private industry. I believe there is a clear case that any excise tax on public passenger transportation violates that principle of taxation.

I am speaking for the Brotherhood of Railroad Trainmen when I say that the repeal of this tax is urgently needed to stimulate the railroad industry. For the convenience of you and the members of the committee I set out the following reasons for requesting an amendment to eliminate the excise tax on public passenger transportation.

(1) The excise tax on passenger transportation was a wartime measure to meet a situation that no longer exists. The shortage of passenger carrying capacity during the war has been transformed into a surplus. Far from any necessity of discouraging the use of passenger facilities, the situation in the railroad industry presents an imperative demand for efforts to induce more passenger travel. There is a huge slack to be taken up in railroad passenger facilities. The Annual Report of the Interstate Commerce Commission for 1952 says that railroad passenger facilities are being used at no more than 28 percent of capacity.

Canada imposed a similar tax during the war for the same purpose and removed it in 1948.

(2) The tax discriminates against the public agencies of transportation (railroad, motor bus, air and water carriers) in favor of untaxed travel by the privately owned automobile. The 15 percent excise, originally enacted to discourage wartime travel on the railroads, has the same effect in peacetime. Potential users of public transportation purchase automobiles to avoid the 15 percent travel tax. The tax, in effect, is a distinct encouragement to private, untaxed transportation by passenger automobile.

(3) The trend has been away from public transportation (common carriers) to the private automobile.

In 1946 the common carriers accounted for 28 percent of all intercity passenger transportation but by 1952 their share had fallen to 14.5 percent.

In the common carrier group the share of the railroads had declined from 66.2 billion passenger-miles in 1946, to 34 billion passenger-miles in 1952, a drop of 49 percent.

(4) Other indicators show the lessening importance of the passenger business of the railroads.

Using the average mileage of road operated in passenger service, from a 1946 average of 161,407 miles the mileage declined by 28,512 miles or 17.66 percent to a 1952 average of 132,895 miles. In the first 8 months of 1953 the total had fallen again to 129,467 miles.

During the depression-bound thirties consumer expenditures for intercity travel were at 0.5 percent of disposable personal income. During the war years

it rose to a level of 0.8 percent. By 1952 consumer expenditures for intercity travel had slipped to 0.5 percent of disposable personal income, the level of the depression.

(5) The downward trend in railroad passenger transportation has resulted in the passenger deficit, called by the National Association of Railroad and Utility Commissioners "the railroad industry's most serious problem today."

The passenger deficit is a reflection of the unprofitability of passenger operations, reduced employment of raliroad workers, curtailment of travel by lower income groups who are unable to afford automobiles, and higher prices to consumers resulting from the increase in freight rates to cover the passenger deficit.

(6) The 15 percent passenger tax is a regressive tax which means a relatively heavier burden on the low-income group than on the higher brackets of income. Ernest Carleton Nickerson, vice president of the New York Central Railroad (representing the Association of American Railroads) told the Ways and Means Committee in 1953 that about 2 out of 3 families earning less than $3,000 per year (about one-half of the country's families) do not have private transportation and are compelled to use public transportation and pay the 15-percent tax. As the ultimate consumer the typical passenger-coach traveler has no ability to shift the burden of the tax. His only alternative is to cease using public transportation.

The tax has a regressive effect also when persons using public transportation for business travel add their travel costs (as a cost of doing business) to the cost of the article sold by their concerns. It has been estimated that 50 percent of travel is for business purposes. Consumers are thus compelled to pay higher prices when the passenger tax or any part thereof is added to the price which consumers must pay for products.

Another instance of the regressive character of the passenger tax is indicated by the higher prices of commodities resulting from freight rate advances to cover the railroad-passenger deficit. Thus, the passenger tax, a contributing factor in the passenger deficit, has a tendency to raise prices to consumers through the action taken by the carriers to meet the losses in passenger operations.

(7) Because it discourages and reduces travel the passenger tax decreases the health, welfare, and morale of the people and interferes with the everyday use of railroad facilities for such purposes as shopping, visiting relatives, vacations, holiday travel, and for many other purposes.

(8) Any factor which reduces the volume of passenger traffic adds to the passenger deficit. I cannot do better than again refer to the statement by Mr. Nickerson in behalf of the Association of American Railroads. Mr. Nickerson said: "It would only take some 7 percent of the intercity traffic going by private means of transportation today to restore to the railroads their 1946 volume. We think that a big step forward in enabling us to obtain this higher volume would be to remove the discriminatory 15-percent tax."

The excise on passenger transportation is not a fair, just tax. It adds to the already great difficulties of the public agencies of transportation while the highly competitive automobile travel is untaxed. The good the tax does through the revenue furnished the Treasury is more than offset by the depressing effect of the tax on the profits, employment and services supplied by the railroads and other agencies of public transportation.

I respectfully urge serious consideration by your committee to my proposal to repeal the excise tax on passenger transportation.

Sincerely yours,

W. G. KENNEDY, *President.*

J. C. LANIER FARMS,
Greenville, N. C., March 13, 1954.

Mr. Chairman and Members of the Senate Finance Committee:

My name is J. C. Lanier, and I am a tobacco grower living in Pitt County, N. C. Several times I have had to honor of appearing before your committee and the House Ways and Means Committee, as spokesman for tobacco producers on the question of taxation on tobacco. I desire to herewith register my approval of the provisions of the excise tax bill as passed by the House of Representatives last week in relation to the excise taxes on cigarettes.

The House bill provides that the war-time increase of taxes on cigarettes shall automatically expire on April 1, 1955. The previous law provided that this tax should automatically expire on April 1, 1954. In other words, the House bill extends the wartime tax for an additional year.

We have always taken the position that taxes on tobacco products are exorbitant and unreasonable. At the present rate, Federal taxes are three times as much per pound as the grower is paid for his product. In addition, State, county, and municipal taxes are constantly increasing, thus adding to the burden imposed upon a farm product.

The consumption of cigarettes in this country diminished about 2 percent in 1953. Previously there had been a constant increase in consumption. The decrease came about before the controversy as to the relation of cigarette smoking to lung cancer. Therefore, the decrease cannot be tatributed to this controversy. It is our opinion that the excessive taxes on cigarettes from Federal, State, county, and municipal levels, coupled with the slight recession in business, is primarily responsible for the decrease in consumption.

This conclusion is backed up by the experience in Canada, where a substantial increase in tax rates brought about a drastic decrease in consumption. When the Canadian rates were reduced to former levels, cigarette consumption immediately increased.

Although we believe that cigarette taxes are too high, and although we look forward to the time when a reduction of these taxes will probably increase consumption, yet we do not at this time ask that the rates be reduced. Many of us realize hat the most vital thing for the American people is he balancing of the Federal budget. Therefore, we accept the House provisions regarding cigarette taxes and respectfully request this committee to adopt the proposal as to cigarette taxes, wherein the rate per pack will automatically be reduced from 8 cents per pack to 7 cents per pack on April 1, 1955.

Respectfully submitted,

J. C. LANIER.

UNITED STATES SENATE,
COMMITTEE ON APPROPRIATIONS,
March 17, 1954.

Hon. EUGENE D. MILLIKIN,
United States Senator, Washington, D. C.

DEAR SENATOR: In connection with your current consideration of H. R. 8224, I would like to direct your attention to an amendment approved unanimously by the House which would continue for 1 year the present high levels of excise taxes on automobiles and trucks.

As you know, these taxes were scheduled to drop from 10 to 7 and from 8 to 5 percent, respectively, effective April 1 this year. The effect of the House amendment is to retain the higher levels for 1 more year and to provide that, on April 1, 1955, automobile and truck dealers may receive refunds or credits on unsold floor stocks acquired prior to that date.

There is considerable feeling that the automobile industry, which is responsible for the employment of 1 out of every 7 workers in the Nation and is essential to the Nation's economy and its defense, has borne considerably more than its equitable share of the excise-tax burden. You will recall that the current high level of excise taxes was imposed in part to discourage the purchase of automobiles in times of critical material shortages, a condition which no longer exists.

However, the need for the revenue obtained by continuing the present high level excise taxes for another year on automobiles and trucks is recognized. At the same time, I strongly urge your acceptance of the provisions adopted by the House which provide for reductions on April 1, 1955, and refunds on unsold floor stocks. These provisions represent the minimum required to treat this vast industry with justice at this time.

Furthermore, I sincerely hope it will be possible for the committee to review fully these excise-tax levels next year with a view to further downward revision.

With best wishes.

Sincerely,

HOMER FERGUSON.

TRUCK-TRAILER MANUFACTURERS ASSOCIATION, INC.,
Washington, D. C., March 18, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: Members of our association are understandably disappointed that the scheduled drop from 8 percent to 5 percent in the manufacturers' excise tax applicable to truck trailers is not to occur on April 1.

Of course, we fully understand the need for maintaining high Government revenue and, in fact, we support the administration in its intention to maintain tax income approximately commensurate with Government expenses.

Our members, however, are unable to understand the thinking of the Ways and Means Committee when an essential item of transportation equipment, such as truck trailers, is placed in the same category as alcoholic beverages and cigarettes. In our understanding of tax policy, we feel that the abnormally high rate on the above-mentioned items has been intended to discourage their excessive use. We also understand that the high rate on automotive equipment, enacted during World War II and increased during the Korean emergency, was intended to have a comparable effect, that of restricting their use.

Certainly the Congress must realize that there is now no need to place any barrier on the further development or the full economic use of highway transportation equipment, and we would therefore solicit the attention of your committee to this serious problem.

We earnestly request that the scheduled reduction in the excise taxes on our equipment be allowed to take place. As we have testified many times in the past, we believe that selective and discriminatory manufacturers' excise taxes are wrong in principle. We further believe that the income required to be raised by excise taxes should be obtained from a fair and impartial tax applicable to all manufactured goods, with only the classical exceptions of medicine and possibly food supplies.

Your serious consideration of our appeal for more equitable treatment will be sincerely appreciated.

Very truly yours,

JOHN B. HULSE, *Managing Director.*

BROTHERHOOD OF LOCOMOTIVE FIREMEN AND ENGINEMEN,
Washington, D. C., March 16, 1954.

Senator HUGH D. MILLIKIN,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKIN: On behalf of the 100,000 men in engine service represented by this brotherhood, I wish to direct your attention to H. R. 8224, the Excise Tax Reduction Act of 1954, which passed the House of Representatives the other day.

Particularly do I wish to call to your attention the fact that the tax on transportation of persons was reduced from 15 percent to 10 percent and that there is no reduction in the 3 percent tax on transportation of property.

As you will recall, this tax on the transportation of persons was imposed during World War II to keep people off the trains which, because of gasoline rationing, etc., were being heavily burdened by passengers.

Now that the reason for this 15 percent tax is past, we urge that it be entirely eliminated so that more and more people can afford to ride the trains, and thus increase the business being handled by the railroads as well as other types of public transportation.

Respectfully,

A. M. LAMPLEY.

TAMPA, FLA., *March 16, 1954.*

Senator GEORGE A. SMATHERS,
Senate Building:

The Tampa, Fla., Brewery as well as the Florida Brewerys Conference, representing all 6 brewers operating in Florida, earnestly appeal for your support of the amendment to the excise tax bill offered by Senator Johnson of Colorado, which provides for a reduction of $1 per barrel on all malt beverages produced

and a reduction of $1 per barrel on the first 100,000 barrels sold. The excise tax on malt beverages plus the Florida tax has put the price on beer beyond the purchasing power of that group in our society which considers beer and ale not merely a beverage but a food. May the Florida brewers count on your earnest cooperation and support of Senator Johnson's amendment?

A. M. MORRIS,
Tampa, Florida, Brewery.

JENKINTOWN, PA., *March 18, 1954.*

Hon. GENE D. MILLIKIN,
Senate Office Building, Washington, D..C.:

The amusement park industry is in great need of relief of the burdensome excise taxes. We are very grateful for the favorable action taken by the House of Representatives recognizing our need for consideration.

We as an organization are hopeful that you and your committee will be instrumental in supporting our urgent requirements for an exemption on all admissions up to 50 cents.

Please bear in mind the Pennsylvania enabling act and like discriminatory taxes levied by other States and political subdivisions coupled with the necessity of a self-imposed ceiling on admissions has made it tough for my industry to survive.

Please give us your wholehearted support.

Respectfully,

ELMER E. FOEHL,
President, National Association Amusement Parks, Pools, and Beaches;
Vice President, Willow Grove Amusement Park, Willow Grove, Pa.

NAPPANEE, IND., *March 18, 1954.*

EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee, United States Senate.

SIR: Relief from burdensome wartime excise taxes on telephone service is long overdue. We are probably considered a typically successful independent telephone company serving eighteen hundred telephones in Napannee community. In year 1953 excise taxes collected by us and paid Federal Government amounted to 172 percent of our net operating revenue. Is not that wholly unreasonable? Furthermore the cost to us in billing and collecting said tax is unreasonably and unnecessarily complicated due to having to apply different tax rates to toll charges over and under 25 cents. Simplification of tax calculations resulting in one rate applicable to total bill would be a great savings to us as "collector." Being small we are much more aware of the cost of administering the complicated procedures than is management of the larger companies. Make no mistake about it, our customers are resentful that their telephone service is taxed as a luxury.

LAMAR STOOPS,
Manager, Nappanee Telephone Co.

RCA COMMUNICATIONS, INC.,
New York, N. Y., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SIR: We appreciate the expeditious manner in which the Senate Finance Committee is reviewing excise tax legislation, and I want to express my regrets that I have been unable to appear personally before the committee.

I am president of RCA Communications, Inc., a wholly owned subsidiary of Radio Corporation of America, which is a common carrier providing radio communications service between the United States and foreign and overseas points throughout the world.

We are certain that the committee will appreciate the interests of the international telegraph industry in preserving the historical differential which has ex-

isted between excise taxes imposed on domestic telegraph messages and taxes imposed on international telegraph messages.

The bill passed by the House of Representatives on excise taxes (H. R. 8224) would reduce all communications taxes except the tax imposed on international telegraph messages. Specifically, it would reduce the tax on domestic telegraph messages from 15 to 10 percent and leave the tax on international telegraph messages at 10 percent. It would thus destroy the differential which has existed for many, many years.

The increasing importance of private enterprise and foreign trade underscores the necessity of preserving this differential. Further, the international telegraph industry, which is closely connected with the economy and security of the United States, is presently suffering from increased competition from the Government-subsidized airmail services and otherwise. A reduction in the excise tax on international telegrams would strengthen the ability of the international telegraph industry to operate profitably and provide the best possible service at a lower cost to the public.

It is respectfully urged that the Senate Finance Committee consider these matters and recommend a reduction in excise taxes for international telegraph messages.

Respectfully yours,

THOMPSON H. MITCHELL, *President.*

MINNESOTA TELEPHONE ASSOCIATION, INC.,
St. Paul, Minn., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: We herewith transmit to you an official copy of a resolution on excise taxes which we believe is self-explanatory.

This resolution was unanimiously adopted in convention assembled of this association on February 3, 1954.

Respectfully yours,

KEITH W. VOGT, *Secretary-Treasurer.*

RESOLUTION

Whereas there is a 15 percent tax imposed on the cost of local telephone service and a 25 percent tax imposed on the cost of long-distance telephone service; and

Whereas such excise taxes originally imposed during an emergency have been continued and constitute a definite burden on telephone service; and

Whereas the excise tax on telephone service is identified very closely with the cost of the service and is regarded by citizens generally as one of the most objectionable of the excise taxes; and

Whereas although there are over 50 million telephones in the United States there are many persons who still desire telephone service or better service if they were able to afford it; and

Whereas the telephone has become a necessity in the business and social life of the United States and is no longer to be considered a luxuary; and

Whereas the excise tax rates imposed on telephone service are higher than those imposed on jewelry, furs, and theater admissions, all of which are definitely considered to be luxuries; and

Whereas excise taxes have generally been eliminated from similar public utility services such as water, gas, and electrical energy leaving telephone service as the only utility service still subject to an excise tax; and

Whereas the elimination of these excise taxes would promote the advancement of greater and improved telephone service, especially in rural areas; now, therefore, be it

Resolved by the assembled member companies of the Minnesota Telephone Association, That they hereby allege that the excise tax on telephone service is unfair, discriminatory, and an obstacle to the improvement of telephone service in the United States and that the excise tax on telephone service should be eliminated; and be it further

Resolved, That a copy of this resolution be forwarded to each of the Senators and Representatives from the State of Minnesota in the United States Con-

gress and that the officers of this association are authorized and directed to urge said Senators and Representatives to initiate or support legislation which will effect the repeal of the excess tax on telephone service.

Resolution adopted unanimously February 3, 1954, by the 45th annual convention, Minnesota Telephone Association, held at the Radisson Hotel, Minneapolis, Minn., February 1, 2, and 3, 1954.

Attest:

KEITH W. VOGT, *Secretary-Treasurer.*

POLISH LEGION OF AMERICAN VETERANS, U. S. A.,
Chicago, Ill., March 18, 1954.

Hon. EUGENE MILLIKIN,
United States Senator, Washington, D. C.

DEAR SENATOR: In 1940 a United States Federal tax was imposed on transportation with the primary purpose of discouraging unnecessary travel during wartime. The Polish Legion of American Veterans has campaigned vigorously for repeal of this tax.

Legislation currently in Congress would provide for a reduction of the tax from 15 to 10 percent. The Polish Legion seeks repeal of the tax on transportation because—

1. Its purpose (to discourage travel) disappeared with the war's end;
2. It constitutes an economic burden tending to stifle travel;
3. Its effect is discriminatory, in favor of border area residents particularly, because of loopholes which make it possible to travel without paying the tax.

Very truly yours,

GEORGE L. MARK, *National Commander.*

BROTHERHOOD OF SLEEPING CAR PORTERS,
New York, N. Y., March 17, 1954.

Hon. EUGENE I. MILLIKIN,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: Because the Federal transportation excise taxes of 15 percent on passenger fares and 3 percent on freight charges were enacted during the war for the purpose of discouraging travel by train, airplane, and intercity bus, and since the war has long been over and the supply of passenger facilities is now abundant, the slogan of "Keep 'em off the trains" is no longer sound or logical, but tends to reduce passenger travel and freight haulage.

I, therefore, in the name of the officers and members of the Brotherhood of Sleeping Car Porters, with membership extending from coast to coast and the Dominion of Canada, want to request that you support a measure for the elimination of the Federal transportation excise taxes of 15 percent on passenger fares and 3 percent on freight charges, but failing to secure a repeal of these charges, that you will support a reduction of the excise tax on passenger fares to a ceiling of 5 percent.

Very truly yours,

A. PHILIP RANDOLPH, *International President.*

RAILROAD YARDMASTERS OF AMERICA,
Chicago, Ill., March 17, 1954.

Hon. EUGENE D. MILLIKIN,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

Hon. DANIEL A. REED,
Chairman, Ways and Means Committee,
House of Representatives, Washington, D. C.

DEAR SIRS: I write to urge the repeal of the Federal transportation excise tax of 15 percent on passenger fares and 3 percent on freight charges, which matters I understand will be given attention by your respective committees in the very near future and later by the two Houses of the Congress.

Without going into detail in respect to these matters, which will undoubtedly be presented at considerable length by representatives of the Association of American Railroads and by the National Conference for Repeal of Taxes on Transportation, I believe that the repeal of these taxes is justified and strongly urge your support to that end.

Very truly yours,

M. G. SCHOCH, *President.*

STATEMENT OF THE HONORABLE JOHN STENNIS, UNITED STATES SENATOR FROM MISSISSIPPI

The smalltown motion-picture theater is threatened with extinction. In the 8 months prior to December 31, 1953, a total of 1,118 closed—6 of these were in Mississippi.

This trend started back in 1946 and has worsened each year. Television's growth has contributed to decreased attendance, but theaters are in trouble financially in other areas.

The 20-percent excise tax on admissions has drained off potential profits. A great many of the small owners in my State have demonstrated to me through their financial statements that this tax is unwise and unless removed will help destroy the small-theater industry.

I should dislike to see this occur. The small theater is an important factor in the economic life of the smaller communities. It brings people to town and the whole community benefits thereby. Merchants welcome their presence.

The smalltown movie is the only form of entertainment for a great number of our people.

We should do whatever possible here to save this part of our economic life. I think it was a step in the right direction to reduce the excise tax on admissions by 10 percent, as recently voted by the House.

I feel there is ample justification for the Senate Finance Committee to repeal the tax entirely. Should this not appear feasible in relation to reductions made in other excise taxes, then I should like to see the committee eliminate the tax on admissions under 50 cents.

STATE OF MICHIGAN,
OFFICE OF THE GOVERNOR,
Lansing, March 17, 1954.

HON. EUGENE D. MILLIKIN,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR MILLIKEN: It is regretted that, due to limitations of time, your committee has had to decide not to hold oral hearings on Federal excises which would be extended at current rates according to the present form of H. R. 8224. I am sure that a more effective case for permitting the Federal automotive excise rates to be reduced on April 1 of this year, as originally specified in the 1951 Revenue Act, could be presented in an oral hearing. However, I appreciate the opportunity extended by our committee to present a written statement.

As H. R. 8224 reached the Senate Finance Committee upon passage by the House on March 10, 1954, it provided that, among others, the present Federal excise taxes on automobiles, trucks, and related accessories be extended to April 1, 1955. Representative Reed, chairman of the House Ways and Means Committee, stated upon introducing this measure, it is the intention of the legislation to "give needed stimulation immediately to consumer purchasing power * * * to the Nation's business and to employment."

A fundamental means of immediately accomplishing this highly desired objective will be lost if the 1-year extension of the automotive excises is retained.

There are ever-growing indications that every reasonable immediate action to stimulate our economy should be taken. Industrial production last month did not show the hoped-for increase, unemployment continues, and consumer purchases, especially of durable goods including automobiles, have not been encouraging. The job of 1 out of every 7 workers in America today is in someway related to the automobile.

Afford a stimulant now to this vital industry and there will be an immediate response to that stimulation throughout the entire fabric of our national economy. Delaying the automotive excise tax reduction for 1 year will not contribute anything toward improvement of business and employment today.

Actually, delaying the reduction will add impetus to the growing "buyers' strike" attitude on the part of consumers for which Representative Reed has expressed so much concern. The chairman of the House Ways and Means Committee has stated that the minute you set a termination date for the extension, you will start a buyers' strike against automobiles and the other items if there is an idea that the taxes are certain to be cut next year.

Conditions in the automotive industry have steadily worsened in recent months. Unemployment in Detroit and other automotive centers has increased sharply. In the Detroit area alone, the number unemployed represented over 9 percent of the labor force at mid-February, and is cause for grave concern. New-car inventories in the hands of dealers have been rising steadily month by month. On March 1 these stocks exceeded 565,000 units or nearly 20 percent more than a year ago.

New-car sales, on the other hand, have been lagging. For example, new-car registrations in January were only 340,788 units, the lowest for any month since September 1952. Spot reports on February sales indicate only slight improvement. Under these circumstances, the denial of tax relief to automobile purchases appears most discriminatory when contrasted with the generous reductions of up to 50 percent on luxury items such as furs, jewelry, and cabaret admissions.

As was so dramatically proven by Henry Ford, automobiles can be sold in ever-increasing volume if the price is made attractive to the mass-consuming public. The industrial revolution he wrought in this country has put the automobile in the class of a necessity. The auto today has become a fundamental means of communication and transportation between our peoples, our industrial centers and business establishments.

Therefore, it is of greatest importance that an industry producing such an essential commodity be provided with the significant assistance which would result from the reduction in auto excises as contemplated in the Revenue Act of 1951. If these rates were to be reduced on April 1 of this year, as provided by the act adopted 3 years ago, there could be a resulting significant drop in the retail price for prospective consumers. According to estimates of the Automobile Manufacturers' Association, the present Federal excise taxes amount to $146 on a typical $2,000 car. If the reduced rates were allowed to become effective, the amount of the tax would be reduced to about $97. The difference, $49, could be reflected in a lower consumer price. Thus, the present $2,000 auto might be purchased for approximately $1,950 or even slightly less. This represents a substantial stimulant to car buyers.

On the other hand, while the effect on consumer purchasing of autos would be of material value in providing a much-needed shot-in-the-arm, not only to the auto industry, but to the entire economy, the reduction in Federal revenues would be relatively small. Based on 1952 yields, the loss would only be about $285 million. Allowing for 1954 sales somewhat above that level, but below the record 1953 output, the figure could be expected not to exceed three hundred to three hundred and fifty million dollars. There is no single area where such a relatively modest relinquishment of Federal revenues could yield a more fruitful benefit to our national economy.

The benefits to the economic well-being of our country and its peoples from allowing the reduced Federal excise tax rates on automobiles to go into effect the first of next month cannot be overstressed. I sincerely urge that you give favorable consideration to such action.

Sincerely,

G. MENNEN WILLIAMS,
Governor.

ARGUMENT FOR EXEMPTION OF CLASSICAL PHONOGRAPH RECORDS FROM THE MANUFACTURERS EXCISE TAX

We manufacture and sell phonograph records; and we pay a 10-percent manufacturers' excise tax under section 3404 of the code, which includes records along with radio and television sets, and musical instruments. We have often protested this tax, which we think discriminates unfairly among businesses and

workers, and is no longer justified as wartime or luxury taxation (whatever the basis of its reinstatement in 1941). If it is impractical for us to expect general relief from the excise tax in 1954, then we do wish to ask Congress to exempt from this tax one class of phonograph records which especially needs and deserves relief. We refer to records of classical music, which are an essential part of our cultural life, just as plainly as books or paintings—which pay no excise tax—or as concert halls across the Nation.

The substantial part of our classical catalog is music played by symphony orchestras and featured instrumentalists, operas and arias played and sung, and music of string groups. Of course there are many sorts of repertoire—ballet music, choral and sacred music, concertos, quartets, and others, along with symphonies and operas; but the backbone of any classical library will be symphonic and operatic works.

We rely upon major symphony orchestras to furnish us with classical music, and the orchestras rely much upon us (and the sale of their records) to supplement their concert hall receipts and to keep their talented musicians on the payroll from season to season. Orchestras are paid for recording services by a royalty on the sale of records—usually 10 percent of the retail price, though the musicians must in any event be paid at union scale for each session. Phonograph-record royalties have been a real factor in the support of the country's symphony orchestras. Strong sales can yield $100,000 a year for a major symphony, and if consistent such an income has a healthy stabilizing effect.

Unfortunately, the royalty earnings of these orchestras have declined in recent years at an alarming rate. Columbia's two top symphonies, the New York Philharmonic and the Philadelphia, have suffered in recent years a steady yearly decline from combined earnings of $238,677 in 1948 to $135,897 in 1953. We purposely cite major symphonies, two of the country's best, which should have maximum interest and sales attraction. They record regularly and add 60 or more new releases to our catalog each year, while some of the old ones are cut out. Works of both in the Columbia catalog increased from 245 in 1948 to 357 in 1953, so that sales should normally increase from year to year rather than fall away. With opera music we have a comparable picture. Our recordings of the Metropolitan Opera (2 complete operas in 1948 and 8 new releases in the next 5 years) began well, the royalties increasing until 1951. Then, in spite of the greater catalog, royalties dropped sharply in 1952; and in 1953 were less than half of 1951. We would hardly blame the excise tax for this sales drop; but the chance for improvement would be far better without the tax burden. Congress has recognized the public interest in symphony orchestras and operas and concerts and has freed them from the burden of the admissions tax, section 1701 of the code.

We also have recognition of our problem from a different quarter that is worthy of mention. The record companies have just concluded a contract with the American Federation of Musicians covering among other items the rates of pay for recording musicians. There are basically two rates for this work, "studio scale" for all general recording, and "symphonic scale," which is a lower rate allowed only for symphony orchestras. The companies reviewed the critical conditions that now confront both the orchestras and themselves in making and selling classical records, and found the union already aware of the problem. By mutual agreement the symphonic rate was left unchanged for the duration of a new 5-year contract.

Is there a general decline in sales of classical records? Apparently so, but not as sharp a decline for the entire industry. On the basis of surveys made for guidance in our own operations, it appears that 3 years ago classical-record sales were one-fourth of total record sales of the industry, while today classical sales are down to one-fifth of the total. Presumably the general decrease would be sharper were it not for the recent introduction into the United States market of foreign-made recordings in considerable quantity. As for the symphony orchestras and operas, the decline of phonograph-record earnings appears to be the general rule. The classical catalogs of Columbia and of its competitor, RCA Victor, together comprise some two-thirds of the classical market; and we believe that RCA Victor's experience is comparable to ours.

The record industry is one of the smallest subject to the manufacturers' excise tax; and the loss of tax revenue resulting from the exemption here requested would not be great. The excise tax paid by the entire industry for the 12 months ending June 30, 1953, totaled $7,617,000. If classical records represent one-fifth of sales, then they represent about 1½ million of tax revenue. It is difficult to weigh with exactness the benefits that would counter this loss of revenue, but

we can rightfully make some assertions of fact: We make excellent records of classical music, and it is good for the American public to buy them and use them; it is in the public interest to support the symphony orchestras and operas of this country; it is appropriate to give us as manufacturers reasonable assistance in our efforts to develop this kind of repertoire and be able to continue to produce and market the records.

We do not intend to raise the cry of poverty in support of this argument for tax relief. We do make the point that we are a company of modest size and moderate profit. We expect to carry our fair share of taxes; but under the present system of selective excise taxation we think our excise-tax burden is unfair. In 1953 our profit was less than 4 percent of our sales, and less than two-thirds of the amount of the excise tax we paid in the same year. The record industry is not in a position to raise prices to offset increasing labor and material costs. The pressure on prices is down; price cutting is prevalent; and inexpensive records (not always good records) appear in growing numbers. In February just past we found it necessary to make an unprecedented sales appeal, offering one LP record at the regular price and a second LP record at one-half price.

Still, whatever the merit of our case as a manufacturer alone, the strongest argument we can make today is for reasonable help for the classical record, to lift the excise-tax burden from the common project of the performers of classical music and the company making and selling the classical record. This part of the record business is truly in a battle for survival; and it is in the interest of the people that it shall survive.

Respectfully submitted.

COLUMBIA RECORDS, INC.

MARCH 2, 1954.

(Whereupon, at 11:55 a. m., the committee recessed, to reconvene in executive session at 10 a. m., Thursday, March 18, 1954.)

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