REVENUE TO DEFRAY WAR EXPENSES

HEARINGS AND BRIEFS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SIXTY-FIFTH CONGRESS

FIRST SESSION

ON

H. R. 4280

AN ACT TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES AND FOR OTHER PURPOSES

Printed for the use of the Committee on Finance

WASHINGTON
GOVERNMENT PRINTING OFFICE
1917

COMMITTEE ON FINANCE.

FURNIFOLD McL. SIMMONS, North Carolina, *Chairman*.

WILLIAM J. STONE, Missouri.
JOHN SHARP WILLIAMS, Mississippi.
HOKE SMITH, Georgia.
CHARLES S. THOMAS, Colorado.
OLLIE M. JAMES, Kentucky.
WILLIAM HUGHES, New Jersey.
THOMAS P. GORE, Oklahoma.
ANDRIEUS A. JONES, New Mexico.
PETER G. GERRY, Rhode Island.

BOIES PENROSE, Pennsylvania.
HENRY CABOT LODGE, Massachusetts.
PORTER J. McCUMBER, North Dakota.
REED SMOOT, Utah.
JACOB H. GALLINGER, New Hampshire.
ROBERT M. LA FOLLETTE, Wisconsin.
CHARLES E. TOWNSEND, Michigan.

LAWRENCE MACRAE, *Clerk*.

IN THE SENATE OF THE UNITED STATES,
June 8, 1917.

Resolved, That the Committee on Finance be, and is hereby, authorized to have printed for its use one thousand five hundred and fifty copies of the hearings before said committee on the bill (H. R. 4280) to provide revenue to defray war expenses, and for other purposes.

Attest:

JAMES M. BAKER, *Secretary.*

CONTENTS.

Title I. War income tax:
Statement of— Page.
Paul D. Cravath 1
John A. Kratz 10
Edmund W. Wakelee 12
Title II. War excess profits:
Statement of—
Joseph S. Auerbach 32
Archibald G. Thacher 39
James A. Emery 42
Cameron Morrison 45
Title III. War tax on beverages:
Statements by—
Alfonse Wile 79, 119
Levi Cooke 86
James P. McGovern 100
Robert Crain 103
Samuel C. Henry 106
John L. Clawson 115
Clarence F. Lea 116
John S. Candler 122
Thomas R. White 131
F. Edward Mitchell 134
Douglas W. Hutchinson 136
H. T. Cumming 141
Edgar T. Brackett 141
A. R. Brunker 142
Robert C. Morris 145
Henry Melville 147
Title IV. War tax on cigars and tobacco:
Statements by—
Charles Dushkind 149
Junius Parker 160
T. N. Carrington 169
William L. Crounse 170
J. A. Block 170
G. W. Perkins 173
Title V. Public utilities, advertising and insurance:
Statements by—
Alfred P. Thom 186
T. B. Harrison 191
Arthur M. Brady 195
Ligon Johnson 198
Edmund W. Wakeley 204
Z. V. Taylor 205
E. Allen Frost 208
A. Dayton Oliphant 213
Charles O. Maas 215
George L. Johnson 216
W. C. Ely 218
Stanley E. Gunnison 220
Alfred E. Ommen 220
Percival D. Oviatt 221
Arthur Peter 222
A. H. Emery 223
Robert Lynn Cox 226
Thomas W. Blackburn 235

Title V. Public utilities, advertising and insurance—Continued.
Statements by— Page.
John R. Freeman 237
Herman L. Eckern 243
R. M. Bissell 244
Thomas A. Whalen 248
F. Robertson Jones 249
William Brosmith 250
Title VI. War tax on manufactures:
Statement by—
Alfred Reeves 259
E. C. Crow 270
Thomas Henderson 273
A. B. C. Hardy 274
Elwood Haynes 276
Frederick I. Barrows 276
E. B. Bartlett 300
George W. Pound 307
H. C. Brown 310
M. Dorian 310
J. Newcomb Blackman 313
William A. Brady 315
Patrick A. Powers 320
Paul H. Cromelin 323
F. W. Thornton 328
Meyer D. Rothschild 336
H. Boardman Spalding 343
William D. Chapple 349
George S. Parker 350
D. H. McConnell 350
Harry B. Thompson 357
Charles M. Woodruff 362
Louis K. Liggitt 371
D. R. James, Jr 375
Frank H. Swaab 379
Title VII. War tax on admission and dues:
Statement by—
Ligon Johnson 383
H. B. Varner 386
A. F. Sams 387
John M. Kelly 390
Pete Sun 397
Title VIII. War stamp taxes:
Statement by—
Roscoe R. Gilkey 403
J. K. Bartlett 407
Thomas A. Whelan 408
Arthur J. Baldwin 408
Title XII. Postal rates:
Statement by—
Don C. Seitz 414
Arthur W. Dunn 423
E. T. Meredith 424
Arthur J. Baldwin 428
J. A. Moore 440
D. J. Cuddihy 442
D. W. Norris 446
C. E. Kelsey 449
Philip E. Howard 451
Charles M. Pepper 454
P. S. Collins 459
Louis Wille 459
George McAnerney 460
W. F. Jones 462
Frank P. Glass 463, 496
James Keeley 467
Alfred E. Ommen 468

Title XII. Postal rates—Continued.

Statement by— Page.

Alan H. Richardson 470
Marsden G. Scott 480
James J. Freel 481
J. W. Linn 483
Matthew Woll 485
George McIlhenny 493

Title X. War customs duties:

Statement by—

Herbert Myrick 510
Joseph S. Auerbach 511

Title III. Beverages (resumed):

Statement by—

Levi Cooke 514
Andrew P. Doyle 517
Hugh J. McMackin 520

Title VI. War tax on manufactures:

Statement by—

F. A. Sieberling 523
H. Stuart Hotchkiss 524
Martin W. Littleton 524

Title X. War customs duties (resumed):

Statement by—

Sol Wexler 529
James A. Simpson 535
John M. Glenn 536
Homer Stillwell 537
W. O. Thompson 538
Amos Pinchot 541
Horace B. Cheney 550
William McCombs 561
Richard Dwight 563
A. A. Adams 565
Frank R. Seelye 569
Frank C. Overton 572
William F. MacGlashan 575
T. E. Jamison 578
Franklin B. L. Stowe 581
—— Rosenberg 583
B. Freisleben 585

Title VII. War tax on admissions (resumed):

Statement by—

Charles F. Horner 591
Harry P. Harrison 593

Title IV. War tax on cigars and tobacco (resumed):

Statement by—

Henry M. Goldfogle 594
C. B. Hemingway 597

Title X. Tariff.

Memorandum No. I 623

Preliminary draft of phraseology for new or additional duties on selected articles 623

Memorandum No. II. Summary list of articles, suggested rates, estimated revenue 628-630

Memorandum No. III. Suggested readjustment of duties 631

Memorandum No. IV. Potential revenue from certain important items separately indicated 632

Statement by—

Hon. Thomas W. Hardwick 633
Joseph Stewart 639
History of rates on second-class matter 641
John C. Koons 645

REVENUE TO DEFRAY WAR EXPENSES.

FRIDAY, MAY 11, 1917.

United States Senate,
Committee on Finance,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 o'clock a. m., in the committee room, Capitol, Senator Furnifold McL. Simmons presiding.

Present: Senators Simmons (chairman), Williams, Thomas, James, Jones, Gerry, Lodge, McCumber, Smoot, Gallinger, and Townsend.

The committee proceeded to consider the bill (H. R. 4280) to provide revenue to defray war expenses, and for other purposes.

The Chairman. Gentlemen, according to the program that we have arranged for these hearings, we will expect the representatives of the industries to arrange among themselves who is to present the argument. We will not have time to hear more than one representative. Mr. Cravath, we will hear you now. We will give you 30 minutes to present the case.

TITLE I. WAR INCOME TAX.

Sec. 1. NEW WAR TAX.

STATEMENT OF MR. PAUL D. CRAVATH, OF NEW YORK CITY, REPRESENTING CERTAIN STOCKHOLDERS OF THE BETHLEHEM STEEL CORPORATION.

The Chairman. Have you prepared a brief which you desire to present to the committee?

Mr. Cravath. I have drafted a brief, and will have it here tomorrow, if that will be all right.

The Chairman. That will be time enough. You may proceed.

Mr. Cravath. Gentlemen, I appear on behalf of Mr. Schwab and other stockholders of the Bethlehem Steel Corporation to discuss the provision of the law which levies an income tax upon stock dividends, and that is the only feature to which I will address myself.

The committee will remember that the provision subjecting stock dividends, so called, to the income tax first appears in the act of September 8, 1916. Prior to that time no income-tax law in this country—and no income-tax law in England—had ever subjected a so-called stock dividend to an income tax. My clients have not asked me to oppose any scheme of fairly distributed taxation, no matter how great the tax may be, and there is no disposition on

the part of the gentlemen whom I represent to oppose this proposed tax because of its size, or because of the increasing scale on which it is graduated with reference to incomes. I am instructed simply to discuss with you the features of the bill which subjects stock dividends to taxation. The ground of our opposition is that a stock dividend is not a dividend after all, and that a successful attempt to levy a tax upon a stock dividend would be, in effect, to tax capital; would be, in effect, to select a very narrow class of capital to which this tax would be confined, and we therefore say that such an attempt would result in what I am sure you are very anxious to avoid—unequal taxation.

Of course, it is important at the outset that we should have a clear conception of what a stock dividend is. A stock dividend really is not a dividend at all. It gives the recipient no money, no income that he can spend. It simply gives him something to represent his prior interest in the surplus of the corporation. For instance, if a corporation having a surplus equal to or exceeding 100 per cent of its capital declares a stock dividend of 100 per cent, a stockholder has nothing more than he had before. He simply has two shares of stock to represent what was represented before the dividend by one share of stock. Assuming the amount of profits of the corporation do not increase or the amount of profits distributed do not increase, he gets no greater income. With the same distribution of profits he gets the same income, but the rate per share of stock is cut in half. He is literally no better off than before, and I can not more briefly and in better words state the effect of a stock dividend than by reading very brief extracts from two or three decisions of the courts. For instance, the Supreme Court of North Carolina, in Lancaster Trust Co. *v.* Mason (68 S. E., 235), said:

> A "stock dividend" is not in the ordinary sense a dividend; a "dividend" being a distribution of the profits to stockholders as the income from their investment, while a "stock dividend" is merely an increase in the number of shares, such increases representing the same property that was represented by the smaller number of shares.

The Supreme Court of the United States, in the case of Gibbons *v.* Mahon (136 U. S., 549), said:

> A stock dividend really takes nothing from the property of the corporation and adds nothing to the interests of the shareholders. Its property is not diminished and their interests are not increased. After such a dividend, as before, the corporation has the title in all the corporate property; the aggregate interests therein of all the shareholders are represented by the whole number of shares, and the proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interest that the original shares represented before the issue of new ones.

I could quote language indefinitely to the same effect. Therefore, our objection to this tax upon a stock dividend is based upon this fundamental proposition, that a stock dividend really is not a dividend; it is not income in any sense of the term. It simply gives the shareholder an additional piece of paper to represent his interest in the capital of the corporation.

I think there is a popular impression that stock dividends are a very great benefit to the stockholders; that when a stockholder receives a stock dividend, he receives something of great advantage. and therefore, perhaps, he should cheerfully submit to taxation.

That, on analysis, is found not to be the case. A stockholder is not benefited by a stock dividend, because he gets nothing except a piece of paper. On the contrary stock dividends should be encouraged for this reason. The moment a corporation declares a stock dividend, it is, by the amount of the par value of the stock thus distributed, increasing the permanent capital invested in the business, which can not be distributed among the stockholders. The frequent, and I should say the most frequent, reason for declaring a stock dividend is to strengthen the corporation by increasing, by the amount of that stock dividend, the permanent capital invested in the business.

I can not better illustrate this than by giving you the case of the Bethlehem Steel Corporation as an example. A few weeks before war was declared and when it was apparent to all that war was inevitable the Bethlehem Steel Corporation was confronted with the necessity of strengthening its financial position. It had grown with great rapidity. It had made very large earnings. Its shares, which had a par value of a hundred dollars, mounted up to a market value of four or five or even six hundred dollars at times. But it had but $15,000,000 of common stock, and that $15,000,000 of common stock represented, as I remember it, about sixty millions of assets. It had incurred a very heavy debt in this period of prosperity, and its directors said to themselves, "It behooves us to strengthen ourselves for the coming strain."

The situation became more acute by their being required to take, roughly, $40,000,000 of obligations of the British Government to pay for munitions, simply because the exchange situation was such that it was then almost impossible for the foreign Governments to finance their purchases in this country by the shipment of gold. They therefore had to take about forty millions of British obligations for munitions in which they were investing their cash, and they were bound to prepare for the enormous additional investment which they would certainly be called upon to make in case this country entered the European war.

The directors thereupon addressed themselves to the problem of strengthening their financial position. Bankers said, "If you are to issue notes, or if you are to issue bonds, you must have a broader substructure. You must have a larger stock issue. The trouble to-day is you have but fifteen millions of common stock to represent your sixty millions of assets, and all of that sixty millions, excepting fifteen millions, you could lawfully distribute by way of dividends among your stockholders, and you can not sell bonds, you can not sell notes in the amount you require, unless you build a broader substructure.

What did they do? They adopted a plan which first required their stockholders to pay in $15,000,000 in cash in return for $15,000,000 of stock, for which the stockholders paid par, and they distributed among their stockholders a stock dividend of 200 per cent; that is, they gave them 30 millions of stock, to represent property, which was tied up irrevocably in that business, $15,000,000 of this surplus, which, prior to that stock dividend, could have been lawfully distributed by way of dividends. So they were then in a position to say to bankers and to investors, "The Bethlehem Steel Corporation now has not

$15,000,000 of capital simply; it has $60,000,000 of capital stock." That was the effect and the extent of $30,000,000 of that stock dividend, and that was the purpose, and the sole purpose, of declaring that stock dividend.

The leading stockholders were reluctant to consent to that stock dividend. They knew it would be subject to the moderate income tax imposed by the existing law, and they of course were not anxious to pay a tax of 12 or 13 per cent—the large stockholders—for a stock dividend which did not add one dollar to their investment, which did not improve their position one iota, but which simply gave them three pieces of paper to represent what had before been represented by one piece of paper, and which irrevocably tied to that enterprise $30,000,000 of capital which prior to that declaration of that dividend might have been lawfully distributed in the form of dividends. You see at once what would happen in case this enormous income tax should apply to such a stock dividend. And my first objection to the provision of the bill which makes this income tax applicable to stock dividends is its injustice and unfairness, when you consider the comparatively small class of people whom it will reach.

Take the case of a man who happened to have 5,000 shares of Bethlehem common. He received a dividend of 10,000 shares, and that 10,000 shares would have a cash value of about a million two or three hundred thousand dollars. But for easy computation we will say it was worth par. Under the schedule proposed in the House bill his tax upon that million dollars stock dividend would be $400,000, taking par as the value. It would be more if you took the market value, but I am adopting an easy computation. So that the corporation, in declaring this stock dividend, without his consent, without consulting him, subjects him to the necessity of paying $400,000 without having improved his position one bit and without having added a single dollar to his income. Of course, he is receiving cash dividends upon this additional stock, and on those cash dividends he must pay his income tax. But the receipt of the stock dividend of 200 per cent did not improve his position or increase his income a single dollar's worth, and if he had to pay $400,000 he would be paying approximately one-fourth of his capital—not his income, because his income tax is being paid on the dividends at the rate of 10 per cent, which are being paid in cash on all these shares.

I therefore say that legislation which thus imposes this heavy tax on the capital of the comparatively small class of stockholders who during the past year have received stock dividends results in a very unequal distribution of the burden of taxation.

Another serious objection to this taxing of so-called stock dividends is that, to say the least, the tax is of doubtful constitutionality. I need not tell this committee that the purpose of the sixteenth amendment was to permit the Congress to levy an income tax without apportionment. The vice of the prior income-tax law, which was declared unconstitutional by the Supreme Court, was that it was in effect a direct tax, so held, and it was then unconstitutional because not apportioned among the States. Hence this constitutional amendment was adopted [reading]:

> That Congress should have power to lay and collect taxes on incomes from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

The only effect of that amendment was to do away with the necessity of apportionment, so far as an income tax was concerned. But to my mind it is clear that it did not confer upon Congress the power to levy a tax, unless it were a tax on income.

My contention is that to tax a stock dividend is to tax not income but to tax capital. That so long as the stockholders receive nothing by way of dividends, or a so-called dividend—it is a misnomer—except stock, they simply receive a portion of their capital, and are not receiving income, and therefore this sixteenth amendment does not confer upon the Congress the power to tax a so-called stock dividend, because it is simply taxing capital.

I shall not argue that more fully, because I will refer to it more fully in the brief which I shall submit.

The CHAIRMAN. Your brief will then be printed.

(The brief referred to by Mr. Cravath was subsequently submitted and is here printed in full, as follows:)

Memorandum by Mr. Paul D. Cravath and Archibald R. Watson in Regard to Taking Stock Dividends, Including a Suggested Amendment.

The income-tax law of September 8, 1916, contains a new provision not found in the old law of 1913 or in any of our earlier income-tax laws and unknown, in so far as we have been able to discover, in any of the English acts, which provides that taxable "net income" shall include so-called "stock dividends" of a corporation.

This provision was added at the end of section 2 (*a*) and in section 10, and is as follows [italics ours]:

"*Provided*, That the term 'dividends' as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company out of its earnings or profits accrued since March 1, 1913, and payable to its shareholders, whether in cash *or in stock* of the corporation, joint-stock company, association, or insurance company, *which stock dividend shall be considered income, to the amount of its cash value*."

This provision, which is serious enough under the present law, in many cases will so operate as to confiscate property in a most startling manner under the proposed increased war rates.

It is submitted that it should be amended for the following reasons:

(1) A tax upon "stock dividends" is a tax upon capital, not upon income, inasmuch as stock received as a "dividend" is under no circumstances income until realization thereon.

(2) This provision of the present law to the extent that it imposes a tax on stock dividends as such is unconstitutional.

A proposed amendment to the present law to remedy these defects is suggested on page 9 of this memorandum.

1. A tax upon "stock dividends" is a tax upon capital, not upon income, inasmuch as stock received as a "dividend" is under no circumstances income until realization thereon.

A "stock dividend,' so called, is really not a dividend at all. The corporation making such a "dividend" parts with nothing, and the stockholder who receives it receives nothing that he can spend or which adds in the slightest degree to the value of his property.

For example, if a person owns 100 shares of stock in a corporation, worth $200 a share, and receives a 100 per cent stock dividend, he is no better off than he was before. He merely has two pieces of paper instead of one to represent exactly the same interest in exactly the same assets. Before the stock dividend was declared he had 100 shares worth $200 a share, or $20,000. After he receives the dividend he has 200 shares, but they are worth only $100 a share, or the same aggregate amount, $20,000. The assets of the corporation are exactly the same after the stock dividend is declared and paid as before. But notwithstanding the fact that the stockholder receives not a cent or a cent's worth of additional value from the corporation and the corporation parts with nothing, the present law declares that he receives $10,000 of income and attempts to tax him on such an amount.

A cash dividend is, of course, entirely different from a stock dividend. When a corporation pays a cash dividend it actually parts with some of its assets, and the stockholder realizes some actual income.

This situation has always been recognized by the courts. Thus the Supreme Court of Appeals of Virginia, in Kaufman *v.* Charlottesville Woolen Mills Co. (25 S. E., 1003), at page 1004, said:

"A stock dividend is not, in the ordinary sense, a dividend; the latter being the distribution of profits to stockholders' as income from their investment. A stock dividend is merely an increase in the number of shares, the increased number representing exactly the same property that was represented by the smaller number of shares. The corporate property remains the same after the stock is increased as before, and the interest of each stockholder in the corporate property is also unchanged. He merely holds a new representative or evidence of that interest."

The Supreme Court of North Carolina, in Lancaster Trust Co. *v.* Mason (68 S. E., 235), at page 236, quoted this language from the Kaufman case as being a correct statement of the law.

So the New York Court of Appeals, in Williams *v.* Western Union Telegraph Co. (93 N. Y., 162), at page 189, said:

"After a stock dividend a corporation has just as much property as it had before. It is just as solvent and just as capable of meeting all demands upon it. After such a dividend the aggregate of the stockholders own no more interest in the corporation than before. The whole number of shares before the stock dividend represented the whole property of the corporation, and after the dividend they represent that and no more. A stock dividend does not distribute property, but simply dilutes the shares as they existed before."

And the Supreme Court of the United States, in Gibbons *v.* Mahon (136 U. S., 549), at page 559, said:

"A stock dividend really takes nothing from the property of the corporation, and adds nothing to the interests of the shareholders. Its property is not diminished, and their interests are not increased. After such a dividend, as before, the corporation has the title in all the corporate property; the aggregate interests therein of all the shareholders are represented by the whole number of shares; and the proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interest that the original shares represented before the issue of new ones."

And again, at page 569, the court said:

"Before the issue of these 280 new shares, this trustee held precisely the same interest in this increased plant in the capital of the corporation, that she held afterwards. She merely had a new representative of an interest that she already owned, and which was not increased by the issue of the new shares. A dividend is something with which the corporation parts, but it parted with nothing in issuing this new stock. It simply gave a new evidence of ownership which already existed."

A dividend, in order to be a dividend in the true sense, must, therefore, be payable in cash. When, however, the recipient of a stock dividend has sold the stock received by him in payment thereof, then, for the first time, is he in the possession of something that he did not have before the dividend was declared. In the example above given, the investment of the particular stockholder in the corporation after he has sold the stock received by him in payment of the 100 per cent stock dividend will be $10,000. If the corporation had declared a cash dividend instead of a stock dividend his investment in the corporation would thereby have been reduced to $10,000. In other words, a realization on the stock received in payment of the stock dividend is necessary in order to put the stockholder in the same position as if he had received a cash dividend. It follows, therefore, that a stock dividend can not become income until the stock received in payment thereof has been sold.

The Treasury Department has correctly ruled that neither profits nor losses on stock holdings need be taken into account until the stock has been sold. Any ruling or law to the contrary will result, as the Treasury Department has already found, in difficulties and embarrassments through inability to ascertain the proper "cash value" to be used in determining the amount of so-called income in the form of stock. These difficulties and embarrassments are avoided by leaving the matter for determination until the stock shall have been sold. There is no reason why the same principle should not apply to stock acquired as a dividend as well as to stock otherwise acquired.

It is clear that the policy of declaring stock dividends should be encouraged and not discouraged, inasmuch as the financial standing of the corporation from the point of view of its creditors is stronger with a large capital and small surplus than with a small capital and large surplus. Its property is the same in both cases, but its prospective creditors are far more willing to extend credit or buy bonds when the surplus has been converted into capital and fixed permanently in the corporation. In some of the most conspicuous cases the announced purpose of large stock dividends has been to lay foundations for large credits with which to finance increased business and especially large contracts for munitions of war for the United States Government and the allies. Without such credit such contracts could not be finished and without such conversion of surplus into fixed capital credit could not be obtained. Manifestly, corporations can not continue the policy of strengthening their financial condition by the declaration of stock dividends, if the effect will be to deprive their stockholders of an important part of their capital.

But as we have above shown, such a conversion of surplus into capital has not directly benefited the stockholders. Indirectly, it is hoped and expected that benefit will result to them by way of cash dividends from the contracts and enlarged business. Such cash dividends will, of course, properly be subject to the tax.

In order that we may show clearly the great injustice and hardship that will result if stock dividends are taxed as income, let us put a concrete case. A particular corporation which has outstanding $15,000,000 of stock has a surplus of $30,000,000, so that each share of stock is worth $300. A given stockholder owns 6,000 shares of the aggregate par value of $600,000, which on the basis above stated are worth $1,800,000. The corporation must have additional capital with which to finance its increased business. In order to secure such additional capital it is required to broaden its financial structure by converting its $30,000,000 of surplus into capital. It therefore declares a 200 per cent stock dividend. The above-mentioned stockholder receives in payment of this dividend certificates for 12,000 shares of stock, so that he then has 18,000 shares instead of 6,000 shares to represent his $1,800,000 interest in the corporation. He has no income and nothing of value now that he did not have before the dividend was declared; his interest in the corporation is the same in both cases. But if he is to be taxed on such stock dividends as income, he would, at the rates which have been proposed in House bill No. 4280, even if he had no income from any other source, be required to pay an income tax of over $448,000, although he has not received a cent of income from the corporation. If he had no income from other sources, he would thus be required to raise over $448,000 in order to pay the tax on what is in reality capital. In other words, in order to pay the tax he must deplete his capital by about one-quarter. If a corporation is paying current cash dividends upon the original stock and upon the stock issued in payment of the stock dividend, such cash dividends, which are actually income, are, of course, subject to the income tax.

It is worth while also to consider what the effect on corporations will be if the proposed rates shall be enacted into law and the provisions of the law above quoted are allowed to stand in their present form. Directors will not hereafter subject themselves to the severe criticism which they would merit from their stockholders by declaring stock dividends. Corporations will thus be prevented from increasing their business capacities because they can not secure additional capital without increased fixed assets. The result will be that the business development of the country, which, especially at the present time, should be encouraged, will be held back and the productive capacity of corporations kept down rather than expanded. We submit that the present is the time when corporations should be encouraged to increase their capacities to the highest possible point. Stockholders expect and are willing to pay increased taxes on income, but they will not allow their directors to move in such a way as to deprive them of their capital.

II. The provisions of the present law which expressly provide that stock dividends shall be considered income and impose a tax on them as such are unconstitutional.

The present income-tax law which purports to tax incomes without apportionment is, it is assumed, based upon the sixteenth amendment, which is as follows:

"The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

The purpose of this amendment was to do away with the interpretation which had been put upon the Constitution in the case of Pollock *v.* Farmers' Loan & Trust Co. (158 U. S., 601), to the extent that it was necessary to prevent "the resort to the sources from which a taxed income was derived in order to cause a direct tax on the income to be a direct tax on the source itself and thereby to take an income tax out of the class of excises, duties, and imposts and place it in the class of direct taxes." Brushaber *v.* Union Pac. R. R. Co. (240 U. S., 1, 19).

The amendment merely authorizes a tax on income without apportionment among the several States. It does not authorize a tax upon capital without such apportionment. A tax on capital remains a direct tax, and is subject to the same limitation as existed in the Constitution prior to the amendment. The amendment did not effect any change in the Constitution or laws of the United States as to what might or might not properly be taxed as income.

We have shown above that a stock dividend is never income to any extent until a realization thereon has been had. It therefore must follow that, since stock which is issued in payment of a dividend is capital until it has been sold by the holder of the stock on which the dividend is declared, a tax upon such "dividend" is a direct tax, and therefore, not having been apportioned among the several States by the present law, the provision which attempts to impose such tax is unconstitutional and invalid.

III. Suggested form of amendment to be made to the present act.

It is believed that the following amendment to the present law (Title I of the act of Sept. 8, 1916) will remove the objections above pointed out and accomplish the purpose really intended to be accomplished by the present law as regards a tax on stock dividends:

Amend the first proviso in subdivision (*a*) of section 2 and in section 10 so that it shall read as follows (words omitted are included in parenthesis, and words added or substituted are in italic):

"*Provided*, That the term 'dividends' as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, *when realized by the sale thereof*, to the amount (of its cash value) *realized therefrom*."

If we have not succeeded in convincing your honorable committee that a stock dividend is capital and in no sense becomes income until realization thereon and that not until then is the recipient in the same position as if he had received a cash dividend, we submit that you should at least consider the great injustice that will result to stockholders who have received large stock dividends since the first of the present year without any expectation on their part or on the part of the corporations declaring such stock dividends that the stockholders would become subject to an enormously increased income tax, the payment of which in most cases would result practically in the confiscation of a substantial part of their capital.

There can be no doubt that the directors of the corporations which have declared such stock dividends would not have imposed upon their stockholders the burden of paying income taxes thereon had they anticipated that such "dividends" would be subject to higher income-tax rates than those in force, and especially to the very high rates which are now to be fixed. If, therefore, you should decide that "stock dividends" shall continue to be subject to the income tax imposed by the present law, we respectfully submit that the proposed new war-revenue rates should not be applicable to stock dividends declared prior to the enactment of the law which shall embody them. That result could be accomplished by inserting in the proposed new revenue bill, after the provision therein which imposes additional taxes (as, for instance, at the end of section 3 of the present House bill No. 4280), a provision substantially as follows:

"*Provided, however*, That in determining the additional taxes imposed by this act stock dividends declared prior to the passage of this act shall not be included in the income upon which such additional taxes shall be assessed."

Respectfully submitted.

PAUL D. CRAVATH.
ARCHIBALD R. WATSON.

NEW YORK, *May 12, 1917.*

PROPOSED AMENDMENT REGARDING TAXATION OF STOCK DIVIDENDS.

Amend the first proviso in subdivision (*a*) of section 2 and in section 10 of Title I of the act of September 8, 1916, so that it shall read as follows (words omitted are included in parenthesis, and words added or substituted are in italic):

"*Provided*, That the terms 'dividends' as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, *when realized by the sale thereof*, to the amount (of its cash value) *realized therefrom*."

The CHAIRMAN. I think you have made your position very clear about it.

Mr. CRAVATH. Just a word to suggest a remedy. Of course, it is perfectly clear that the existing law does impose, or purports to impose, a tax on stock dividends. The corporation declared the dividends, realizing that it was subjecting its stockholders to the existing moderate income tax upon their stock dividends, and its directors were prepared to face the risk of such a tax being imposed. But it is quite a different thing to impose a tax several times as great as the existing tax.

Senator SMOOT. Was the tax imposed?

Mr. CRAVATH. The old tax was imposed; yes—there is no doubt of it—by the express terms of the act of September, 1916. But you will see what has happened. In declaring the dividend the corporation subjects a stockholder who had 5,000 shares of stock to a tax of, roughly, 11 or 12 per cent, as I remember it, on the stock dividend. Under the new legislation he would have to pay 46 per cent, roughly, upon this portion of his principal, the tax being multiplied approximately four times in that particular case.

We realize that when a stock dividend has been converted into cash, the effect is just the same as though the stockholder received a cash dividend. When a stockholder receives a cash dividend of 100 per cent, we will say, that is undoubtedly subject to taxation. Another stockholder in another corporation receives a stock dividend of 100 per cent. When he sells that stock and gets cash—we will assume he sells for par, for the purpose of our illustration—he, of course, is in the same position as the man who receives the $100 in cash, and we recognize that the same principle of taxation should apply in either case. We therefore suggest that if this situation is to be met, it can be very simply met by an amendment to subdivision (A) of sections 2 and 10 of the existing law, so that it shall read as follows—I will not quote the language which includes stock dividends as part of the dividends to be taxed, but we suggest adding at the end, referring to stock dividends:

Which stock dividends shall be considered income—

Which is the language of the present statute—

when realized by the sale thereof to the amount realized therefrom.

So that if a stockholder sells his stock and gets cash for it he then becomes subject to the income-tax provision of this law, exactly as though he had received an equal amount in the form of a cash dividend.

If you do not see your way clear to adopt that suggestion, there is another possible way of meeting what seems to be a very great injustice of singling out this comparatively small class of property owners for a tax, in effect, on their capital, by a proviso such as this:

Provided, however, That in determining the additional taxes imposed by this act, stock dividends declared prior to the passage of this act shall not be included in the income upon which such additional taxes shall be assessed.

If that suggestion were adopted the existing tax, with full knowledge of which these stock dividends were declared, would apply. But the war tax, which no one anticipated when these stock dividends were declared, would not apply, and of course it is perfectly manifest, gentlemen, that no corporation in its senses would have declared a stock dividend of 100 per cent or of 200 per cent early in this year if it contemplated that by so doing it was subjecting its stockholders to the imposition of this enormous tax, not upon their income, but upon their capital.

So either of these two suggestions would meet what I call the unfairness of the tax sought to be imposed on the stock dividends. But the first suggestion—that is, the one subjecting the dividend to taxation when reduced to cash by sale—seems to me is the logical suggestion, inasmuch as it goes to the root of the question and places the stockholder who receives a stock dividend in precisely the same position as the stockholder who receives a cash dividend, so far as this scheme of taxation is concerned.

I want to close by saying that it does seem to me that it is good governmental policy to encourage corporations to continue their policy of paying stock dividends, because the more stock dividends are paid, the greater is the investment tied up irrevocably in these enterprises, upon which the Government and the country depend in so great a measure for their prosperity, and I think it would be a distinct misfortune if you adopted a taxing scheme such as this, which would make it practically impossible for corporations to thus increase their permanent investments by the declaration of stock dividends against surplus.

I thank you very much for your consideration.

The CHAIRMAN. We will now hear Mr. Kratz.

STATEMENT OF MR. JOHN A. KRATZ, OF WASHINGTON, D. C., REPRESENTING THE LACKAWANNA STEEL CO.

Mr. KRATZ. Mr. Chairman, Mr. Cravath did not cover a suggestion which I would like to make. The Lackawanna Steel Co., like a number of other corporations, controls, through stock ownership, several subsidiary corporations. For business reasons, as well as because of the requirements of State laws—forfeitures and penalties to which they are subject—it has never seen fit to consolidate its subsidiary corporations in itself.

Under the proposed House bill these subsidiary corporations will pay the income tax, and the Lackawanna company, which controls, through stock ownership, the subsidiary corporations, will in turn also have to pay the income tax upon dividends received upon the stock of such subsidiary corporations, which necessarily and natu-

rally results in double taxation. This situation could be remedied, as it has been in the excess profits feature of this tax law, by a provision exempting from taxation dividends received from the stock of the corporation which itself has already paid the income tax. If such an exemption is not included in the law, as I have stated, it will subject such corporations as the Lackawanna Steel Co. to double taxation. That company is not a holding corporation in any sense, but an operating concern, operating itself and through subsidiary corporations. One of the principal reasons why it has never consolidated its subsidiary corporations is that under State laws its property would be subject to escheat, and for that and other reasons it has kept these subsidiary corporations as entities.

Senator TOWNSEND. Let me call your attention to this provision of the law.

Mr. KRATZ. I suggest a similar exemption, which exactly covers the situation, as is provided in section 204 of the proposed bill.

The CHAIRMAN. What page?

Mr. KRATZ. That is page 8, section 204, the fourth line from the bottom of that section, which reads:

> Income derived from dividends upon stock of other corporations or partnerships which are subject to the tax imposed by this title shall be exempt from the provisions of this title.

The CHAIRMAN. You suggest that that be incorporated?

Mr. KRATZ. That a similar provision be incorporated, so far as the income tax feature of this act is concerned. Otherwise it will necessarily result in double taxation upon the same capital. I thank you. I wish to submit a brief on behalf of the Lackawanna Steel Co.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Kratz is here printed in full as follows:)

SUGGESTIONS ON HOUSE BILL 4280, ENTITLED "A BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, AND FOR OTHER PURPOSES."

To the Committee on Finance, United States Senate:

On behalf of the Lackawanna Steel Co. we respectfully beg to call the committee's attention to the following:

The Lackawanna Steel Co. in the usual course of its business operates in many cases through subsidiary companies. In several instances this has been rendered necessary as a matter of law, because as a New York corporation it can not hold title to coal lands in the State of Pennsylvania, and consequently operates its large coal properties at Ellsworth, in Washington County, and at Wehrum, in Indiana County, through Pennsylvania corporations.

Again, most of its Lake Superior ore properties are operated through subsidiary corporations; in some cases for legal reasons and in other cases as a matter of business expediency.

As the income-tax provision of the proposed House bill is worded, these subsidiary corporations of the Lackawanna Steel Co. will not only pay the income tax therein provided, but the Lackawanna Steel Co. itself, as the owner of the capital stock of such subsidiary corporations, will also have to pay the income tax on the dividends received from such stock ownership. Obviously, this will result in double taxation under the proposed House bill.

To prevent such double taxation upon the same capital, it is suggested that the income-tax provision be amended so as to exempt from taxation income derived from dividends upon stock of other corporations or partnerships which are subject to the tax imposed by the income-tax provision. Such an exemption is found in section 204 of the proposed House bill, which relates to the excess

profits tax and which is apparently intended to prevent the double taxation of excess profits.

To work justice and to obviate the burden of paying double taxation on the proposed increased rates, it is hoped that a provision similar to that found in section 204 may be incorporated in the provisions of the income tax.

Lackawanna Steel Co. does not object to the payment of the income tax, nor does it object to the rate thereof. Its sole reason for appearing here is to bring to the attention of the committee the obvious injustice of its being compelled to pay the tax twice.

CHARLES HENRY BUTLER,
JOHN A. KRATZ,
Attorneys for Lackawanna Steel Co.

1537 I STREET NW.,
Washington, D. C.

The CHAIRMAN. Mr. Wakelee, you may proceed now.

STATEMENT OF MR. EDMUND W. WAKELEE, OF NEWARK, N. J., VICE PRESIDENT OF THE PUBLIC SERVICE CORPORATION OF NEW JERSEY.

Mr. WAKELEE. Mr. Chairman, I simply want to emphasize the point made by the last speaker. The stock of the great public utilities companies in New Jersey is held by the Public Service Corporation, and all the financing necessary to carry on these enterprises is done through the corporation, the parent company, and if this tax is exacted from the operating companies, and then from the parent company, it will be double taxation; and especially in the case of the utilities, which are having considerable difficulties, as the committee knows, anyway, and it would be a very serious thing if this tax were exacted.

The CHAIRMAN. The oral hearings upon the income tax will be considered as closed. With reference to the filing of briefs. I would like to say that we would be glad to have the briefs just as quickly as they can be prepared. We expect to close these hearings early next week, and we hope all the briefs will be in by that time, so that there will be no delay in printing the hearings, including the briefs. Unless the briefs are in by the time the hearings close we will not be able to print them with the oral hearings. We might have a separate volume of them, but they would not be incorporated in the same document with the oral hearings. I think it is of some advantage that they should all be printed together.

Now, with reference to briefs, while we would much prefer that the arguments be covered in one comprehensive brief, we would receive more than one brief upon the same subject, especially if there is some differentiation in the conditions of the different units of the industry to be affected by the tax.

The CHAIRMAN. We have now disposed of Title I.

ADDITIONAL BRIEFS RELATING TO INCOME TAX FILED WITH THE COMMITTEE.

AMENDMENTS SUBMITTED BY CULLEN & DYKEMAN, OF NEW YORK.

Amend Title I of the bill (H. R. 4280) as follows:

Section 4, page 5, line 18, strike out the period and substitute a comma and add the following words: "as hereby amended."

Add a new section after section 4, page 5, of said bill, to be known as section 5, and reading as follows:

"SEC. 5. That section 12 of the act entitled 'An act to increase the revenue, and for other purposes,' approved September 8, 1916, is hereby amended by adding a new paragraph at the end of subdivision (a) of said section, to be designated 'Fifth,' and reading as follows:

"'Fifth. The amount received within the year as dividends upon the stock or from the net earnings of any corporation, joint-stock company, or association which is taxable upon its net income as herein provided.'

"And be further amended by adding a new paragraph at the end of subdivision (b) of said section 12, to be designated 'Fifth,' and reading as follows:

"'Fifth. The amount received within the year as dividends upon the stock or from the net earnings of any corporation, joint-stock company, or association which is taxable upon its net income as herein provided.'"

The reason for the foregoing amendments consists in the fact that at the present time there is a double tax, in so far as the normal income tax is concerned, in cases in which one corporation holds the stock of another. The House committee has eliminated this feature of double taxation with regard to the excess-profits tax, but apparently has failed to notice the double taxation remaining as to the normal tax. It is obvious that the same principle of fairness requires these further amendments.

Amend Title I of the bill further, as follows:

Section 5, page 5, line 10, strike out the figure "5" and substitute the figure "6."

Section 5, page 6, line 8, strike out the period, substitute a colon, and add the following words:

"*Provided, however*, That the provisions of this section shall not be deemed to apply to any corporation, joint-stock company, or association which shall in good faith have closed out or otherwise disposed of its business and distributed its net assets on or before the 1st day of May, 1917."

The reason for the foregoing amendment consists in the fact that all corporations when liquidating and closing out their affairs necessarily reserve sufficient assets to pay their debts, but customarily distribute the remainder of their assets among their stockholders. This situation has doubtless occurred in a great many instances, and it would be unjust, indeed, if not illegal, to attempt in such cases to force the payment by the corporation, after distribution, of the retroactive tax, which, of course, did not constitute a debt prior to the passage of the present bill.

Brief Filed by Mr. John A. Kratz on Behalf of Pickands, Mather & Co., Relative to the Income Tax on Subsidiary Corporations.

COMMITTEE ON FINANCE,
United States Senate:

On behalf of Pickands, Mather & Co., a copartnership, we respectfully beg to call the committee's attention to the following:

As a matter of business convenience, our clients have heretofore from time to time caused various subsidiary corporations to be organized for the operation of their respective properties.

As the income-tax provision of the proposed House bill is worded, we understand these subsidiary corporations will not only pay the income tax provided therein, but our clients, as the owners of the capital stock of such subsidiary corporations, will likewise have to pay the normal income tax on the dividends derived from such stock ownership. This obviously results in double taxation. For instance, one corporation, whose stock ownership is divided and subdivided, an income tax will be paid four times on part of the same profits.

We are advised that this injustice is proposed to be remedied in the House bill, so far as excess-profit taxes are concerned, by an exemption in section 204 of the House bill, and we respectfully submit that a similar exemption should be inserted in respect to the proposed income tax.

Our client does not under the present exigencies object to the rate of the income tax, nor the rate of the excess-profits tax, but wishes to draw the attention of this committee to the fact that the customary business methods prevailing here, and, as we are advised, generally throughout the country, make this system of taxation, as provided in the bill, double, treble, or even quadruple taxation of the same profits, which we do not believe Congress desires to impose on the business interests of the country.

Very respectfully submitted.

HOYT, DUSTIN, KELLEY, MCKEEHAN & ANDREWS,
Attorneys for Pickands, Mather & Co.

Suggestions and Remarks Submitted on Behalf of American Telephone & Telegraph Co. by A. E. Holcomb, Assistant Secretary.

The suggestions made herein are so made with the single purpose of aiding in the clarification and simplification of the proposed bill and of the existing income-tax law, to the end that they may be more effective measures for securing the needed revenue. They are made, furthermore, with distinct and definite appreciation of the serious crisis which confronts the Nation. The American Telephone & Telegraph Co. and its associated companies are now and have been fully alive to their responsibilities and their opportunities to render appropriate and efficient services. They have already furnished substantial evidences of their ability to be of service to the Nation through arrangements which have for some time existed whereby the services of their trained employees and technical experts have been placed at the disposal of the various departments of the Government. Their facilities have been developed in such a way that the needs of the Government for immediate and widely extended communication are being met in preference to the commercial requirements of its other patrons and subscribers and at rates below the cost of the services so rendered.

It is thought that so much at least with reference to our attitude may be submitted without unduly emphasizing he same and merely for the purpose of assuring the Congress that our suggestions are made with the purpose of safeguarding our facilities and of preventing, as far as possible, any deterioration from the standard of service which it is our aim and purpose to effectively maintain. It is, of course, to be assumed that the burden of taxation which it is necessary for all to share must occasion a certain amount of hardship and will greatly strain the business organizations that have been built up over a long period of time and by constant and determined experimentation and scientific research. This strain will be felt most definitely by this system which is built upon the fundamental conception that telephone service to be perfect must be universal, intercommunicating, interdependent, and under one control; that all the units must be so related, one to the other, that the combined result shall be a harmonious and comprehensive development. The bearing of these observations will perhaps appear in connection with some of the suggestions that we shall make below.

I. REMARKS ON PENDING BILL, H. R. 4280.

These remarks will follow the text of the bill without regard to the relative importance of the suggestions, it being our desire to suggest not only changes which, to some extent, may affect the yield of the tax, but also such as will reduce to the minimum the possibility of confusion in administration and interpretation.

Page 2, line 1: The tax here imposed is stated to be a "like normal tax." This at once raises the question as to how this will be construed in connection with the contracts which have been made by some corporations whereby they have agreed to pay the interest in full upon bonds without deduction for the "normal" tax. The existing income tax law requires a withholding of the "normal" tax, and it is assumed that if this additional tax is also to be called a "normal" tax, the claim will be made that it is covered by the contracts referred to. If this is permitted, a most serious situation will arise and one which will easily be seen to impose a hardship upon the corporations affected. The fallacy of the claim made with respect to these contracts, namely, that they were in the interest of the corporations and that the corporations received in advance a price for their bonds commensurate with the consideration will readily be seen. No one can fairly claim that the corporations could have had in mind any particular rate of tax, and therefore no definite consideration could have been contemplated. Whatever may be said as to the fallacy of the claim that any substantially additional amounts were received for the bonds which were sold before any income tax was in contemplation, certainly it can not but be admitted that no further tax should be imposed upon the corporations through the requirement that a further "normal" tax must now be assumed by them. Our suggestion is that the tax imposed by this act should not be defined as a "normal" tax and we feel that no withholding should be required further than is required under existing law. This matter will be elaborated below.

Page 4, section 3: In this section the exemption from the income tax imposed thereby is lowered to $1,000 and $2,000, respectively, and it is to be noted that this action meets a widespread criticism which has been made of the existing income tax law. It has been felt by a very large number of persons, both those without particular technical knowledge of the subject and also by students and experts, that the American income tax law carried altogether too high an exemption. Even conceding the great increase in the administrative details which will result, it must be admitted that the sharing of the general burden even to a small extent by a very much larger number will conduce to more general satisfaction with the situation and thus tend to offset the increased difficulties in administration.

In an attempt to reduce the administrative difficulties, the framers of this bill have overlooked a most important factor which is present in connection with all income taxation or, for that matter, with all taxation which is aimed at individuals and does not attach to visible tangible property. We refer to the evasion which must be prevented. Such evasion comes not alone and perhaps not mainly by intent, but from a large number of causes having no such element. It is therefore most essential that definite provisions to prevent evasion shall be introduced. The provisions which would commonly be suggested are that a system of information be established whereby the Government would be put in possession of the names of persons to whom amounts are paid equal to or in excess of the minimum exemption. To cover this point it is suggested that the following provision be inserted in this paragraph:

"All persons, firms, copartnerships, companies, corporations, joint-stock companies, or associations and insurance companies in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers, and all officers and employees of the United States, making payment to another person, firm, or corporation of interest, rent, salary, wages, premiums, annuities, compensation, remuneration, emolument, or other fixed or determinable annual gains, profits, and income exceeding $2,000 in any taxable year are hereby authorized and required to report to the collector of internal revenue of their respective districts the amount of such annual gains, profits, and income and the name and address of the person, firm, or corporation to whom or which payment was made."

It will be seen that this clause relates to payments other than interest on coupon bonds. Information as to such interest is already supplied through the system of certificates in force under the existing law, so that it is unnecessary to make any further provision therefor.

The precise bearing and effect of the matter contained from the word "until" in line 22 to the end of the section is not apparent, but inasmuch as the existing law requires withholding at the 2 per cent rate on payments exceeding $3,000, and as the matter above suggested would fully protect the Government as to payments under that amount, it would not seem necessary or wise to introduce the further complication of withholding with respect to this tax. We have in mind, also, the suggestion made above as to the serious difficulty arising from requiring further withholding from interest on coupon bonds. For these reasons we suggest that these lines be stricken out. It would seem needful also to insert after the word "shall," at line 7, the words "except as herein provided."

We would also suggest that in this act the collection of the tax should be further safeguarded by requiring returns in the case of those having gross incomes of $1,000, instead of permitting persons to determine for themselves whether their net incomes do or do not exceed $1,000. To accomplish this the word "net" at line 17 should be omitted and after the word "incomes" the words "from all sources" should be inserted; and in line 18 after the word "of" insert the words "net incomes of." As will be seen below in our comments upon the existing law we would suggest that this law also should be amended so as to require returns from all having gross incomes equal to the amount of the exemption. This, however, would be unnecessary during the existence of the law now under consideration as it subjects all persons to the lower exemption.

Page 5, section 4: This section imposes an additional tax upon corporations of 2 per cent upon their net income for the year 1917, and we take occasion to earnestly submit that in computing such tax, dividends derived from other corporations, subject to the same tax, should not be included as taxable income

of a corporation. The objections to such a course have been brought to the attention of the Congress on various prior occasions, and in this connection we may refer to the suggestions and remarks concernig the income-tax provisions submitted by us June 14, 1913, to be found among the briefs and statements filed with the Committee on Finance of the United States Senate at that time. (See p. 2099.) The peculiar hardship upon public-service corporations whose activities are carried on under existing State laws and regulations was referred to in our suggestions made at that time. In general, it is to be noted that no comprehensive system for the transmission of intelligence by electrical agencies can be established which will furnish adequate and satisfactory universal service unless there is complete and thorough-going centralized control and supervision. Such control, however, can not be carried on under existing statutes without the formation of so-called subsidiary corporations. These corporations, being once organized, may be effectively brought within a comprehensive unified and standardized system of operation, and this is the existing situation with respect to the telephone system for which we are speaking. The control necessary to secure effective service demands that all the units within the system shall be maintained at their highest efficiency, and this in turn requires unceasing supervision on the part of the controlling agency. In the telephone business, as perhaps in no other business, is there such need for constant application of scientific research and experimentation in order to adjust the physical plant to the unending changes in the art and the changes thrust upon it by action of other forces which are constantly operating to disturb the delicate electrical adjustments. Such a situation results in a constant need for renewal of and change in existing plant and appartus. The industry is, furthermore, still fr from its ultimate development, so that there is at all times the necessity for providing funds for additional plant as the service extends to more remote areas and to meet the demands of the increased commercial activities. Such considerations as these throw a strain upon the controlling organization which is called upon to furnish the necessary funds for the great expenses thus necessitated by renewals and extension. Such funds are constantly demanded, in many instances without the assurance of immediate return by way of dividends.

This hasty review will illustrate the hardship and burden placed upon the organization as a whole when the income tax is imposed so as to, in effect, operate not once but several times upon the same operating income, once when it comes from the users of the service to the intermediary corporation and again when it is passed on from that corporation to the central corporation, possibly passing, in the meantime, through other intermediate corporations. It seems apparent that this effect of the income tax was not appreciated at the time of its original enactment, because it can not be thought that the Congress would definitely determine to impede the development of a service which is of such vital importance to the citizens and as to which it is most necessary that it shall be not only at all times efficient, but rendered at the very cheapest possible rate consistent with the cost of furnishing it. One of these costs is, of course, that of obtaining the necessary funds promptly and in large amounts. The doubling and multiplying of taxes upon the same real business organization must, in the long run, to the extent that it lessens the attractiveness of the investment, to that extent retard the development sought. For it must be remembered at all times that these operating units are conducting their business under strict supervision as to rates and charges, and that therefore the increased costs, whether of labor, material, taxes, or otherwise, can not be effectively passed on to the consumer with the rapidity which would be necessary to offset these increased costs. Under regulation—national, State, and municipal—the operating companies are at all times forced to offset increased costs to a great extent through more effective and cheaper management, or, failing that, they must reduce the quality of the service or deprive, at least temporarily, the investor of adequate return. In such a situation the central controlling organization can only partially prevent definite diminution of its resources and of its ability to keep the system intact and at all times efficient. It is not to be denied that such a course must lead either to further increased rates or deterioration in the service through lessening of the resources kept for the protection of the business. The investor must secure a return commensurate with his risk or his funds will seek investment elsewhere. Taxation, which is thus piled up, as it were, upon the operations, even though it may be endured for a time, must eventually result in serious detri-

ment. The insidious nature of such duplicate taxation is particularly apparent when applied to a system under such control and such standardization as that of the system for which we speak. Excessive taxation upon the income of an operating company might easily quickly result in disaster, the result being merely reorganization with consequent disturbance to the patrons. The very control and supervision which prevents such a disaster and maintains the integrity of the units also prevents the immediate effect of excessive taxation and postpones the result. It is none the less excessive without justification and disastrous in its final results.

There is a further very practical result of the excessive taxation caused by the duplicate taxation of income represented by dividends. It creates a discrimination against one single class of taxpayers—the common-stock holders. They are necessarily forced in the first instance to stand the strain of any expense which can not immediately be absorbed in the operating expenses and thus passed on to the consumer, so that they, and not the preferred-stock holders are the ones who feel the burden of an excessive tax. They are already, under the existing income-tax law, forced to an expense not contemplated in many instances when their investment was made. They must pay the tax of the bondholder who, as creditor, has to the extent of 90 per cent in amount of the bond issues been successful in throwing the tax properly due from him on them.

The sponsors of the present law have carefully and correctly called attention to the fact that the real number of income-tax payers should include the 2,000,000 or more individual stockholders in the 100,000 corporations, taxable on their net income. Accepting this statement it seems quite appropriate to submit that those millions of individual stockholders should not be subjected to discrimination in the manner above indicated.

This discrimination is the more unjust in that it affects most emphatically the small stockholder—the one not subject to the supertax and who is thus least able to carry the load of taxation, while the preferred-stock holder and the bondholder are, as shown above, remotely or not at all affected.

It is submitted that in an effort to eradicate any injustices in the Federal income tax, in order to render it an appropriate instrument of permanent reliance by the Federal Government to supply adequate revenues, attention should now be given to the removal of all just causes of complaint on the score of discrimination. One of such complaints is surely that of the common-stock holder.

To cover the proposition above elaborated, we submit that a provision similar to that inserted in Title II at page 8, lines 19–22, be inserted here at line 18 of page 5, by adding the following: "Except that income derived from dividends upon stock or from distribution of profits of other corporations, joint-stock companies, or associations subject to the tax imposed by this title shall be exempt from the provisions of this title," and we would also substitute for the word "incomes" at line 16 the word "basis."

Page 5, section 5. In this section there is introduced the retroactive income tax upon both individuals and corporations. It is deemed unnecessary to elaborate upon the injurious nature of a tax imposed upon income, particularly a business income, after the accounts for the year have been closed and the financial status determined. It is to be assumed that full consideration will be given to this objection before final action is taken.

It is not clear that persons and corporations that have paid taxes for 1916, based upon a fiscal year fixed by them, are brought within this section which seems to apply only to income received for the calendar year. There might be inserted after "sixteen" at line 24 the words "or in a fiscal year ending during said calendar year."

Here again we would suggest that the same consideration as to income from dividends received by corporations, referred to above, applies, and we would suggest that the same clause suggested for insertion at section 4 be inserted at the end of this section.

TITLE II. WAR EXCESS-PROFITS TAX.

Page 7. We are uncertain as to how the language of section 202, found at page 8, is to be construed. Very obvious doubt is raised as to the whole section. It is difficult to see how the actual cash value of property can now be deter-

mined for which stock was issued perhaps years ago, since which time reorganizations, consolidations, or liquidations may have taken place, making it problematical, as to an existing corporation, what value is now to be taken as present in its shares representing property which may have been acquired by its predecessor in title.

An item of considerable interest to a large number of corporations is as to what is to be construed to be the treatment of special funds built up through direct transfer from surplus or reserves to protect its employees, commonly called "employees benefit funds." Modern accounting and the regulations of the Interstate Commerce Commission would appear to construe these as funds "employed in the business" and it certainly is a necessity under modern conditions that such funds be maintained. It will be unfortunate if in any way these funds were to be jeopardized through excessive taxation. The word surplus itself is far from definite in its application. In reality, all accumulations remaining after the declaration of a dividend are surplus, but the account is often subdivided into various reserves. It would seem appropriate to include reserves as a part of the capital invested within the meaning of the act. It seems to us that the language of the section, as it was amended by the Senate in 1917, said amendments not having been carried into the act as passed, is more satisfactory than the present language. We submit, however, the following: Beginning at line 1, on page 8, "stock or shares in such corporation or partnership and, (3) paid in or earned surplus or reserves and undivided profits used or employed in the business or held for the protection of its assets or as a fund for the benefit of its employees. The value of good-will, trade-marks, trade brands, or franchises included in the capital invested shall not exceed the actual cash value thereof at the time of the assessment."

Page 8, section 204. At line 20 of this section by inadvertence, dividends upon stock of partnerships are referred to. There should be inserted before the word "partnerships" the words "from distributions of profits of."

TITLE V. WAR TAX ON FACILITIES, ETC.

Page 21, line 3. At this point the tax upon telephone service is proposed. Evidently the intention was to provide one sort of tax for the ordinary telephone exchange service and another for toll messages. It should be noted that to a very large extent at the present time telephone service is rendered on the basis of the so-called "measured service" plan under which payment is made, with certain limitations, on the basis of the number of calls made. It will be apparent that in such case the service is in the nature of a toll service and that if very few calls are made the minimum amount of the contract would make the rate per message high enough to throw the service into the toll-rate section, which would cause a vast amount of confusion in administration and computation. To make the matter certain and in accordance with the evident intent, it is suggested that after the word "telephone," in line 3, the word "exchange" be inserted.

Page 21, line 9. To be consistent with the language in connection with the tax on other services, the words "the amount paid for" should be inserted after the word "upon," and the words from "which" to "exchange" at line 10 should be stricken out.

Page 22, line 23. Unless some particular reason therefor is to be shown, it is suggested that returns for this service be made quarterly rather than monthly. In any event, it would seem appropriate that the Commissioner of Internal Revenue might have jurisdiction as to this matter, and we therefore suggest that the word "monthly," at line 23, be omitted, and that on page 23, line 4, after the word "manner" the words "and at such times" be inserted.

Page 23, line 13. It is apparent that the language is inadequate to confine the tax to advertising other than the so-called outdoor or billboard advertising. The words "newspapers" and "periodicals" are not sufficiently inclusive. We therefore suggest the addition of the words "and other publications."

TITLE VIII. WAR STAMP TAXES.

Page 43, line 21. The application of this clause to sales of telephone plants, which, while in reality nothing more than personal property, yet in law in some jurisdiction, partake of the character of realty, will apparently subject these transactions to taxation when other bills of sale are not included. The ordi-

nary case of the transfer of duplicate plant would hardly seem to be intended to be taxable. It is suggested that at least the tax should only attach in cases when the conveyance is recorded. After the word "when," line 25, insert "the instrument affecting such sale or transfer is recorded and."

Page 45, line 7. It is not understood that the intent is to impose a tax upon the usual routine instrument indorsed upon a certificate of stock empowering the transfer clerk of a corporation to enter the transfer upon the books and which takes the form of a power of attorney. The transfer is itself taxed by subdivision 4 of the same title. We suggest the addition of the following at the end of the subdivision (line 7) "or for the transfer of capital stock when such transfer is taxed as provided in subdivision 4 of schedule A of this title."

Page 51, line 12. By this section provision is made for the use of unused stamps in possession of taxpayers, but it is not certain that this covers taxes imposed when the tax is at the same rate as under previously existing rates. It seems unnecessarily cumbersome to require taxpayers having stamps on hand which they may now redeem to do so and purchase new stamps for use under the new law. We suggest the following to be added at the end of the section (line 12):

"Any stamps now in the hands of taxpayers purchased by them for use in the payment of stamp taxes imposed by the act entitled 'An act to increase the internal revenue, and for other purposes,' approved October twenty-second, nineteen hundred and fourteen, or under that act as amended and extended by the resolution of Congress approved December seventeenth, nineteen hundred and fifteen, may be used by such taxpayers to the amount of their face value in payment of stamp taxes imposed by this act."

Page 52, line 23. The extension of the modified rate on second-class matter is apparently intended to be given to all publications circulated in the interest of the public welfare where such publication is maintained by voluntary contributions and without private profit. The descriptive language is, however, inadequate to cover all such organizations. For instance, scientific periodicals are hardly covered. It is suggested that all such should be clearly included and that the word "or" at line 23 should be stricken out and the words "or other" inserted after "fraternal."

II. SUGGESTIONS ON THE EXISTING INCOME-TAX LAW.

The suggestions made here are such as our experience has demonstrated to be appropriate to render the administration of the law more definite, to reduce the doubt and uncertainty now existing at certain points, and to eliminate as far as possible the delay and expense caused by conflicting interpretations of certain provisions. It will be appreciated that large taxpayers, particularly corporations, in making their returns, are necessarily forced to accept that construction of the law which is most favorable to them when existing decisions of the courts are at variance with the rulings of the Treasury Department. This practice results in the accumulation of claims requiring much time and considerable expense to pursue. It often disturbs and disarranges the accounts. It is submitted that it would be highly desirable and in the interest both of the Government and the taxpayer to eliminate as far as possible all doubt as to the intent and meaning of the law. This doubt exists in some cases by reason of inadequate and indefinite language used.

We include also some suggestions affecting more fundamental matters and the yield of the tax, some of which have no especial bearing upon this corporation, upon the assumption that it is desired to perfect the measure as occasion offers in order to bring about all possible confidence in the minds of taxpayers in its essential justice and equity.

In the first section (section 1 (a)) the word "individual" is used. To be consistent this word should be used elsewhere in the act where such is the intent and yet in numerous places the word "person" is found, for instance at 1 (c); 2 (a), (b); 7 (a); 8 (a), (b); 9 (a).

Section 2(a). The last clause has given rise to difficulty which has been met by a ruling. To make it definite, the clause as to stock dividends might read "to the amount of the earnings or profits so distributed." The effect of the words "cash value" is open to doubt.

Section 2(b). This paragraph is obscure and seems to be based upon the the theory that income as such is the subject of the tax instead of the true theory that it is a person who is taxed. (See *Brady* v. *Anderson*, U. S. C. C. A.,

Feb. 8, 1917.) The tax upon estates may well be omitted, leaving the tax to take effect upon the individual's income from an estate after distribution.

Section 2(c). Income derived from sales of capital assets by one not a dealer would not appear to be true income but a change in capital assets, and this has been the construction by the courts. The sixteenth amendment authorizes only the taxation of "income." (See *Lynch* v. *Hornby* and *Lynch* v. *Turrish*, 236 Fed., 661 and 653; and *So. Pac. Co.* v. *Lowe*, 238 Fed., 847.)

Section 4. It would appear to be appropriate and not unconstitutional to impose a true income tax on State officials. They are generally not desirous of the exemption. It seems unwise to exempt the securities issued under the farm-loan act when such securities reach the hands of the ultimate investor. The creating of exempt securities in this way should be limited as far as possible.

Section 5(a) fourth. Same comment as to section 2(c) above.

Section 7(a). It is suggested that it would be wise in the interest of properly safeguarding the law, that the present practice of permitting husband and wife to make a joint return be definitely stopped. The practice is allowed by existing rulings, although section 8(b) appears to distinctly require a return from "each person of lawful age." It is understood that the practice has been justified by the reference to joint exemption in this section (7(a)). It would seem appropriate to insert after the first proviso the following: "but each shall make a separate return."

Section 8(b). This section permits a person to determine for himself whether he has a net income of $3,000 or not. Naturally, his ideas of expenses, exemptions, and deductions will be liberal. It is suggested that each person having a gross income of $3,000 should be required to make a return, leaving it to the Government officials to determine his taxable status. To accomplish this we would insert after "having" (fourth line) the words "income from all sources of $3,000 or over."

Section 8 (f). It would be helpful from the standpoint of administration and for statistical purposes that all items of exempt income should be stated in the return. Such a check is needed. To accomplish this, insert after "from," line 1, "all sources including exempt income and income derived from."

Section 9 (a). At present a person subject to both normal and additional tax may show in his return overpayment of normal tax (through "collection at source") and yet he must pay the full additional tax and be compelled to file a claim for refund of the overpayment of normal tax, with the consequent trouble and delay. It would appear quite possible to provide here that in computing his total tax overpayments of normal tax, if any, may be offset against the additional tax and the net balance only assessed. The matter might be covered by adding at the end of the subdivision the following:

"In case a taxpayer is subject to both the normal and the additional tax, if upon an examination of his return it appears that by reason of deductions, exemptions, and credits allowed a credit exists in his favor on account of the normal tax, such credit may be applied to his additional tax and the net amount only assessed against him."

Section 9 (g). The danger of permitting the custom of making contracts by one to pay the income tax of another is obvious as tending to break down the income-tax law.

It is desirable that the prohibition against such contracts in the future at least, if not as to the past, should be carefully guarded against. This subject was fully explained by Senator Williams in the debate in the Senate. (See Con. Rec. vol. 53, p. 13294, Aug. 28, 1916). The clause contained in the Senate amendments to the bill of 1916 and again reiterated in the report from the Committee on Finance of the Senate to accompany H. R. 20573 (Feb. 13, 1917) is as follows, which might be inserted in this section after the word "same" before the last sentence in the next to the last paragraph:

"No taxable person shall be released from the payment of income tax, and any contract hereafter entered into for the payment of any interest, rent, or other fixed or determinable annual or periodical payment without allowing any deduction authorized to be made by this title or for the reimbursement of any amount so deducted shall be void."

Section 10. We have above herein discussed the injustice of taxing the dividends received by one corporation from another, thus doubling and often multiplying the tax on the same real business. It would seem an appropriate time to correct this injustice by amendment of the original law in addition to

removing it in the case of the war income tax now proposed. To accomplish this, this section should be amended by striking out all matter after "otherwise" in the middle of the section. Further amendments are also necessary in section 12 and will be found below. If these amendments be not made in any event the suggestion above at section 2(a) as to stock dividends is applicable here.

Section 12 (a). Second. Obsolescence should be definitely recognized as an item of loss, as it is treated in corporate accounting as depreciation and handled through a reserve as must be the case.

Obsolescence is a real substantial and potent element constantly existent in connection with the conduct of a business requiring tools, machines, apparatus, and appliances operated by labor, skilled or unskilled. It manifests itself in a thousand ways; through inventions and discoveries; errors of judgment, though formed upon full and careful investigation; the fancy of the consumer often fickle; the arbitrary and often unforeseen course of market conditions; the equally arbitrary demand of the community operating through the police power or in the interest of the common welfare—perfectly legal, but yet disastrous in its effects upon practices long carried on in a particular manner or causing removals and "scrapping" of perfectly serviceable tools, structures, and machines. In all these and many other ways there is an ever-present deterioration, depreciation, exhaustion, or obsolescence to be provided for out of current earnings wholly in addition to the loss through actual "wear and tear" and absolutely of equal significance and reality. It is interesting to note that the Supreme Court, in a recent decision, fully recognizes the significance of obsolescence as an element in the annual loss on business structures. In the case of *Von Baumbach* v. *Sargent Land Co.*, 242 U. S. 503, Mr. Justice Day, in passing upon the definition of "depreciation" which was used in the 1909 act, says that the term was used in its ordinary significance as including "the annual loss from wear and tear and obsolescence of structures, machinery, and personality in use in the business."

In addition to this amendment it is suggested that present opportunity be taken to amend this clause further, so as to provide for the loss suffered by corporations upon the sale of their securities below par. The discount may, for practical purposes, be treated as a deduction under the term losses. Heretofore there has been considerable uncertainty as to whether the existing law definitely covers the matter, although the deduction has been allowed by a ruling. The difficulty is that while the annual proportion of the total discount must be provided for each year by the corporation, it does not come definitely within the language of either expenses paid, losses sustained, or interest paid within the year.

To cover these two points we suggest the following language for section 12 (a), paragraph second:

"All losses actually sustained and charged off within the year and not compensated by insurance or otherwise, including (1) the annual pro rata portion of discount incurred in the sale of its evidences of indebtedness and of the expenses connected therewith, computed upon the basis of the duration of such indebtedness, and (2) a reasonable allowance for the exhaustion, depreciation by use, wear and tear, and obsolescence of property arising during its use or employment in the business or trade," etc.

Section 12 (a) third. The limitation on the deduction of interest by a corporation is not justified now under the income tax although of possible justification under the 1909 excise tax. The limitation should be removed.

By a peculiar and somewhat arbitrary provision, inserted in the 1909 law imposing a tax upon corporations only, it was sought to prevent possible evasion through the creation of unduly excessive indebtedness by limiting the interest deduction in reaching net income to such an amount only as was paid upon indebtedness to an amount equal to the capital stock. This was, of course, a purely arbitrary limit. It might equally as well have been fixed lower still or no interest deduction might have been permitted. We were then dealing with an excise tax applied to corporate activity. The tax might have taken the form of a gross earnings tax. As the individual is now taxed upon income from interest there is no occasion for refusing the corporation deduction for payment of such interest. The amendment suggested to cover this point would be to strike out all after "indebtedness," in line 2, where it first appears.

This amendment would also meet another objection to the provision in this section that in the case of bonds issued with a guaranty that the interest pay-

able thereon shall be free from taxation, no deduction for the payment of the tax paid pursuant to such guaranty shall be allowed and the objection is still further emphasized by the curious provision that the prohibition shall apply to "any other tax" paid pursuant to such guaranty, thus preventing the deduction of a tax paid pursuant to a State law having nothing whatever to do with the income-tax law.

This prohibition seems to be included here upon the theory that in some way the payment of the tax for another is in reality a payment of interest. At least that seems to be the reason for its appearance in this particular subdivision. The fallacy of this assumption is apparent and there is no possible reasonable explanation for the prohibition.

It might with equal propriety be provided that the corporation should not deduct an expense of doing business or a certain specified kind of loss. In other words, there is no connection between the act and the consequence of doing the act; no circumstances connecting the cause with the effect.

Moreover we have here, not only that peculiarly amazing provision but we have an assumption that because some other person pays a Federal income tax (or the tax levied by another jurisdiction) therefore it is not a proper deduction by that other person in reaching his net income.

It may be suggested that because the income receiver goes free of tax the Government thereby loses such tax unless this prohibition is made. Slight attention to this suggestion discloses its fallacy. There are two operations involved. One: The assessment of the tax on the income receiver and the payment of the tax by the contracting party obligating himself to pay it for the party assessed. Result: The Government gets the full tax on the income. Two: The income tax of the contractor is computed; really bearing no relation to the first operation so far as the Government is concerned. Of course, in such computation his expenses are deducted, including all such as go to reduce his income as allowed by the law. Among these are taxes on his own property and taxes he has agreed to pay. Of course, these latter taxes reduce his income just as any other expenses do, but this reduction is perfectly legitimate and should be allowed. The Government can not be said to lose all taxes on the income. He pays 1 per cent or 2 per cent on such income for the income receiver, and in putting the amount in as a deduction he necessarily reduces his income by that amount and the Government gets ninety-nine one-hundredths of the amount it would have received if he hadn't made the deduction (assuming a 1 per cent tax); but if he had not made the deduction, the income receiver would have done so in computing his tax. It makes no possible difference as to who makes the deduction. In any event net income is reduced, for this is a tax on net income.

The prohibition does not appear in the pending bill with respect to payment of taxes by one individual for another. It is difficult to imagine any possible reason why, if it is proper to allow such payments for another as a deduction in the case of the individual and the partnership, it is not equally proper to allow them in the case of the corporation.

Section 12 (a) fourth. After this clause a new paragraph, paragraph fifth, should be inserted, permitting the deduction of dividends received from other corporations subject to the tax as suggested above herein. This new paragraph might be as follows:

Fifth. All amounts received within the year as dividends upon stock or as distributions of profits of other corporations, joint-stock companies, or associations subject to the tax hereby imposed, provided that in the case of dividends or distributions of profits received from foreign corporations, joint-stock companies, or associations, when only part of the net income of such corporation, joint-stock company, or association shall be subject to the tax hereby imposed, only a corresponding part of such dividends or distributions of profits shall be deducted.

Section 13 (d). This clause in its present form has caused considerable confusion. The intent was evidently to permit a corporation to follow the accrual method in determining certain receipts or disbursements. The difficulty is that in the section as it appears the permission seems to be limited only to a case where the net income as shown by the books corresponds with that defined by the law as taxable net income. In order to remove the doubt thus created it is suggested that the clause be amended to read as follows:

"(d) A corporation, joint-stock company, or association, or insurance company keeping accounts or items thereof upon any basis other than that of actual

receipts or disbursements, unless such other basis does not clearly reflect its income, may, subject to regulations made by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, make its return upon the basis upon which its accounts are kept, in which case the tax shall be computed upon its income as so returned."

Section 14(b). There has been some embarrassment felt on the part of the States which have sought to impose income taxes upon either individuals or corporations, and not both, because of the use of the word "general" in this subdivision. It is almost a necessity in the administration of a State law of this sort that there shall always be the possibility of checking the returns in certain cases with those furnished under the Federal law. Such a possibility would operate toward the success of the State law. In view of the language now used, some doubt has been felt as to whether a State imposing a partial income-tax law could have access to the returns of corporations. To obviate this, it is suggested that the words "general income" be omitted and that after the word "tax" the following be inserted, viz: "Upon the net income of corporations, joint-stock companies, or associations."

Section 17. This section was apparently intended to enable one person paying taxes on behalf of another to secure evidence of such payment, and this appears to be a wholly reasonable requirement. Heretofore no compliance whatever has been made with this section with respect to taxes paid upon bond interest, although specific demands have been made for the receipts specified. A corporation paying interest on coupon bonds, where the tax has been assumed by the corporation, is forced under the present situation to pay the coupons i[illegible]d the tax on the entire issue, even though the interest is in reality paid t[illegible]ons not subject to the tax because of exemption or because not having an income of $3,000. Thus the Government has been securing taxes on account of individuals who are not in reality taxable, and large sums of money are held by it which belong to the corporations which have made the payments. Some solution for this great injustice should be reached. It seems apparent that the corporation should not be taxed for this interest until the Government has checked the ownership certificates and ascertained the taxable individuals. Some help could be afforded corporations if a strict compliance with this section were made compulsory by the requirement that the assessments should be made in the individual names of the persons really in receipt of the taxable income. This would enable the collector to furnish the receipts required by this section. It is suggested that the words "and whenever such payment is made such" be stricken out and the following words substituted: "That the assessment for taxes imposed by this title shall be made against the person in receipt of net income in the taxable amount and the."

Memorandum submitted on behalf of Interborough Rapid Transit Co. of New York City.

In accordance with the directions made and permission granted at the public hearings held last week, certain suggestions as to possible amendments to the pending measure are herewith placed formally before the committee.

Interborough Rapid Transit Co. is a New York railroad corporation which operates the existing elevated and subway lines. It owns neither system. The elevated lines are owned by the Manhattan Railway Co. while the subway is owned by the city of New York. Under contracts made in 1913 each system is to be greatly enlarged. The work has progressed, and it is expected that operation of the completed enterprises will start in the near future. When that occurs the relationship between the city and the Interborough company will undergo a considerable change. The present arrangement is that any profits accruing to the operator over and above the rental reserved to the city by the subway lease belongs to the company. Under the new arrangement, which embraces both the subway lines and extended elevated lines, the city shares equally with the operator in any profits which may accrue from the operation, after specified fixed charges have been deducted. By those contracts it is expressly provided that any taxes lawfully imposed upon the Interborough company are a deduction from the operating revenues before division with the city. From this it follows that the city of New York is very vitally interested in any additional burden which may be placed upon the Interborough company,

BEST AVAILABLE COPY

and that any taxes assessed against that company are in effect, if not in name, taxes against the city of New York.

Incident to the 1913 rapid-transit contracts, the Interborough Rapid Transit Co. obligated itself to provide $58,000,000 as a contribution to the cost of constructing the additional subways and further sums to provide the necessary equipment therefor, and also to provide the cost of constructing extensions to the elevated system and the equipment for such extensions. These amounts were raised by the issue of bonds under a mortgage providing for a maximum issue of $300,000,000, of which bonds to the extent of approximately $160,-500,000 are now actually outstanding. The property in which the proceeds of these bonds were largely invested does not belong to the Interborough Co. So far as the $58,000,000 expended for subway construction is concerned the Interborough Co. has no title whatsoever. The railroad belongs to the city. As to the sums expended for new subway equipment, elevated extensions, and new elevated equipment the Interborough Co.'s title is subject to a contractual provision obligating it at the end of the respective terms to turn over the property so purchased to the city without any consideration therefor.

The total authorized capital stock of the Interborough Co., all of which is outstanding and has been fully paid for, is $35,000,000. That capital is invested in equipment of the existing subway.

On behalf of the Interborough Co., the suggestion is made for the incorporation in the pending bill of three amendments, which, if enacted, would do away with inequities and inequalities which exist either under the provisions of the present income-tax statute or which would exist if the bill, as drafted by the Ways and Means Committee of the House, is enacted without change. These suggestions are advanced on the supposition that Congress intends to distribute the enormous tax burdens which must be laid as the result of the war in the most equitable manner possible. They are essential if the present measure is but the forerunner of further statutes imposing larger taxes.

SUGGESTION NO. 1.

A clarification of subdivision (c) of section 3 of the bill, relating to collection at the source of the normal tax on individuals, so as to make certain that such provision will not apply to income of individuals paid as interest upon corporate bonds.

SUGGESTION NO. 2.

The insertion in the bill of a specific amendment to the existing income-tax law of September, 1916, excluding from the taxable income of a corporation the dividends which it receives on the stock of other corporations.

SUGGESTION NO. 3.

The insertion in the bill of a specific amendment to the existing income-tax law of September, 1916, which will permit the deduction of all interest paid within the year on the indebtedness of a corporation.

SUGGESTION NO. 1.

Page 4, line 23, after the word "incomes," insert "other than those derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, association, and insurance companies." This would make subdivision (c) read as follows:

"The provisions requiring the normal tax of individuals to be deducted and withheld at the source of the income shall not apply to the new two per centum normal tax herein prescribed until on and after January first, nineteen hundred and eighteen, and thereafter shall apply only to incomes, *other than those derived from interest upon bonds and mortgages, or deeds of trust or other similar obligations of corporations, joint-stock companies, associations, and insurance companies,* exceeding $3,000, as provided in Title I of such act of September eighth, nineteen hundred and sixteen." (New matter in italics.)

The status of the so-called tax-free bond has been so often referred to in the previous hearings before this committee on the original income-tax law of

1913, and the amendment of last year, that extended reference at this time seems unnecessary. The tax covenant which so many corporate bonds contain was designed to prevent the shifting of an excise tax on the corporation to the individual bondholder. Because of the method of collection of the present income tax, it operates to shift a tax on the individual to the corporation. In practice it makes the holder of common stock pay the normal income tax of the bondholder. If the bill is to be passed in its present form it would mean that the corporations, and through them their common stockholders, would be paying the 4 per cent normal income tax of each and every bondholder who holds bonds containing the covenant that the corporation will pay the interest in full without deduction for taxes which may be required to be withheld. To the extent of the normal tax the bondholders go scot free. That is not an equitable distribution of the war burden. Through the medium of the certificates which the stockholders are now required to file when they cash their coupons, the Government has at its command information as to the recipients of this particular class of income, and they should pay their portion of the new taxes on the income so received. The amendment submitted would accomplish that result. It would except from collection at the source the additional normal tax provided by the bill, and would leave the individual to pay his just dues. That, we submit, is proper.

SUGGESTION NO. 2.

After section 4, page 5, line 18, insert a new section numbered 4a to read as follows:

"SEC. 4a. That section ten of the act entitled 'An act to increase the revenue and for oher purposes,' approved September eighth, nineteen hundred and sixteen, is hereby amended to read as follows:

"SEC. 10. That there shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company or association, or insurance company, organized in the United States, no matter how created or organized, but not including partnerships, a tax of two per centum upon such income; and a like tax shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources within the United States by every corporation, joint-stock company, or association, or insurance company organized, authorized, or existing under the laws of any foreign country, including interest on bonds, notes, or other interest bearing obligations of residents, corporate or otherwise [and including] *but exlcuding* the income derived from dividends on capital stock or from net earnings of resident corporations, joint-stock companies or associations, or insurance companies whose net income is taxable under this title: *Provided*, That the term 'dividends' as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March first, nineteen hundred and thirteen, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of its cash value.

"The foregoing tax rate shall apply to the total net income received by every taxable corporation, joint-stock company, or association, or insurance company in the calendar year nineteen hundred and sixteen and in each year thereafter, except that if it has fixed its own fiscal year under the provisions of existing law, the foregoing rate shall apply to the proportion of the total net income returned for the fiscal year ending prior to December thirty-first, nineteen hundred and sixteen, which the period between January first, nineteen hundred and sixteen, and the end of such fiscal year bears to the whole of such fiscal year, and the rate (one per centum) fixed in section 2 of the act approved October third, nineteen hundred and thirteen, entitled 'An act to reduce tariff duties and to provide revenue for the Government, and for other purposes,' shall apply to the remaining portion of the total net income returned for such fiscal year.

"For the purpose of ascertaining the gain derived or loss sustained from the sale or other disposition by a corporation, joint-stock company, or association, or insurance company, of property, real, personal, or mixed, acquired

before March first, nineteen hundred and thirteen, the fair market price or value of such property as of March first, nineteen hundred and thirteen, shall be the basis for determining the amount of such gain derived or loss sustained."

[New matter in italics: matter to be eliminated in brackets.]

This amendment would assure to corporations the same freedom from double taxation as is now enjoyed by individuals. All corporations being subject to the income tax, it follows that whatever portion of their income is distributed in the shape of dividends has paid the normal tax before it reaches the stockholder. The law recognizes that fact and permits an individual to exclude such dividends from his income on which he pays the normal tax. That is not permitted if the stockholder happens to be a corporation. It must pay a further normal income tax on the dividends which have already done their bit. This is discrimination against the corporation in favor of the individual.

The Interborough Rapid Transit Co. peculiarly suffers from this provision. The original contractor for the subways in New York City was an individual Mr. John B. McDonald. As an aid to his venture, he procured the incorporation of the Rapid Transit Subway Construction Co., a New York corporation which, as its name indicates, was formed for the purpose of undertaking and prosecuting the building of rapid transit railroads. When the Interborough Rapid Transit Co. was formed in 1902 and purchased Mr. McDonald's interest under the subway contracts with the city, as an incident to that transaction, it acquired all of the capital stock of the Rapid Transit Subway Construction Co. The stock of the latter has from time to time paid dividends, and while Interborough Rapid Transit Co. is not a holding company in the popular understanding of that term, nevertheless, because of such ownership, it has been subject to income taxation on those dividends.

As a matter of essential justice, it is submitted that the existing provision in the income-tax law of 1916 which specifies that such dividends shall be subject to taxation as income of corporate stockholders should be eliminated. The amendment proposed would accomplish that purpose.

The propriety of such a course has already been recognized by the Ways and Means Committee of the House in the provision contained in the proposed amendment to section 204 of the excess-profits title (p. 8, lines 19–22), where dividends received are to be excluded from income subject to the excess-profits tax. The same reasons which actuated the House committee in inserting that provision for the excess profits tax should influence this committee in amending the income-tax article in a similar manner.

SUGGESTION NO. 3.

Page 5, line 18, after the proposed new section 4a (suggestion No. 2, above), insert a new section, numbered 4b, to read as follows:

"SEC. 4b. That paragraph three of section twelve of the act entitled 'An act to increase the revenue and for other purposes, approved September eighth, one thousand nine hundred and sixteen,' is hereby amended to read as follows:

"'Third. The amount of interest paid within the year on its indebtedness [to an amount of such indebtedness not in excess of the sum of (a) the entire amount of the paid-up capital stock outstanding at the close of the year, or, if no capital stock, the entire amount of capital employed in the business at the close of the year, and (b) one-half of its interest-bearing indebtedness then outstanding]: *Provided*, That for the purpose of this title preferred capital stock shall not be considered interest-bearing indebtedness, and interest or dividends paid upon this stock shall not be deductible from gross income: *Provided further*, That in cases wherein shares of capital stock are issued without par or nominal value the amount of paid-up capital stock, within the meaning of this section, as represented by such shares, will be the amount of cash or its equivalent paid or transferred to the corporation as a consideration for such shares: [*Provided further*, That in the case of indebtedness wholly secured by property collateral, tangible or intangible, the subject of sale or hypothecation in the ordinary business of such corporation, joint-stock company, or association, as a dealer only in the property constituting such collateral, or in loaning the funds thereby procured, the total interest paid by such corporation, company, or association within the year on any such indebtedness may be deducted as a part of its expenses of doing business, but interest on such indebtedness shall only be deductible on an amount of such indebtedness not in excess of the actual value of such property collateral:]

Provided further, That in the case of bonds or other indebtedness, which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax herein imposed, or any other tax paid pursuant to such guaranty, shall be allowed: and in the case of a bank, banking association, loan or trust company, interest paid within the year on deposits or on moneys received for investment and secured by interest-bearing certificates of indebtedness issued by such bank, banking association, loan or trust company.'" (Matter to be eliminated in brackets.)

This would permit the deduction of all interest paid on the indebtedness of a corporation. In the case of the Interborough Rapid Transit Co., it is peculiarly proper that such a deduction should be permitted because its bonded debt which so largely exceeds its capital stock has been issued as an aid to the rapid transit construction of the city of New York, and if it be not entitled to deduct all the bond interest it pays, the Government will be collecting as income taxes, in part from the Interborough Rapid Transit Co. and in part from the city, a percentage upon the payments which have actually been disbursed to the bondholders. In other words, for the purposes of the tax an interest payment is to be treated as taxable income, and, furthermore, that same interest will be treated as part of the corporation's excess profits on which the excess-profits tax will be calculated.

What this means in dollars and cents may be easily demonstrated. The interest which the Interborough company actually pays in each year on its outstanding mortgage debt of $160,000,000 amounts to $8,025,000. That is its actual disbursement. The existing law provides that in determining its net income for the purpose of the tax it can deduct from its gross earnings for any one year, not the entire amount of interest that has been paid, but only interest on the indebtedness to an amount equal to the sum of the capital stock plus one-half of the bonded debt. In the case of the Interborough company, that permits the deduction of $5,762,500, being the interest on $115,250,000 (capital stock $350,000,000 plus bonds $80,250): $2,262,500, the difference between that deduction and the amount actually paid for interest, would be treated as income of the company on which it must pay a tax. If it is subject to the proposed 4 per cent rate, the Government would collect a tax of $90,500 on income which never accrued to the company. Surely such a situation is unjust. The proposed amendment would correct that situation.

Dated, May 15, 1917.

Respectfully submitted.

INTERBOROUGH RAPID TRANSIT CO.,
165 Broadway, New York City, N. Y.
JAMES L. QUACKENBUSH,
RALPH NORTON,
Counsel.

Letter from Mr. Joseph D. Gallagher, of the American Brake Shoe & Foundry Co., of New York City.

AMERICAN BRAKE SHOE & FOUNDRY CO.,
New York, May 15, 1917.

Hon. F. M. SIMMONS,
Chairman of the Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR: I beg leave to submit a few observations on the proposed income tax for the consideration of your committee in redrafting the House bill.

1. The income tax should be so imposed as not to hinder the placing of bonds.

Most people have about so much money for investment each year, which is the surplus over living expenses.

This surplus would probably go, to a large extent, into Government bonds under normal conditions. But, if a large part of this surplus is taken for taxes and the prospect is for still heavier taxes, the desire to provide for present and future taxes will almost certainly cause the investor to hoard this investible surplus and none of it will go into bonds.

You can't get the same money for taxes and bonds.

The solution of the difficulty seems simple, assuming that the present generation should pay one-half of the cost of the war. That does not necessarily

mean that one-half of the money spent each year should be raised by taxes in that year. If this one-half were paid in 10 years, it would be paid by the present generation.

Assume, if you please, that the war will last three years and cost 7 billions a year, this would make about 10 billions to be raised in taxes, if half the cost was to be so defrayed. If you spread those taxes over 10 years, it only means 1 billion a year. If they be spread over three years only, over 3 billions must be raised each year.

The first course I know would appeal to the taxpayer and investor and should stimulate the sale of bonds.

I fear the results of the second course.

2. Should not a distinction be made in levying war taxes between income derived from invested capital and that derived from personal service unaccompanied by investment of capital.

There is this difference between the taxpayers: The man receiving $100,000 from invested capital has at leat $2,000,000 invested, which will certainly yield the next year the same revenue; the man receiving $100,000 for personal service has no assurance of the same revenue next year and no invested capital.

The first man could be deprived of his whole income and earning capacity and not suffer; the second man might starve.

3. I do not believe that any American wishes to escape from doing his bit, and especially those of us who are too old to fight wish to help pay. All that any of us wish is to see these taxes so levied as to do the most good with the least harm to the country, its people, and its cause.

Respectfully submitted.

JOSEPH D. GALLAGHER.

Letter from Mr. J. C. Bailey, of Washington, D. C.

WASHINGTON, D. C., *May 15, 1917.*

Mr. Chairman and Members of the Senate Finance Committee:

My appearance before this committee is somewhat unique in that I do not represent any specific industry or corporation, but come before you representing, as I believe, the large masses of individuals who are small stockholders, and who collectively own our industries from which source our most vital necessities of life are provided. By even a cursory perusal of the measure proposed to raise war revenue it is patent that its framers contemplate that the burden shall fall heavily upon our industries, which should it become effective in this manner will wipe out these dividends; our industries, the very arteries and sinew of the country, will be stifled and the means by which the soldier-stockholder expects his dependents to sustain life and reasonable comfort while he has offered his blood at the altar of democracy no longer exists.

Doubtless the industries of America are willing and ready to bear their just burden of the taxation necessary, but as stockholders of military age, willing to humbly sacrifice ourselves for the hearths and homes of our country, we protest that a taxation of practically 20 per cent upon the earnings of industries is unnecessary and unjust and that the framers of this measure are evidently obsessed with the popular, however erroneous idea, that our industries are owned by capitalists alone.

In conclusion, I hope that when this measure to raise revenue is finally written that its attitude toward the small stockholder will be one of equanimity and with a view of allowing posterity to contribute to the mighty task in hand.

Respectfully submitted.

J. C. BAILEY.

Brief by Mr. J. A. Taylor, of Wilmington, N. C.

WAR REVENUE TAX BILL.

War revenue is both justified and welcomed. The country's honor is at stake; indeed, its safety is in the balance, and every loyal citizen will bear his part of the burden willingly. Partisan fiscal theories applicable to peace times have no present standing. The doctrine of free raw materials is eminently

sound under competitive conditions which obtain in a world at peace, but loses its force when invoked under present conditions of American economic advantage.

Party lines, for the present purposes of government, have been extinguished. We are neither Democrats nor Republicans, but Americans all.

Financial resource is a condition precedent to military efficiency; it bears the relation of cause to effect, so that the integrity of the effect is predicted on the soundness of the cause. Tax paying ability bears a fixed and inevitable relation to prosperity, and prosperity is commerce in active and profitable operation. The principle of taxation is economy on draft of resources, and is limited to compatibility with preservation of commercial productivity, and should be so administered as to stimulate rather than discourage enterprise.

Taxes should be realized from current operations and current savings, and should never be a draft on accumulated wealth except in case of extreme public emergency. This being so, a retroactive tax is unsound in principle and vicious in practice.

Income tax is the most equitable in theory, because it only takes from the citizen a part of his earned income. It is distinguished from consumptive tax in that it draws from an assumed surplus, and is not a draft on existence. The only problem in laying this tax is a just equation between necessary exemption and investment surplus. In time of crisis the citizen is not in principle entitled to anything like normal use of investment funds, so that an income tax should be laid progressively, which is necessary to preserve the integrity of smaller incomes subject to the tax.

The customs tax is theoretically equitable, because it bears on consumption, and the principle is only modified, not destroyed, by reason of the fact that consumptive cost is not in uniform relation to living expenses. However, this tax undoubtedly distributes itself throughout the community, and when laid for revenue only is clearly defensible.

Internal tax also bears equally, in that it is uniform and widely distributed, but when this tax is not laid at the source it results in inevitable and harsh inequalities. The source of internal tax is point of production, and when the tax is laid at this point the equality of burden is insured.

The customs tax bears uniformly, because it is laid at the point of acquiring possession, but when it is sought to equalize an import tax by a direct tax on property previously acquired inequalities are practically unavoidable, unless the effective date of such tax is made to coincide with the date of the customs levy. Under the revenue bill as reported by the Ways and Means Committee, a tax of 10 per cent is levied on all free articles, including tea and coffee, and a direct tax of 1 cent a pound on coffee and 2 cents a pound on tea in dealers' hands, as of date May 10. The effect of the direct tax on these articles must be to cause dealers to advance their prices immediately to the extent of the tax in order to insure their normal and legitimate profit. In many instances these stocks have been sold for future delivery, and the retroactive character of the tax penalizes such transactions to the complete extinguishment of profits. It is safe to say that no wholesale or jobbing house is without such sales for future delivery, and if the bill is enacted in its present form it means a certain extinguishment of all profit on such sales. Moreover, the fact that wholesale dealers in order to protect themselves against loss must add the tax at once to the selling price of these articles would result in the consumer paying the increased cost, even though the bill in its final form is relieved of the provision in question, for it would not be feasible to refund the tax to the consumer. The wholesale dealers can not afford to take the risk of the tax not becoming effective and must protect themselves in sheer prudence by advancing the present price by the full measure of the proposed tax.

In case of the tax on tobacco and snuff, which articles are manufactured in sizes and designs to retail at certain fixed and popular prices, to impose a tax on stocks in dealers' hands is to destroy the salability of the goods. The manufacturer will meet the situation by putting out new styles and designs on the basis of increased cost, and these styles will go to the consumer at uniform and popular prices, and, as against this competition, stocks in dealers' hands, enhanced in price by reason of the additional tax, will be undesirable and largely unsalable. The case of tobacco and snuff is peculiar and is entirely distinct from the class of articles which can bear the additional tax on original packages without changing the retail price, and because of this fact should receive just and intelligent treatment.

I make no protest against the general scheme of the bill, for I recognize the need of the situation and the demand for big revenues. Whatever tax the people pay now will be insignificant, compared to what they would pay if we lose the war, and I have little sympathy with the cry of confiscation. Nevertheless, Congress should bear sharply in mind the fact that the war must be financed through both borrowings and taxes and that borrowings must be provided from savings, and savings are created only out of profits. It is a gigantic problem which confronts the authorities, and a just equation between voluntary subscriptions and conscriptive taxes must be maintained in order to preserve the sources of the public revenues.

Respectfully submitted.

J. A. Taylor.

Wilmington, N. C., *May 12, 1917.*

The Chairman. The next subject matter to be taken up is the war excess-profits tax. What gentleman will speak as the representative of that industry?

Mr. Clarence Wilson. Mr. Thacher, of New York, desires to represent the fire and marine insurance companies.

Mr. Cameron Morrison. I desire to speak for the American Cotton Manufacturers' Association.

The Chairman. If there are to be two gentlemen representing the industries, we will have to subdivide the time and allow each 15 minutes, unless the committee shall decide that this is an exception and allow a longer time than 30 minutes.

Mr. Neyle Colquitt. Mr. Chairman, in this matter I am associated with Mr. Wade H. Ellis, as well as Mr. Nicholas F. Lennsen, of New York, and Mr. Joseph S. Auerbach, of New York. As far as our part of the allotment is concerned, we wish Mr. Auerbach to consume it, and we will content ourselves with filing a brief.

The Chairman. Will 15 minutes be sufficient for you?

Mr. Auerbach. I should not think it would be quite adequate. It may be as the discussion develops, because it will not be anything in the nature of a formal speech. It will be rather colloquial, and it will consist largely of questions by you, so as to get at an understanding which you place upon certain provisions of this section.

The Chairman. I stated in this program that we gave to the press that we would limit the hearings to 30 minutes, with exceptions in case the situation seemed to require an exception, but in no case more than an hour. If the committee wants to extend the time for hearings on excess profits, I will hear a motion.

Senator Williams. I understood the agreement of the committee to be that each complainant was to have 30 minutes; I mean each industry complaining was to have 30 minutes.

The Chairman. But we are not confining it to each industry complaining.

Senator Williams. I mean any industry interested in the excess-profits matter.

The Chairman. I stated in the statement I gave to the press that in no case would the time allotted exceed an hour, but that would only be done in exceptional cases.

Senator Smoot. Mr. Chairman, why would it not be well to just let them go on, and if it becomes necessary to do it we can extend it later.

The CHAIRMAN. But I think we had better decide that.

Senator GALLINGER. I move they be granted an hour.

Senator THOMAS. Mr. Chairman, we have to bring these hearings to a conclusion as soon as possible.

The CHAIRMAN. But we are disposing of a whole title in this one.

Senator THOMAS. I do not object. I am going to vote for this. But it should not be taken as a precedent.

(The motion was carried.)

Senator TOWNSEND. Now, Mr. Chairman, I want to suggest that there are a great many gentlemen here representing different branches of this subject. Unless the time is divided up among them there will be a number of them who will be omitted in the end, who will not have been reached in the hour. So that it seems to me that they ought to be given to understand that if there are four or five gentlemen here who want to speak on different branches of the subject, they must divide the time up between them.

The CHAIRMAN. I have stated repeatedly to gentlemen who have called upon me to make inquiries about this matter that the gentlemen representing industries should get together and divide this time up, if more than one wants to speak. We will hear this gentleman now for 15 minutes, and then you gentlemen can go out and make your arrangements as to the balance of the time.

Mr. H. B. THOMPSON. Mr. Chairman, I am the general counsel of the Proprietary Association, and will have an opportunity to appear before this committee on the subject of the specific tax on proprietary medicines. I am also interested in this feature of the bill, that is, the excess profits. It may be that to-morrow I will have a better opportunity to present briefly my views upon this subject. If I may do that at one time, I would be better satisfied.

The CHAIRMAN. In discussing the other subject?

Mr. THOMPSON. Yes.

The CHAIRMAN. That would be better, I think.

Mr. MORRISON. Mr. Chairman, those representing the cotton manufacturing industry will have no trouble in getting together about the time allotted to that industry. But as to the various industries and their representatives desiring a part of this time, we do not know who they are, and there seems to be a good many who spoke up.

The CHAIRMAN. I suppose they are all in the room, so we will hear this gentleman, and those of you who want to confer about the division of the balance of the time can just step in the other room and do that.

Mr. MORRISON. I will be glad if the committee would give our industry so much time, then we can fix it among those who want to speak.

The CHAIRMAN. We can only give the hour, Mr. Morrison, and we will give this gentleman 15 minutes, and then that will leave 45 minutes for the gentlemen to divide up among themselves. I suggest that all of you who want to confer about this matter just step into the other room while this gentleman is making his statement. Now the committee will hear Mr. Auerbach.

TITLE II. WAR EXCESS PROFITS TAX.

Secs. 200–201. EXCESS PROFITS.

STATEMENT OF MR. JOSEPH S. AUERBACH, OF NEW YORK, REPRESENTING THE WOOLWORTH CO. AND OTHER MANUFACTURING CORPORATIONS.

Mr. AUERBACH. Mr. Chairman, before speaking upon the subject of this section I should like to say a word as to the double taxation which would result if you tax dividends on the shares of stock of so-called subsidiary companies. There are some corporations that are driven to the necessity of holding such shares of stock in other corporations in order to extend their legitimate business. The Woolworth Co. does business in Pennsylvania, where certain foreign corporations may not hold real estate. It has therefore been required to organize a separate corporation to do business there. This is true, in part, also as to their Canadian company. In order to do their business efficiently and in the best manner possible for their stockholders and the public they organized the local Canadian company, whose shares of stock they hold, and I therefore wish to join the Speaker in the approval of this feature of the bill.

I want to say at the outset, as did Mr. Cravath, I am not here to make any suggestion as to a reduction of any proposed tax you are going to impose. These are times of great crisis in our national affairs, and you know best what moneys the Government will need. But inasmuch as, if this war continues, you will continue to need further moneys, of course it is important that not only the moneys exacted under this bill should be properly exacted and equitably exacted but it is important that this bill, which is probably going to be the foundation for subsequent legislation, be so framed that it will be a proper basis upon which you can justifiably support additional taxation in the future.

I would like to say, not because I think there ought to be any discrimination in your treatment of such corporations, that none of the corporations I represent has had any of its earnings accelerated or stimulated by the war. They are corporations engaged in manufacturing business, and I think in all those corporations there has been about the same steady growth. I think, if looked at historically, it will be seen that they have not been unduly stimulated by the war. They have grown, as such corporations grow, by the accretion of the years.

May I ask whether there is going to be any hearing before a subcommittee?

The CHAIRMAN. No.

Mr. AUERBACH. It will be all before this committee?

The CHAIRMAN. Yes.

Mr. AUERBACH. In the subcommittee hearing I think Senator Williams was chairman, were you not, Senator?

Senator WILLIAMS. What was the subject matter?

Mr. AUERBACH. The subject of excess profits.

Senator WILLIAMS. Yes; I believe so.

Mr. AUERBACH. The first question in my mind is, what interpretation you now put upon the phrase "at the time of payment." There seemed to be an idea which prevailed in the subcommittee hearing that the time of payment meant the time of the payment of the tax. That was said by the chairman, and it was acquiesced in by Senator Hughes.

The CHAIRMAN. What are you speaking about now—property paid in, to be estimated at its cash value?

Mr. AUERBACH. No; I am talking about the words "time of payment" for property other than cash.

The CHAIRMAN. The time when the property was transferred to the company was the time.

Mr. AUERBACH. That is what I assumed, and that any such conclusion was not borne out by the language.

The CHAIRMAN. We omitted the language so as to make it clear. But you know we threw overboard some amendments because we found we had to take the House bill just as it came over, without dotting an "i" or crossing a "t." But the amendments clarified it by showing clearly that we meant the time the property was transferred to the company.

Senator WILLIAMS. It was so expressly said.

Mr. AUERBACH. Of course, I do not know what reasons have influenced the Ways and Means Committee to prepare this section in just the form it is in now; somewhat a change in the old section—section 202. There seems to be an attempt, which is believed justifiable, to make a discrimination in the exemptions as to cash and property. Of course, in the absence of any special information upon the subject, that makes no appeal to me. What I think should be the basis of exemption is the amount of cash, together with the accumulated profits and the property, together with what may be said to be its accumulations, so that when you come to fix the exemptions for the purpose of the tax you find out what the corporation has by way of property. There is no special virtue in cash as against property, and yet there is a discrimination between the exemption as to cash and property.

You allow for accumulations by way of accumulated and undivided profits in cash, and under this bill there may be no such allowance for additional value for other property. I do not say that this is necessarily so, but the language is not unmistakably clear to the contrary.

You approach nearer an appropriate provision by what has been added to section 202 [reading]:

Provided, That the good will, including trade-marks and trade brands, or the franchise of a corporation or partnership, is not to be included in the actual capital invested, unless the corporation or partnership made payment therefor specifically as such in cash or tangible property, the value of such good will, trade-marks, trade brands, or franchise not to exceed the actual cash or actual value of the tangible property paid therefor at the time of such payment.

I do not see why you emphasize the form of the acquisition of the trade-mark or the property other than cash. It is the substance of it.

I assume, that ought to be regarded by you. If it is acquired in a certain way, specifically acquired, then it shall be added to the property other than cash and be included in the exemption. But that is not the way, very frequently, that trade-marks and good will and franchises are acquired. They are more frequently acquired at the outset, when a corporation enters upon its business and becomes possessed of a certain amount of property. I do not think you especially acquire the trade-mark or especially acquire the franchise. The corporate directors meet together, and they buy a certain piece of property, and in that property is included the good will. Inseparably connected with the property is the good will, franchise, or the trade-mark, and you pay at the same time so much of capital stock for it. It may be you pay so much in cash. You may have sold some of the capital before, and you may pay part in cash and part in capital stock. I think the instances are rather rare where the corporation by a separate transaction acquires the good will or the franchise. And yet if there were that specific acquisition of it you intend that there shall be an exemption attaching to it, but not otherwise. I think that would result in a good deal of inequity.

Take the Woolworth Co. The Woolworth Co.'s property, along with cash transferred to the corporation, along with valuable strategic leases, including the good will, which had been built up over years and years of endeavor. It would be impracticable to state how much by way of expenditure of time and energy and cash for advertisement and otherwise make up the value of that good will. But it was transferred in block. You transfer certain properties for certain pieces of paper which are called capital stock. Whatever the method of acquisition is should not be of concern to you. The question is, What has the company acquired? As I say, the method of acquisition ought not to be of any great concern.

I am assuming now, for the purpose of this discussion, that I am relating now to the time of payment of this property. Of course, I do not wish to conclude without urging upon your consideration the fact that you ought to base the exemption upon the actual condition of the property of the company, both as to cash and as to other property. Was there any special reason for that provision that you know of, Mr. Chairman?

The CHAIRMAN. I did not follow you very closely.

Mr. AUERBACH. "Provided, that the good will, including trade-marks," etc.

The CHAIRMAN. I think there were very special reasons, but I do not think I need to go into them. It is taking up your time.

Mr. AUERBACH. There were special reasons?

The CHAIRMAN. Yes.

Mr. AUERBACH. Of course, I do not know what the special reasons were.

The CHAIRMAN. If you want me to state them briefly, largely upon the idea that good will may be arbitrarily valued at any price at which the incorporators see fit to value it, and it may be made the means of the issuance of stock that has very little value in it, mostly artificial.

Mr. AUERBACH. As a rule, you know, Mr. Chairman, when these corporations buy property they do not buy it for cash or for other property. There is no swap of property for property; nor is there, as a rule, all cash given for property. The daftsman of this bill

seems to think that the ordinary way of forming a corporation is to sell all its capital stock and then invest the proceeds in property, and then to make a special trade for the good will or trade-mark. That is not the way in which, as we all know as lawyers and as business men conversant with the incorporation of organizations, they are formed. Certain people come to a corporation with certain property, to which may or may not be attached good will, franchise, or trade-mark, and it is sold to that corporation for a valuable consideration, and in stock or cash or both, and the corporation is in a position to do business. Its first transaction, whereby it becomes other than a paper corporation, is the buying of property, and it buys the property, as a rule, with capital stock, or for capital stock and cash. I think that whether it is specially acquired or whether it is generally acquired ought not to be the controlling consideration in granting the exemption. A trade-mark, good will, and patent rights may be just as important as tangible property. In fact, it very frequently is of far greater value. I do not see, Mr. Chairman, aside from that question, why you should not give the full value to its property, whether it be cash or tangible property or good will, etc. Give the exemption to the property which the corporation actually has.

There are various ways in which that can be ascertained. The way of ascertaining it in Canada is to ascertain the fair value of the capital stock for which it was issued. If you do not like that you could determine the fair value of property running over a period of time—it might be a year, it might be two years, or might be three years—whatever appeals to you as a fair way of estimating the value of the property. But you attempt, as is done in this bill, in the first place to fix the time of the payment of the property, though at the time of the tax it has been very much increased. If you allow the exemptions for the accumulations by way of cash on capital, why not allow exemptions for the additional value on the property? A corporation may have a large ownership in a water-power company. It may be land. It may be a manufacturing concern. That corporation has foregone dividends for years and years, and that property has thereby become increased. Are you not going to allow for that accretion that has come about by the foregoing of dividends? Think of what the discrimination would result in as between two corporations.

For instance, you, Mr. Chairman, may have bought a piece of property on which you have forgone dividends that may have cost you $100,000, and by the industry and the sweat that has been put into that it is now worth $1,000,000. Benefiting by your experience and your knowledge and your industry, I buy the counterpart of that property and I pay what its present value is, $1,000,000. Each corporation earned $100,000. Your exemption is 8 per cent on $100,000, and mine is 8 per cent on $1,000,000. Of course, your corporation is thereby seriously handicapped in any competition with mine. What I fear is that the language of this provision unmistakably means that.

The CHAIRMAN. I might say that this is the language of the House bill. The Senate language has not yet been agreed upon.

Mr. AUERBACH. I understand.

The CHAIRMAN. We are hearing you with a view of determining whether we will agree to it. I think your time is now up, Mr. Auerbach.

Mr. AUERBACH. Do you want a brief filed upon this subject matter? I had supposed that my time was not exhausted.

The CHAIRMAN. We would like very much to have a brief filed. You can make that as comprehensive as you want to.

Mr. AUERBACH. It will be short, but, I trust, comprehensive.

The CHAIRMAN. I mean to say by that, that, so far as the length of the brief is concerned, if it is pertinent, we will have it printed without any reference to its length. You can make it as long as you want to, so long as you confine it to reasonable limits, and to a pertinent discussion of the question.

Mr. AUERBACH. I think I will confine the brief to two considerations: First, not only the injustice of limiting the exemption as to the time of payment, but also of including the good will, etc., in the exemption only if it be specifically acquired.

Mr. WADE H. ELLIS. Mr. Chairman, may I inquire what the rule is about briefs, and within what time does the committee desire them?

The CHAIRMAN. We want the briefs by the time we finish the hearings. We think we will finish the hearings Tuesday night of next week.

Mr. ELLIS. The briefs ought to be in by Tuesday of next week?

The CHAIRMAN. Yes; or Wednesday.

(The brief referred to by Mr. Auerbach, Mr. Ellis, and Mr. Colquitt was subsequently submitted and is here printed in full, as follows:)

THE EXCESS-PROFITS TAX.

MEMORANDUM AS TO SECTION 202 OF THE WAR-REVENUE BILL, H. R. 4280.

The undersigned, on behalf of the manufacturing corporations which they represent, have no thought of making any suggestion as to the amount of the proposed tax under the revenue bill. That must be left to the wisdom of Congress. But they do desire to submit to the Finance Committee of the Senate certain considerations which in their judgment, if adopted, will result in a tax equitable and free from discrimination, as it would not be if the bill be enacted in its present form. And inasmuch as the present bill, when amended, will probably be the pattern and precedent for further taxation in the future it is imperative that it should be wisely framed so as to accomplish this result both now and hereafter.

With respect to the proposed war excess-profits tax title of the revenue bill, we submit that in order to give effect to the committee's aims and to procure through the tax as large a sum as practicable without disturbance of the business of corporations, which would result in loss of income to individuals and tend to create general depression and failure of production, and to assure a fair and equal distribution of the taxes among corporations, and to give effect in clear and unmistakable language to the legislative intention it is essential, in our opinion, that section 202 of the bill now pending in the House be amended.

First. With respect to good will, trade names, trade brands, franchises, etc., it must be borne in mind that such property is rarely purchased or acquired separately from the other property of the corporation, but, on the contrary (often being the most valuable asset in conjunction with the physical property acquired), is transferred with the physical property inseparably from it (and as a rule for shares of capital stock), and taken together represents the actual initial investment of the corporation. The earnings of property of a corporation possessing such good will, etc., could not, independently thereof, be measured or fairly determined.

The proper method of determining, therefore, the actual value of the investment of such corporations is by the fair value of the outstanding capital stock of the corporation. The value of such stock may be determined by the market quotations or transactions, or by appraisal, quite as readily as the value of the physical property of a corporation having no good will or trade-marks, etc.

Second. The phrase "time of payment" has created much confusion, and if held to apply to the time of the original investment will be bound to produce inequality and eliminate many corporations from competition with others.

For example, corporations A and B, owning like properties, originally of equal value, say, $100,000, and each to-day worth $1,000,000, earn annually $100,000—A, however, having purchased its property last year for $1,000,000 is exempted to the extent of $80,000 of its earnings, while B, which acquired the property at an earlier date when its value was but $100,000, is exempted to the extent of $8,000 only. The properties are practically identical, but A would have ten times the exemption of B.

Moreover, this phrase, so interpreted, would also take from such corporations as have added, through efficient operation, to the original value of their plants the appropriate consideration of the increased value, while corporations not so efficient and having added nothing to such original value would be given equal exemption, not fairly deserved.

All confusion and unfairness would be avoided by fixing, for example, January 1, 1917, as the date as of which such value should be taken, substituting for the phrase "at the time of payment" the phrase "as of January 1, 1917."

We suggest a substitute for the entire section 202, which, we submit, would meet the foregoing objections and effect the fairness and equality, which we are sure the committee desire to effect, and thus avoid the consequence of an inequitable, discriminatory tax:

"SEC. 202. That for the purpose of this title actual capital invested means (1) actual cash paid in; (2) the actual value of property other than cash as of January 1, 1917, including therein good will, trade-marks, and trade brands, rights, and franchises acquired by means of the issue of stock or otherwise; and (3) paid in or earned surplus and undivided profits used or employed in the business, such actual capital invested to be determined by the fair value of the stock on such date, or if issued subsequent to such date, then on the date of its issue."

The Ways and Means Committee of the House of Representatives recognized in part the justice of the accompanying suggestions by the change it has made in the revenue bill passed this year, by making provision for taking into consideration for the purposes of exemption the value of good will, trade-mark, trade brands, franchises, etc. They, however, eliminate that element of value unless it is "specifically" paid for in cash or tangible property. But, as we have said, both above and in the oral statement, such assets of good will, etc., are not as a rule "specifically" paid for—if by "specifically" the draftsman of the bill meant separately—in cash or so-called tangible property, but more frequently in capital stock, though thereby the value is ascertainable with as much definiteness as is the value of such tangible property.

ALTERNATIVE SUGGESTIONS.

In case, however, the committee should be of the view that the fixing of the market price of the capital stock as of January 1, 1917, or any fixed date, may operate too favorably to the corporation, then it is suggested that in lieu of such date section 202 provide that the average market price of the capital stock over a given period or its value be made the basis for the exemption. The provision would then read as follows:

"SEC. 202. Actual capital invested of any corporation having any capital stock paid in otherwise than in cash shall mean the market value of its shares of capital stock outstanding on the first day of the taxable year, determined by the average selling price of each share sold during the preceding —— years or such lesser period as such corporation shall have been in existence; or, in case such capital stock shall have had no market price during such period, the fair value thereof. In no event shall the actual capital invested mean an amount less than the actual cash value of the net assets of the corporation."

If, nevertheless, the committee are still of the view that such average price would be too favorable to the corporations, the committee might provide that the exemption be the value of the assets of the corporation, to be ascertained by appraisal, the value of the capital stock to be only one element, but not a controlling element. The section might then read as follows:

"SEC. 202. Actual capital invested, of any corporation, shall mean the actual value of all assets of the corporation on the first day of the taxable year, determined by appraisal, which may include as an element thereof, but shall not be determined by, the actual average market value of the outstanding shares of

stock of such corporation for a period of —— years preceding the first day of the taxable year or such lesser period as such corporation shall have been in existence.

In any event, "fair value" should be controlling in fixing the exemption just as it is made controlling under the act of September 8, 1916, both in ascertaining gain or loss upon a sale of property and in determining the excise tax upon capital stock.

CONCLUSION.

It has been suggested that if a corporation should have increased its capital stock after its original issue, in part, the purpose of the pending bill might be defeated. This view, it is submitted, will be found, upon examination, not to be justified.

The adoption of any of these changes would make it a matter of indifference as to the amount of capital stock outstanding which might have been originally issued for the property of the corporation or any increase thereof, for the reason that the basis of the exemption would always be the actual value of the property, reflected in whole or part by the value of the capital stock.

During the oral argument before the committee it was intimated that the issue of capital stock to represent good will, etc., had heretofore been the subject of abuse.

While not dissenting from such view, we wish to suggest that this consideration must be borne in mind: Good will, etc., in association with tangible property, is often the principal asset secured by a corporation in the acquisition of its assets. And while fictitious valuations of good will, etc., should be accorded no recognition, the product of efficiency represented by good will, etc.—often established by the expenditure not only of a great amount of time and industry but of vast sums of money in advertising and otherwise—such, for example, as in the case of Royal Baking Powder, Lucky Strike, Woolworth, Bull Durham, and Uneeda Biscuit, ought surely, in the contemplation of Congress, not to be excluded from due valuation, even though such good will, etc., be purchased in conjunction with tangible assets and not "specifically" or separately acquired.

Then, too, conceding it to be true that the issue of capital stock has been at times excessive in the acquisition of good will, etc., we are to bear in mind the value of the capital stock outstanding will necessarily determine whether or not this be true in any particular case; or, if the committee are of the mind that the value of the capital stock as of a given date, or even its average value running over a period of years, be not the correct criterion for determining the true value of the good will, etc., then the Government, through the method of appraisal suggested below will—at the time fixed for determining such value—be in a position to ascertain the value of the corporate assets in conjunction with, or wholly independent of, any estimate put upon it by the corporation in the original acquisition of such good will, etc.

In conclusion, we respectfully suggest, therefore, the creation of a board of appraisers, under the Treasury Department or otherwise, which shall have power to procure a proper determination of the actual capital invested.

Such a board, exercising quasi judicial and administrative functions and also performing duties similar to those of the Commissioner of Internal Revenue under the income and corporation tax laws, would insure adequate machinery for and public confidence in the impartial enforcement of the act.

So far as we are informed, there has been no complaint by the Government or by any corporation as to the taxes imposed under the act of September 8, 1916, on such "fair-value" basis, and any inequities which might possibly result under the amendments of the excess-profits tax law, herein proposed, would be adequately adjusted by the Government's board of appraisers to be created in accordance with the suggestion above made.

Why not adhere to an established method which has proved to be so satisfactory a precedent?

Respectfully submitted.

JOSEPH S. AUERBACH.
WADE H. ELLIS.
NEYLE COLQUITT.
NICHOLAS F. LENSSEN.

MAY 12, 1917.

The CHAIRMAN. Now, Mr. Thacher, we will hear you.

STATEMENT OF MR. ARCHIBALD G. THACHER, OF NEW YORK, REPRESENTING THE FOREIGN FIRE INSURANCE COMPANIES AND FOREIGN MARINE INSURANCE COMPANIES.

Mr. THACHER. Mr. Chairman and gentlemen, in behalf of the foreign fire insurance companies and in behalf of the foreign marine companies, I ask the privilege of directing your attention to one point. It is not any objection to the amount of this tax at all. We do not come before you with a question complicated by holding companies or companies which declare large stock dividends. It is a simple proposition related to the transaction of our business. It lies in this, that the foreign insurance companies doing business in the United States are quite content to pay an excess-profits tax upon the income derived from the transaction of their business in the United States and upon the income derived from the capital invested and used in the transaction of their business in the United States, but not upon incomes derived from capital not used or employed in their business in the United States, and it is not our belief that such was the intention of the act.

The generality of the language of the act, however, is open to this construction, and this inequality we desire to cure. This inequality happens to strike us and does not strike other classes of corporations. These foreign insurance companies doing business in the United States, besides doing business here and besides maintaining here very large assets in the shape of invested funds for the protection of American policyholders, those assets being held in State insurance departments and in the hands of American trustees solely for the protection of American policyholders—in addition to that class of their business, which it is believed it is the aim of this act to tax and which we are quite content shall be taxed, they have at their home offices abroad—in London, for example—large blocks of American securities which they hold purely as investors, just as any alien might invest in American securities. Those assets and the income which they derive from them are not in any way used in their business in the United States. The income which they receive from those American securities is taxed under the income-tax law.

The point which I ask you to direct your attention to in this excess-profits bill is this, that the income which those foreign companies receive upon American investments which they hold abroad and which they in no way use in the transaction of their business in the United States nor as a basis of credit in the United States shall not go into the computation which makes up the excess-profits tax under this bill; that they shall be taxed upon the business they transact here; that they shall be taxed upon the income from the securities which they hold here and use in their business, but that they shall not be taxed upon the income in respect of securities held abroad not in any way used in their transaction of their business in the United States. That is the single point that I wish to bring to you and which I believe was the purport of the act.

I am not in any way wedded to words, and I shall merely as a suggestion submit to you the following language at the end of section 203 of the act of March 3, 1917:

Provided further, That in the case of foreign insurance companies and corporations there shall not be included, for the purpose of this title, income received from capital not used or employed in their business in the United States.

In other words, as inadvertently drawn the act includes all income. Part of their income flows to them at their home offices from investments held there not in any way used in their business in the United States.

Senator SMOOT. Where do you suggest that amendment?

Mr. THACHER. At the end of section 203. The bill which is before you, instead of drafting an entire revise of the bill, simply amends certain sections. This amendment would have to be taken in at the end of 203.

Senator THOMAS. There is no 203.

Mr. THACHER. Not in that bill, but there is in the existing act, and this is my only opportunity to submit it to you.

Senator TOWNSEND. You want to amend section 203 of the original act?

Mr. THACHER. Yes. Furthermore, I wish to emphasize the fact that those home-office investments, as we may call them, are wholly and absolutely separated by law from the United States investments. The State insurance departments and the laws of our States require us to hold certain funds here. That we do, and upon the income derived from those securities we expect to pay an excess-profits tax. We expect to pay an excess-profits tax upon the business we transact here. It is merely in respect of a limited amount which is held abroad merely as an investment that we ask to be relieved from tax.

I will submit a brief which I think will make the point clear. It is merely to remove that inequality between different classes of corporations.

The CHAIRMAN. Very well, it will be printed.

(The brief referred to by Mr. Thacher was subsequently submitted and is here printed in full, as follows:)

[In the matter of H. R. 4280, Union Calendar No. 19, a bill to provide revenue to defray war expenses, and for other purposes.—Excess-profits tax.]

MEMORANDUM ASKING FOR A CORRECTION IN THE EXCESS-PROFITS TAX LAW IN BEHALF OF FOREIGN FIRE AND MARINE INSURANCE COMPANIES DOING BUSINESS IN THE UNITED STATES.

As the committee appreciated at the hearing on Friday, May 11, 1917, the foreign fire and marine insurance companies did not appear in order to object to this bill to amend the excess-profits tax law, approved March 3, 1917, but for the sole purpose of pointing out an inequality in the law, which inadvertently discriminates against them as compared with other foreign corporations doing business in the United States and asking that the act be so amended that the excess-profits tax will be justly measured upon them.

The insurance companies do not protest against the tax as such, nor do they object to the proposed increase from 8 to 16 per cent.

They appreciate that a duty rests upon them to bear their share of the financial burden of the war, but it should be remembered that in the case of foreign companies their war burdens are already very large.

The position of the companies is not complicated by any question of holding corporations or stock dividends.

These corporations believe that it is the purpose of this act to levy a tax upon profits derived from business transacted and capital used and employed in their business in the United States; they conceive that it is not the intent of the act to subject to the excess-profits tax, income not received from business transacted here, and not derived from capital used or employed here. The language of the act, however, as pointed out later, does not carry out this purpose.

Unlike most other foreign corporations doing business in the United States, foreign insurance companies receive income not only from business transacted

and capital used or employed in that business here but also from other United States sources, to wit, from the interest and dividends from bonds and stocks of American corporations that the foreign insurance companies hold as investments at their home offices abroad, and which they do not use or employ in their business in the United States.

Such securities are owned and held by the home offices of the foreign fire and marine insurance companies merely as investments, just as they own French war loan bonds or invest in the industrial enterprises of South American countries. These investments have nothing to do with the business transacted in the United States and are not capital "used or employed in the business in the United States." Inasmuch, however, as the income accrues to the foreign owners of such American securities, these interest or dividend payments come within the literal description of the words of section 201 as income "received from all sources within the United States." Upon such income the foreign owners pay an income tax to the United States, as do all other foreign corporations similarly situated, and we do not complain of this. But, unlike the foreign insurance companies, other classes of foreign corporations doing business in the United States hold few, if any, investments in American securities that are not used or employed in the business transacted in this country.

The inequality of the method imposed by the act, in computing the excess-profits tax, is manifest when it is appreciated that in ascertaining the amount of the excess profits—on the business transacted in this country—the income derived from capital not used or employed in the business in the United States is subjected to the excess-profits tax as though it were so used or employed.

The insurance laws of all the States sharply define the "capital" of foreign insurance companies doing business in the United States as including only the securities which these companies have deposited with the insurance departments or other assets or securities which they have placed in the hands of United States trustees for the protection of American policyholders and certain other funds in the custody of the managers of the American branches.

They do not recognize as part of the United States capital of a foreign insurance company, such American securities as that company may own and hold abroad. Therefore, it would be no solution of the present inequality to suggest that such foreign held American securities should be included by the act as part of the capital of the company "used or employed in the business in the United States," for two reasons: First, because such a statement would not be true; and, secondly, because the States very properly refuse to recognize such foreign owned and held securities as part of the "United States capital" of a foreign insurance company.

The particular portions of the act which create the inequality referred to and impose an excessive burden upon foreign insurance companies, thereby differentiating between them and other foreign corporations, are contained in sections 201 and 203 of the excess-profits tax law.

Section 201 of the act provides that—

"Every foreign corporation and partnership * * * shall pay * * * a like tax upon the amount by which its net income received from all sources within the United States exceeds the sum of (a) eight per centum of the actual capital invested and used or employed in the business in the United States," etc.

From the foregoing it is evident that the amount of the excess will be erroneously arrived at by applying the net income of the foreign corporation "received from all sources within the United States," to the actual capital "used or employed" in its business in the United States, regardless of the fact that a part of the income is not derived from such source.

The same principle is emphasized and established by the provisions of section 203 of the excess-profits tax act—

"That the tax herein imposed upon corporations and partnerships shall be computed upon the basis of the net income shown by their income-tax returns, * * * and shall be assessed and collected at the same time and in the same manner as the income tax * * *."

It is believed that the committee appreciates the injustice of including as income under the excess-profits tax act income not derived from business transacted or from capital "used or employed" in the business in the United States, and it is respectfully urged that in amending the present law, by the bill now pending, the committee should make it abundantly clear that income not received from business transacted nor from capital used or employed in the United States business of these foreign insurance companies shall not be deemed income for the purpose of computing the excess profits taxable under this act.

To cure the irregularity existing under the present wording of the excess-profits tax law the foreign insurance companies suggest that the following language be inserted at the end of section 203 of that act, as appropriate to accomplish an equitable result:

"*Provided further*, That in the case of foreign insurance companies, partnerships, and other foreign corporations there shall not be included for the purpose of the excess-profits tax income received from capital not used or employed in their business in the United States."

In order to avoid any inconsistency between the words of the above amendment and the existing provisions of another section, viz, section 201 of the excess-profits tax act, it is advisable to insert in the second paragraph of section 201 after the words "net income received from all sources within the United States," the words "except as herein otherwise provided."

The effect of the foregoing suggested amendments will be to carry out the undoubted intention of the framers of the excess profits tax act, namely, to measure and base the tax imposed upon foreign corporations having branches here, upon the profits of the business transacted and the capital used or employed in their business within the United States, and not to include as income in ascertaining such profits income received from capital not used or employed in any manner in connection with the American business.

In order that in making this request of the legislative branch of the Government the foreign insurance companies may not be lacking in complete frankness toward the administrative and executive branches of the Government that will enforce and administer this act a copy of this memorandum, accompanied by an explanatory letter, is being sent to the Commissioner of Internal Revenue for his information.

Respectfully submitted.

BARRY, WAINWRIGHT, THACHER & SYMMERS,
Attorneys for Foreign Fire and Marine Insurance Companies,
59 Wall Street, New York City.

ARCHIBALD G. THACHER,
HERBERT BARRY,
CLARENCE R. WILSON,
A. CHALMERS CHARLES,
Of Counsel.

The CHAIRMAN. You may proceed, Mr. Emery.

STATEMENT OF MR. JAMES A. EMERY, REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS OF THE UNITED STATES, THE NATIONAL FOUNDERS ASSOCIATION OF THE UNITED STATES, AND THE NATIONAL METAL TRADES ASSOCIATION OF THE UNITED STATES.

Mr. EMERY. Mr. Chairman, in accordance with the committee's suggestion we met outside, and it was agreed I should have not to exceed 10 minutes of your valuable time.

These organizations which I represent number about 5,000 manufacturing corporations, engaged in general manufacture in all the States of the Union, employing about two and three-quarter millions of people. I may say also that they represent more than 55 per cent of the industries upon which the United States will most directly depend for the production of its equipment for the Army.

There are very many matters in this measure in which we are interested, but we are more concerned in the principle upon which this tax is to be laid than upon the amount of the tax that is to be levied, because, as we are entering upon this war, now is the time when the United States will determine upon its taxing policy. We desire to submit that there are two principles presented in the House bill which act unfairly and inequitably.

Senator THOMAS. Only two?

Mr. EMERY. I will say two major principles, Senator Thomas. The first of these is, that this measure proposes retroactive taxation upon the income of corporations and individuals for a portion of the calendar year of 1916. We urge upon you that retroactive taxation is unfair taxation, because it is taxation upon the incomes distributed and disposed of, and you might as well ask us to stand upon the bank of the Potomac River and drink of the water that flowed to the sea yesterday as to pay you any further tax upon the incomes of corporations and individuals that have been distributed for the year 1916. The proposal in the House bill is that 33⅓ per cent, or a tax equal to 33⅓ per cent of that which has already been levied upon the incomes of corporations and individuals, shall be levied for the year 1916 upon the returns now in the possession of the Commissioner of Internal Revenue and made payable in September. We suggest that before you think it necessary to increase the present tax, whether you make it a tax upon the future or upon the present, we are ready to pay in accordance with the national necessity, but we object to any form of taxation which is retroactive in its nature, and that undertakes to deal with a distributed income.

Secondly, I venture to suggest that any form of taxation that at once taxes the income of the corporation, then levies a supertax—and that amounts to a supertax upon its income in the nature of an excess profits tax, while at the same time levying a supertax upon the individual income in the form of the measure coming from the House—twice taxes the income of the corporation, while it does not twice tax the income derived from any other form of business. Double taxation is not in itself unjust or inequitable taxation, but double taxation that levies twice upon the income derived from one form of business, and does not levy twice upon the income derived from any other form of business, places that twice taxed income at a disadvantage, so far as either its dividends or investments are concerned, for the future of that business.

We rest confidently on the belief that the gentlemen of this committee desire to produce a maximum of revenue for the Government of the United States with a minimum of injurious reaction upon the industry of the United States, and we venture to suggest to you that if the income from real estate, from rents, from the owners of apartments or office buildings is not to be subjected in the same manner to an equal burden that is laid upon corporate incomes, you have placed that corporate income with reference to all its future findings upon a very injurious and difficult basis.

If I may venture to point out the practical situation to you, at the present time at the other end of the Avenue manufacturers are being brought in from all over the United States, and they are being asked to take, under the stress of war, contracts for all sorts of materials essential and articles essential to the maintenance of war which they have not hitherto manufactured. To give you a typical instance, the heads of two manufacturing corporations, members of our association, within the past few days have taken contracts for the manufacture of naval guns, which they never made before, which they are glad to manufacture in aid of their country. But they must organize, for the purpose of manufacturing these, separate corporations, in order that they may make them at a point most convenient

to their need; and also that the parent company, in providing the capital, may have a separate business organization with which to deal.

In that connection I want to point out to you gentlemen, if I may, a source of income which apparently has not been considered in the House bill at all, but certainly is worthy of your consideration, computing the present revenue to be expected. When these gentlemen undertake this manufacture they are confronted, of course, first of all with a munitions tax upon the product which they are to make for the United States under a contract calling for a limited price, and that tax is 12½ per cent on the net profit derived from the manufacture of these munitions. In the estimates made by the House Committee on Ways and Means there has apparently been no consideration whatever given to the vast increase in the income from your munitions tax that comes from the largely increased entrance of American manufacturers into the munitions trade for their own Government. The munitions tax was laid upon the theory that manufacture of munitions, export, and sale to the allies was a profitable business. It was in some instances, but it certainly was not in many others. Be that as it may, the American manufacturer is now making munitions for his own Government, and assuming that he makes any profit at all—which very few of them are to any extent—you have to consider the income to be derived from that source as additional revenue that has not been considered in the estimates made in the House bill.

The manufacturer who undertakes to manufacture for the Government of the United States is, of course, immediately faced with a munitions tax. He has the excess-profits tax, if he reaches that point. He has the normal tax upon the corporation, and he has the excise tax laid upon the corporation stock. If a similar income is derived from real estate in any form, it would be subjected to only the tax paid by the individual on the income derived from that source. The excess-profits tax, the excise tax upon the corporate stock, and, of course, the munitions tax, are something to which income of that nature can not be subjected. If the tax which is laid in the House bill upon excess profits be considered as an income tax, then we submit it should be equally levied upon all income under similar circumstances and upon all excess profits similar in amount to that upon which you rest it, and not upon profits derived from one particular source—to wit, from a corporate income—because that corporate income is placed at a decided disadvantage as to its future investments and as to the ownership of its stock.

If it is to be regarded as an excise tax upon the business doing business in a corporate form, then it would seem it ought to rest upon all corporations doing corporate business. But it does not. It rests only upon those who make a profit in excess of that fixed by law, and that so-called excess-profits tax is an arbitrary designation of profit. It is not, as in the English law, fixed by any reference to the business in the years preceding the war, but it is fixed upon an amount that does not take into consideration the business fact that stares every business man in the face, and that is the differing risk. For instance, the gentlemen who are now undertaking the manufacture of munitions for the United States are, of course, engaging upon a risky business enterprise from the standpoint of the commercial venture, and that is equally true of many forms of business

here. So we venture to suggest that you take into consideration those two principles in the laying of the tax: First, that no tax should be retroactive in its nature, because it is an unjust and inequitable levy upon a distributed income. Second, that it would be far wiser and far more certain if you were to increase the normal tax upon the corporation at the base, so that the amount raised would be equivalent to the revenue which you desire from the excess-profits tax, in addition thereto, and it would then fall equally upon all corporations, and it would not be distributed inequitably upon corporations under conditions under which the excess-profits tax does not represent in any way the differing risk on the business involved.

The CHAIRMAN. Proceed, Mr. Morrison.

STATEMENT OF MR. CAMERON MORRISON, OF CHARLOTTE, N. C., REPRESENTING THE AMERICAN COTTON MANUFACTURERS' ASSOCIATION; THE MAYS MANUFACTURING CO., OF MAYSVILLE; AND THE LORAY MILLS, OF GASTONIA, N. C.

Mr. MORRISON. Mr. Chairman, the clients I represent think the tax levied by this bill in the aggregate is too much, and that this excess-profits and income tax placed upon their business is so placed as to discriminate against them, and endanger the value of their property unnecessarily.

This is the largest levy of taxes ever made upon the people of our country, and it is to be added to a bill the next largest in the history of our country, unrepealed, making in the aggregate three billion and three hundred millions of taxation, and in the aggregate, if either of these bills was repealed or this not enacted and the other remain, we would be the most heavily taxed people in the world.

The Committee on Ways and Means in their report make a comparison between the tax which our people will pay and that which is paid in Great Britain, if this bill is enacted into law, showing that we would pay $33 per capita, and in Great Britain they would pay about $60. But that comparison is misleading. This Nation is a complex Nation, and much of our taxation is levied by the States, out of which the General Government grows. Great Britain is a purely national government, and we can not make a comparison fair to our people in merely considering the tax levied by the United States Government. The aggregate of the tax levied by the States and the subdivisions of the States is enormous, and when added to this three billions and three hundred millions will make an aggregate sum of taxation upon the people of the United States without parallel in history.

The people I represent are as patriotic as any class of citizens of our country, and their sons are ready to go to the trenches in Europe to defend democracy, as other classes of people are going to do. The son of the chairman of the committee representing this company who employed me, who represents the organization in this matter before Congress, is a lieutenant in the United States Army. He was in Mexico, and shot at there in the recent trouble, and will be as far in front as his country will send him. But these people think that this tax in the aggregate is too much to levy upon them at one time. They do not object to the amount. They do not object to the last dollar of our treasure being voted out, if necessary to defend liberty and democracy on earth. But they want some time

on this thing. They believe that it will not only bear heavily upon them, but that it will endanger all values in the United States, and particularly the value of property where it is held by corporate title.

The principle declared by the Ways and Means Committee in their report, that this generation ought to pay about half of it, is a perfectly sound principle, and we do not object to that. But they define a generation to be those people living this year, and they depart from the principle which is declared to be and is a proper principle, unless we assume this war is going to last 30 years, because this bill provides for paying half of it year by year, and even goes back and taxes people who belonged to the last generation, who are dead and gone. We object to any such solicitude and compassion for posterity.

We believe it will be better, not only for this generation, but for posterity, to upset the basic principle followed in this bill, and interpret a generation to be, as it is, some 30 years and more, and divide this great burden which will be so patriotically borne by our people, over a period of 30 years. So strong and great is our country, it would not hurt a single industry in it, and there is not a man under the flag who would complain at the burden. We only complain at this novel idea of meeting this extraordinary burden with a greater cash payment upon it than is followed by our people anywhere. If we go and build a schoolhouse, we will borrow the money on bonds, and extend it over a few years. If we go and build a good road, we will borrow the money and extend it over a few years. But we have a new thought about taxation here, that this great burden must be paid for half in cash as we go, contrary to the policy followed by our people in any division of our Government in the past. We think it is dangerous, and we do not concede that it is unpatriotic to come here and express the views of these great men of business who are willing to pay, and will have to pay, a large part of this money. But we do say that it ought to be so done as not to endanger industry in our country, and not to make taxation so heavy that our people, however patriotic, can not bear it with safety.

Mr. Chairman and gentlemen of the committee, we pay less tax in North Carolina per capita for State Government and county Government than any State in this Union. We run our State more economically, according to the census figures, than any State in the American Union. Yet ad valorem tax in the towns and cities in North Carolina ranges from 2 per cent to 2½ per cent, from $2 to $2.50 on the hundred dollars of valuation, totaled for State, county and town. The legal rate of interest in our State is 6 per cent. We take more than one-third of a dollar of the value as fixed by law in our interest law for taxation for every year, and I beg you to take into consideration the high tax borne by our States, towns, and counties, when you are levying this tax.

The States have been progressive. This spirit that has controlled the Nation recently and made it swing out and do a great many things we have not been doing before, has been followed in the States. Our schools have been enlarged and increased, good roads have been built everywhere—all manner of public assessments have been made upon the people of the States. The United States increased its tax to a degree never dreamed of before, and in the aggregate already it is enormous and hard for business to bear, and when this is levied, as I said in the outset, in the total it will be a greater taxation which

these great men of business, not in selfishness, but in solicitude for the whole business fabric, believe will endanger the value of all the property in this Republic.

These particular properties are easy for the State tax assessor to get at. Corporations have to make reports to the State officials; they keep books; and in North and South Carolina they are valued at their actual value in money. They are made to swear to their capital stock, to their surplus, to their net earnings, and the market value of their stocks, and they are assessed in my State at every dollar they are worth, and they bear an ad valorem tax, when they are situated in towns, as most of them are, as I said awhile ago, of 2½ per cent. What reason is there not to define a generation to be, as it is, the people who live within 30 years, and spread this great burden borne for democracy for all the generations to come over this period? We could do it, and it would never jar or strike a single industry in the Republic.

But if the aggregate sum must be levied, if we must reach back and tax, in solicitude for those who are to enjoy the blessings that we by our treasure and blood are going to maintain for them, and put upon the present generation year by year this enormous sum, then we ask, if it must be done, if that is the wisdom of the lawmaking power of our country, my clients will bear it patriotically—yes, and let it all go as cheerfully as any class of people in this Republic. But we know that the Representatives of the people are willing to levy it fairly. We know that the sentiment will not prevail here that the men who will pay excess profits in the United States, as declared by a great official on yesterday, will never get within miles of danger of the firing line. We know that the sentiment will not prevail in the Congress of our country. We know that the men who may earn, in the corporations in which they are associated and in the partnerships, an excess over 8 per cent, are not looked upon by the Congress of the United States as cowards and traitors and slackers all, and that there is no patriotism in this Republic save in those who are unsuccessful.

If it must be levied, we ask you to consider a few facts that we want to bring to your attention as to the inequality upon these particular properties of the particular tax placed. The excess-profits tax, as fixed in this bill, is purely a class tax, without any justification whatever, except the justification of convenience, and that it can be administered against people it applies to, and could not be against other people. The people associated in partnerships and corporations—mark the distinction—not the business, not the automobile business, not the tobacco business, not some particular business which, for particular reasons, might stand a special tax in this time of stress and emergency—but without regard to the business, the people associated together in partnerships or in corporations for perfectly legal purposes are made to pay this tax, while individuals equally prosperous are not required to pay it.

It can not be justified upon any principle which ever prevailed in a tax bill in our country until it was placed in the bill two years ago, and we of course do not expect that to be repealed. We know that there is not going to be any tax repealed in these times. But we think it is so objectionable that it ought not to be extended, and we urge this committee, if they put the full amount of tax upon our

properties provided for in this bill, to do it in any other way that the human intellect can devise save this.

It is the most dangerous tax to the value of the property. The Government seems to fix, as they do upon public-service corporations, a legal amount of profit at 8 per cent, and above that it is to be condemned as excessive, and taxed as something wrong, and the tax, as heavy as it is in this bill, not only makes the amount severe, but, Mr. Chairman, it endangers the value of the property to a degree more harmful and hurtful than the amount of the tax itself. You can not take any stock in any corporation and tax its income 4 per cent, and then add to that 4 per cent a tax of 16 per cent on all it makes over eight, without endangering the value of the property seriously, and, Mr. Chairman, in deep sincerity, in the amount you have fixed to take from corporate enterprise in the country, when agreed upon, we prefer the income tax straight, we prefer any form in manner of levying that tax to the manner which seems to condemn these enterprises if they make over 8 per cent.

Furthermore, this 8 per cent exemption, Mr. Chairman, results necessarily in discriminations. They say we are going to get at the actual capital by the bill, and of course the bill as passed makes an honest effort to do that; there is no question about it. How can the tax assessors ascertain the actual capital invested in the corporations of this country? We are spending millions of dollars to find out how much is invested in the great railroad properties of our country, as a matter of fact, and yet the tax assessor under this law could have determined that whole matter. In all the enterprises there will be found ancient rascality still carried in the shape of capital stock and of surpluses, and it will be difficult for the officers who administer this act to get at the real investment, and it will necessarily result in discrimination, and we say that it could be more fairly done by a direct tax upon the net profits of the corporations, upon the gross sales of the corporations, or upon the gross incomes of the corporations.

In a day or two I shall submit a brief for the consideration of the committee.

The CHAIRMAN. We will have it printed.

(The brief referred to by Mr. Morrison was subsequently submitted and is here printed in full, as follows:)

BRIEF FOR AMERICAN COTTON MANUFACTURERS ASSOCIATION ON WAR REVENUE BILL (H. R. 4280).

STATEMENT.

FINANCE COMMITTEE,
United States Senate.

SIRS: On behalf of the American Cotton Manufacturers Association I beg to submit the following expression of our views on war-revenue bill, H. R. 4280.

(1) We most earnestly urge the general proposition that more money be raised by bond issues and less money by taxation.

I shall not undertake to argue the different points involved, as they will be fully covered in Mr. Morrison's argument herewith attached and submitted. I desire, however, to emphasize the fact that this position seems amply justified, even without argument, by the immediate depressing effect upon business following the publication of the Treasury Department's "suggestions" as to the amounts desired by taxation for war revenue; also by the obvious hesitation of business men to subscribe as freely as they would like to the liberty bonds, for fear they will not have the available cash both to pay the taxes proposed and to subscribe to the bonds.

As we see it, assuming that the interest rate on the bond issues will ultimately reach 4 per cent, an additional 2 per cent per annum collected for redemption purposes would pay off the whole bond issue in 28 years, the total required annual taxation, both for interest and amortization, amounting to only about one-eighth of the annual taxation proposed under the present bill.

We can see only harm and no good that can come by attempting to impose upon the American people barely entering the war a greater burden of taxation than that borne by any nation in the world, even after three years of financial and economical struggle. (See Morrison's argument.)

(2) We beg to state most emphatically that the actual working of the proposed bill would discriminate against our industry, owing to the character of its organization as compared to that of many other industries. As a rule, cotton mills both are owned by corporations and are undercapitalized, so that the excess-profits feature of the bill would fall unreasonably heavy upon them. For those immediate reasons we are opposed to the excess-profits feature of the proposed tax, not to mention the further and more far-reaching organic reason that such a new and novel principal in taxation would ultimately impair the values of our properties, as will be discussed with more particularity by Mr. Morrison.

We would like to see that whole feature of the revenue bill eliminated; but if it be decided not to repeal the present 8 per cent excess-profits tax, we at least urge that the principle be not extended by the addition of further taxes of this character.

(3) We protest against any retroactive taxes whatsoever; prior-period incomes have already been distributed, invested, or otherwise disposed of.

In conclusion, it is to be distinctly understood that there is no disposition whatever on our part to evade the ultimate responsibility and payment of these taxes; we realize perfectly that the business men of the country must pay the bulk of them; all we ask is that the taxes be levied justly and without discrimination and that more time be allowed in which to pay them by making the annual payments smaller than is contemplated in the proposed revenue bill.

We most earnestly beg your careful reading and consideration of the argument herewith submitted by our attorney, Cameron Morrison, Esq.

Respectfully submitted.

American Cotton Manufacturers' Association,
Stuart W. Cramer,
Of Legislative Committee.

May 11, 1917.

Argument of Mr. Morrison, of Charlotte, N. C., Delivered Before the Committee on Finance of the United States Senate on the 11th Day of May 1917.

Mr. Chairman and gentlemen of the committee, the American Cotton Manufacturers Association, whom I represent, protest against the enactment of H. R. 4280, being the war revenue bill.

First. Because the bill makes an unnecessary and dangerously excessive levy of taxes upon the people of the United States and upon almost every business and income therein taxed, and

Second. Because the income and excess-profits tax levied by the bill under consideration upon corporations and partnerships is discriminatory and grossly excessive as related to other classes of people taxed by the bill.

And they desire to urge the wisdom of raising a larger part of the revenue required by an additional bond issue.

It is estimated by the report of the Ways and Means Committee, which accompanied the bill to the House of Representatives, that the receipts of the Federal Government, including postal receipts, for the next fiscal year, under the existing law, will amount to $1,500,000,000. This was the largest annual levy of taxation in the history of our Government.

The same report estimates that the bill under consideration will yield, during a twelve month's period, $1,800,000,000 additional revenue. This will make the total levy of taxation by the United States Government, including postal receipts, $3,300,000,000. This sum is immense and largely more than any annual levy of taxation upon any country in the history of the world. But this is nothing like all the taxation our people must bear. Our Government is a complex Federal Government, and only a few of the functions of Government

are performed by the General Government. The taxation levied annually by the States, counties, townships, cities and towns, and other community Governments, must be added to the enormous sum of $3,300,000,000 of annual taxation in order to ascertain the full amount of taxation borne by the people of the United States. I have not been able to obtain official figures from the Census Office from which the exact amount of taxation levied by the States and the various subdivisions thereof can be ascertained, but we respectfully urge that your honorable committee should have the officials of the Census Department to ascertain this all-important fact for your consideration before placing the great levy of taxation carried by the bill under consideration. We know the amount would be enormous.

The report of the Ways and Means Committee of the House of Representatives, heretofore referred to, undertakes to make a comparison between the taxation borne by Great Britain and that which will be levied by the United States if this bill should be adopted, showing that while our total taxation will be many millions in excess of Great Britain's—to wit, $3,300,000,000 as compared to $2,790,585,328 upon Great Britain—our per capita taxation will be less, to wit, $33 per capita as compared to Great Britain's $60. This comparison, as made by the Ways and Means Committee, is misleading, because they have only estimated the tax levied by the United States Government in calculating the per capita taxation levied upon our country. Great Britain is a national Government, and the total taxation upon the inhabitants of Great Britain is much more nearly shown in the taxes levied by the Parliament than is the total taxation upon the people of the United States in the levy made by the United States Government alone. There should be included, to make a fair comparison, the taxes levied for all governmental purposes in both countries. If this were done, the aggregate of taxation levied upon the people of the United States would exceed by many hundreds of millions that levied upon the people of Great Britain at the end of nearly three years of the most devastating and costly war in the history of humanity. In many sections of our country, if not as a whole, we are satisfied the per capita taxation would exceed that of Great Britain. We are not yet in anything like such a critical condition as Great Britain. Our credit and ability to dispose of the securities of the Unted States is unimpaired, and we are far from the necessity of levying such devastating tax as Great Britain.

The total sum of taxation upon property and business in the United States is already heavy, and if the bill under consideration is enacted into law it will be so enormous as to seriously endanger all business and all property values in our country.

For some years the annual expenditures of the United States Government and the levy of taxation have been increasing rapidly, because the Government has been engaging in a great many progressive enterprises for the betterment of the country not formerly undertaken. Under existing law there would be levied a sum about five times as large as that levied under the Payne-Aldrich revenue bill, and if the proposed bill is enacted into law it will become about ten times as large. The spirit of progress manifested in national legislation for the last few years has permeated all the States, counties, townships, cities, and towns. Large undertakings of a governmental character have been carried out in almost every community throughout the country, resulting in a tremendous increase in taxation in well-nigh every State, county, township, city, and town in the country.

North Carolina, according to the last census figures, is the most economically governed State in the Union, and the lowest tax is levied there per capita in the Union; and yet the total ad valorem tax alone on the $100 valuation in property in the towns and cities of North Carolina, including State, county, and township taxes, aggregate from $2.00 to $2.50. So we find that industry and property, without the levy provided for in the bill under consideration, is certainly much greater in the aggregate than in any country in the world, and while we lack full statistics to make a reliable comparison, it is quite likely that already, and before the enactment of the proposed bill, the people of the United States, when all taxes are embraced, are to-day more heavily taxed per capita than those of the most desperately situated of the countries engaged in the European war; this is certainly so in many of the communities of our country. It is a very great and patriotic purpose, and still there is a limit beyond which business can not stand taxation without complete paralysis and destruction. Are we not approaching this limit? It does seem clear that these enormous additional taxes should not be levied unless there is absolute necessity for doing so. The inter-

ests which I represent realize that the Congress should raise the money asked for by the executive branch of the Government. They recognize the wisdom and justice of the purpose for which the money is needed. But they do not believe it is necessary or just or wise to annually levy such tremendous burdens upon the already heavily taxed incomes and businesses of the people. We urge upon your consideration the wisdom of raising a large part of the necessary money asked for by a larger bond issue.

Mr. Morrison. A part of the revenue provided for in this bill should be met by a bond issue and the burden extended over a period of years.

The report of the Ways and Means Committee, accompanying the bill, says [reading]:

Your committee, after carefully considering the experience of the European countries at war, believe that it is sound economic policy for the present generation to bear a fair and equitable portion of the burden of financing the war, and recommends that the remaining contemplated expenditures of the Government for the remainder of this and the whole of the next fiscal year be raised by taxation. The effect of this recommendation is that about one-half of this contemplated expenditure will be met by taxation and the other half from the proceeds of bonds.

The principle that "the present generation should bear a fair and equitable portion of the burden of financing the war" is not only just but sound. The all-important question is, What are we to define to be the life of this generation, and what are we to judge a fair and equitable portion of the heavy burden for such generation to be after we have succeeded in fixing the term of its life? The report declares for a perfectly just principle for the country's guidance, but proceeds by the bill reported and now under consideration to grossly violate that principle. If we assume, as the report seems to do, that this generation, in justice to posterity, should pay one-half of the burden of this war and carry forward the other half to be met by future generations, then this bill violates this just division of the burden between the present generation and posterity, because it undertakes to levy annually one-half the cost of the war. The committee seems to interpret the life of a generation to be one year rather than 33⅓ years, a much more nearly correct estimate of the life of a generation. Unless this war is assumed to last 30 years or more, then the levy of one-half its cost annually would not distribute the burden upon the present generation, but place unjustly one-half of the whole burden upon that portion of the generation living during the duration of the war, which certainly can not be expected to extend over more than two or three years, if so long. It does seem that the portion of the heavy burden to be borne by this generation might, without injustice to posterity, be extended over a period of years rather than all of it paid in cash by that portion of the generation living in the midst of the fighting and suffering, during the actual period of the war. It has been the policy of the people of the United States, in the various subdivisions of our Government, to meet unusual and extraordinary expenditures by bond issues running for a period of years. If this policy were adopted to meet this extraordinary expenditure, this generation could much more easily bear the entire cost of the war and with much less hurt to the country than if required to pay half of it year by year by the levy of exorbitant and destructive taxes. It has been the policy of the people of our country in building good roads, streets, schoolhouses, and in making all improvements in which posterity has an interest, to do so by bond issues, so that the burden might be distributed at least over a period of years rather than by placing destructive, value-endangering taxation upon the community.

This war is the most extraordinary and expensive emergency—the greatest emergency—with which the country has been threatened. It is unquestionably in the interest of those who will be living during the next 50 years for this war to be fought to a successful conclusion. Why should those living in the very midst of its burdens and difficulties, those who will have to do the fighting and suffering, bear, year by year, so much of it, endangering, as it will, the great inheritance which this generation seeks to transmit to the next? Why not meet this emergency by the policy heretofore followed in almost every unusual governmental improvement, that is, by issuing bonds after the danger point has been reached in taxation, and thus divide the burden, if not with future generations, at least between those of the present generation.

If this policy was followed, in the opinion of the great men of business whom I represent, the enormous wealth and productive energies of our country could meet the total cost of this war, even if it should be as great as the highest fear of its cost, without injuring a single industry and without for a moment staying the extension of business and the augmentation of our already great wealth. The business men of the country believe that our credit should be used generously to avoid the evil of confiscatory and dangerous taxation. This is not from selfishness, but from a deep conviction that it is best for posterity as well as ourselves to keep enterprise and business in a healthy and vigorous condition. They believe that, considering the already heavy taxation under which existing law places the country, much of which was levied for preparedness for this war, we have reached the point in taxation that so heavy a levy as is carried in this bill upon the incomes and various businesses of the people will result in danger to all values and especially to the value of the properties so largely and excessively taxed as all corporate properties are.

We not only protest against the tax levied upon corporations under the additional income and excess-profits tax, but against the whole scope of the bill, on account of the aggregate placed upon the whole business and incomes of all the people. It will, in our opinion, so arrest enterprise in business, so prevent the growth and extension of business that it is unwise to levy it until it is demonstrated that the necessary funds can not be obtained by a larger use of the country's credit.

We urge that you consider the wisdom of extending the burden of this war over a period of 50 years and providing for the annual discharge of a part of it; if not 50 years, then as long a time as is necessary to save the business and people of the country from unusual and excessive taxation, and certainly so as not to put the chief burden upon the men and their families who are to do the chief suffering and the dying for the protection of democracy for themselves and posterity. The bill, as drawn, exhibits a solicitude for posterity never exhibited before by any legislative body on earth. Those who are to come after us should be protected from any injustice upon our part, but this solicitude should not go to the extent of causing this generation to pursue an unbusinesslike and unsound economic policy and to assume annual burdens greater than can be borne with safety. It must not be forgotten that all the wealth saved by this generation will be transmitted to posterity as will the burdens we may transmit.

If this generation should pay all this money, then let this generation have the privilege of doing it in a businesslike way and divide the burden between those who live within the generation, rather than half cash and the remainder during the life of this generation, as the policy proposed will require.

But if the aggregate sum provided for by the bill must be levied, then we submit that the increase in the income tax and excess-profits tax placed upon corporations and partnerships is discriminatory and unjust as related to the taxation placed by the bill upon other classes and interests of the country.

The corporate properties of the country are already heavily taxed in the States and subdivisions thereof in which they are situated. There is much undervaluation of property for ad valorem tax in the State, but this does not apply to corporate property. The corporations keep books, and it is easy to ascertain the actual value of their assets. In almost every State in the Union there is complaint at the rapid growth of these assessments and at the discrimination in valuation made against corporations. In the bill under consideration the income tax which they are required to pay is doubled, and the grossly discriminatory excess profits tax placed upon them by the last Congress is also doubled, so that a corporation, if situated in a North Carolina town or city—and the conditions are as good there as in any State in the Union—will have to pay from $2 to $2.50 upon the actual value of its property as finally determined by the actual value of its stock as fixed by the market, or if it does not carry a market value, then upon its actual book value; and in addition to this it will have to pay various State and county license or corporation taxes, all of which must be paid whether it makes any money or not; and under this bill, if enacted into law, it must pay an income tax of 4 per cent to the United States Government and a heavy corporation tax, and if it is managed by men of such ability that it can get by all these burdens and make anything above $5,000 and 8 per cent, this bill proposes to take 16 per cent or nearly one-sixth of such earnings. Is it not clear that this taxation must seriously affect the value of all corporate stocks and discourage all corporate enterprise?

The excess-profits tax is an unjust class tax. We can readily see the justice of placing upon certain businesses, whether incorporated or otherwise, a special tax, but we can not see any principle whatever which justifies putting a heavy tax upon one class of people which is not imposed upon other classes of people engaged in identically the same business.

The excess-profits tax is placed by this bill only upon that portion of our people associated together by partnership arrangement or who have associated themselves together as stockholders in a corporation. The corporation and the partnership may be, and is, engaged in almost every class of business in which individuals are engaged. Under this unjust and unfair tax a partnership, operating a business upon the same street in an American city where an individual operates a larger and more successful business of the same character, would be required to pay this excess-profits tax, while the larger business operated by the individual would not be required to pay it. A small corporation earning over $5,000 and 8 per cent upon the capital invested would be required to pay this excess-profits tax, engaged in any business, while the individual, worth many times more and using many times more capital in the same business, competing with the little corporation, would be free from this tax.

Upon what principle is this justified? Upon none, except that the partnership or corporation keeps books and the Government thinks it can get at the capital invested in the partnership or corporation, while the individual does not keep books upon a basis of fixed capital, and therefore the law could not be administered upon the individual. It may be answered that the individual has to pay an income tax. So does the corporation, and while the amount of the income tax on the corporation may be at a less rate, yet when we consider that among the holders of stock of the corporation there will be many individuals who, if not associated with the corporation, would not be liable for any income tax even under the new and lower amount at which the income tax is applied, it is not certain that the income tax upon individuals is less than it is upon corporations. The excess profits tax is not only unjust in the amount of it, but in the principle, which is highly dangerous to all partnerships and corporations. It seems to fix a standard of earnings, as is fixed for public-service corporations, at 8 per cent, and that earnings above this amount are beyond the rights of business and to be condemned by the Government. The effect of this vicious innovation in taxation will be to seriously lower the value of all corporate stocks. The tax is more objectionable on this account than because of the amount which will be taken from the earnings. Why should the men and women and minor children, who, in order to accomplish a perfectly worthy business purpose, have become partners or associated themselves together in a corporation, be informed that if, by business economy they are successful, and in spite of the heavy burden of State, county, town, and Federal Government tax earn over $5,000 and 8 per cent in their business, their Government will take nearly one-sixth of the remainder from them, while other men and women, not associated in partnership of incorporated companies, though engaged in the same business, may make all the money they can without having condemnation placed upon them and having one-sixth of what they can earn taken away from them by their Government in special class taxation.

The only other argument advanced to sustain the proposition is that corporations, since the European war commenced, have been making money. It is true that the corporations and partnerships have been making money since soon after the European war commenced, to an extent to which they had not been making it before that time. It is equally true that the people of our country who are not associated together in partnership or corporations have been making money above what they made before the war commenced, in as increased volume as the corporations and partnerships have been doing. All business has recently prospered in the United States, and there is no justification in this for singling out those who have been legally associated together for commendable business purposes for novel and class taxation of a most exorbitant character.

But can this excess-profits tax be fairly administered against corporations and partnerships? We submit that it can not. The difficulty will be in ascertaining the capital actually invested in the business. Many corporations carry upon their books, as assets, much of what is commonly called water. It will be most difficult for the tax assessor to determine what is capital and what is water. The Government is now engaged, at a cost of millions of dollars, in having the capital invested in the great railroads of the country ascertained.

According to the theory of this bill, an employee of the Treasury Department could have determined this without the expenditure of all the money and the employment of thousands of intelligent men to determine it. We recognize that this bill carries a provision intended to squeeze the "water" out of corporations, in order that the honestly capitalized corporations may not be discriminated against, but the attempt can not be successful and is unfair upon its face. It is true that one of the most popular ways of watering stock has been to incorporate good will, brands, etc., but it is equally true that there are instances where corporations have bought good will and instead of paying for it in cash or tangible properties issued therefor its securities in good faith, and it would be manifestly unjust to those corporations which did this, and where the transaction was bona fide, and the good will purchased of honest value, and the securities issued for it honestly issued, not to be treated as if such issue of securities was invested capital; and yet this bill does not recognize such capital.

A great many of the strongest and richest corporations in the country will not pay one dollar of this excess-profits tax, because they are so capitalized as not to make over 8 per cent. The small corporations have not indulged in the days of high finance, and practically every one of the smaller corporations and partnerships in the United States making over $5,000 and 8 per cent will have this tax to pay. Very few of the great and powerful corporations, however honestly conducted in recent years, will not be carrying upon their books, in spite of the present managers of such corporations, a great deal of ancient rascality and corruption. We do not believe this ancient rascality and corruption can be unearthed and eliminated from the capital of such corporations by the tax-collecting forces of the Government. It will be almost impossible to accomplish, and certainly can not be done by a tax collector.

If the aggregate of the tax carried in this bill must be levied, and if it is found to be just to place upon partnerships and corporations the amount of the burden placed by this bill, we most respectfully protest against its being done under the form of both an income and excess-profits tax. We urge that the excess-profits tax be not extended. It carries with it condemnation of the business to which it is applicable. If the corporations must pay the amount thus imposed, those whom I represent prefer any other manner of assessing it than the excess-profits tax. The amount, when added to the heavy taxation already borne, is within itself unjust and discriminatory, and the manner of collecting it is the most objectionable that could possibly be devised. We much prefer an increase in the corporation tax or the total amount placed on incomes. If neither of these methods can be adopted, we urge the committee to devise some means by which we can pay it which does not establish the principle that for a corporation or partnership to make over 8 per cent is excessive, condemned, and made justification for unusual taxation by our Government.

The people whom I represent in this matter are as patriotic as any class of citizens in the Republic. They do not object to paying their just part of the great expenses of the war upon which our country has so wisely entered for the vindication of our common rights and the protection of liberty and democracy, but they do not deem it unpatriotic to come before the Congress of their country and urge their views as to how the burden can best be borne with least injury to the country.

The leader of the House of Representatives gave as a reason justifying this bill that the men who will pay the excess-profits tax would never be within thousands of miles of the firing line. We hope and feel confident that this matter will not be finally determined in that spirit. The young men of the country who have gone to the training camps to be trained for officers belong, many of them, to the families from whom this excess-profits tax will come. The selective draft provides against any discrimination on the basis of wealth as to those who will go to the firing line and those who will remain at home.

The acting chairman of the committee of the American Cotton Manufacturers' Association, Mr. Stuart W. Cramer, who represents the association before the Congress in this matter, has one son of military age. He is a lieutenant in the United States Army, and in the recent trouble in Mexico was with Gen. Pershing's army and was the leader of one of the few squads actually under fire. I happen to know that he has on file an application to be sent to France; and though less than 25 years of age, he will get as far in front and as quickly upon the firing line as his country and commander will permit him to go. The young men between 21 and 30 years of age of those families engaged in cotton

manufacturing and other industries conducted through the intervention of corporations and partnerships, will have to go to the firing line under the selective-draft system; and if they did not have to go, they would be found there in as large percentage as any other class of people in the Republic.

The cotton manufacturers in the South will find their labor organization seriously affected by the child-labor law recently enacted by the Congress, because many 14 and 15 year old children did work in the mills there. I have no criticism to make of this law, but the effect is important. The selective draft will make another great inroad upon the labor with which the cotton manufacturers of the South have been operating their mills. This, of course, will also apply to the manufacturing industries throughout the country. We have few people of much age working in the cotton factories. The young men taken from them will make great inroads upon the labor. They face a problem to keep sufficient labor to maintain production. There has also been a division by the manufacturers throughout the country of the recent prosperity with labor. Some of the mills have increased wages as much as 40 per cent, and generally the mills have increased wages as high as 20 per cent, and in addition to this many have given bonuses to their employees from the much-talked-about prosperity of recent years.

RETROACTIVE FEATURES OF BILL.

The retroactive income and excess-profits tax is very unjust. In our solicitude for the protection of posterity it is proposed to go back and take part of the profits made before the enactment of the law and by due course of business diverted to other channels, and in many instances into new hands. Some of the corporations earning these profits have altogether changed hands, and there have been, of course, many and daily transactions in their stocks based upon such taxation as they were subject to at the time of their transfer. The writer knows of an instance in North Carolina where there was a stock sale of a large and successful cotton mill. The price paid was supposed to be high value. The former owners received their pay for the stock, and the present owners are assessed by this bill with both income and corporate taxes, dating back beyond the date when they purchased the property. It would seem to be altogether unnecessary to fix a basis for collecting whatever sum must be collected from corporate enterprise by going backward. Bonuses were given and wages generally raised under the burdens then borne, extensions in business made or contracted for, and personal and other expenditures made on a basis of the then existing tax burden. It must work cruel injustice to go backward and heavily tax incomes and profits already earned and expended.

The properties which I represent have no protest whatever to make against the cost of this war and the final payment of the same. Our only protest is against the manner and time within which the burden shall be discharged. We are entirely willing for the properties which we represent to pay even a generous portion of the great aggregate cost of the war against autocracy and for the protection of liberty and democracy on earth, but we do most earnestly urge that there is no necessity for this payment to be made at an annual rate which will endanger all business and threaten the continued prosperity of the country. We are perfectly willing for this generation to pay it all if it is extended over the life of the generation. We are satisfied that the unrivaled resources of our great country could meet the cost of this war if spread over a period of only 20 years without jarring a single industry or stopping the rapid augmentation of our wealth.

Mr. MORRISON. I have time, I believe, to try to make just a further point. The cotton manufacturing industry in the South particularly had some recent difficulties that I want to call to your attention, and they should be considered in determining what they can bear.

I am not acquainted with the business in the New England States and the North, but I think it is the same there. They have greatly raised wages. This prosperity that justifies this tax has already been divided with the labor. The mills I generally represent in my community have raised wages 2 per cent. Then the Keats-Owen child-labor bill will disarrange—and I am not here to criticize that at all—the labor system they have had, very considerably, and put

the 14 and 15 year old hands they have had out of their plants; and then the draft for the Army will, of course, take the young man, and they face a most serious proposition to have sufficient labor to keep up their production. I think that in North Carolina they face a great trouble over that difficulty in getting labor, as they will, I am sure, throughout the country. Most of the cotton-mill labor is young. They use the young man and the young woman. The older people will not work in the cotton mills, certainly in our section. And this draft and the Keats-Owen bill, too, force them to practically reorganize their whole labor system.

I hope you gentlemen will deem it proper to consider those difficulties in considering how much additional tax they can pay, when everyone of them pays enormous taxes in addition to those levied by the United States, and to levy these taxes unnecessarily, I want to say, in conclusion, will be a grave mistake. Why is it not possible to adopt the plan I suggested awhile ago, and give them time on it? These people want simply to spread it over, if not 30 years, 20: if not 20, 10; if not 10, 4 or 5. But we certainly hope you will not go back. One of the largest cotton manufacturers in our State, the largest one, probably, died sometime ago, and it is proposed to go back and tax what he made in 1916. One of our largest and most successful plants in my State was sold about the first of the year, or since the first of the year, and these profits were paid for by the men who were not in the business at that time. This bill goes back and taxes these new owners of that corporation for the money which the former owners made, and had in their pockets, and we think that that certainly ought not to be done.

ADDITIONAL BRIEFS RELATING TO WAR EXCESS PROFITS FILED WITH THE COMMITTEE.

Memorandum on Excess-Profits Tax and 1917 Tax on 1916 Income Submitted on Behalf of Investment Bankers' Association of America.

I. EXCESS-PROFITS TAX (PROPOSED AMENDMENT, SECTION 204).

1. Our criticisms of the present and proposed excess-profits tax are unfortunately not constructive. The present law is essentially a hit-and-miss effort to reach excess profits on the false assumption that all corporate and partnership earnings are based on capital. It furnishes, we believe, an unsound basis for any emergency tax. If, however, in the present emergency, it is deemed necessary to retain this tax and impracticable to adopt a complete alternative, based on the English excess profits tax, we would urge the amendment of section 204 to read substantially as follows, noting the changes proposed from the amended section 204 in the present House bill:

"SEC. 204. That corporations exempt from tax under the provisions of section eleven of Title I of such act of September eighth, nineteen hundred and sixteen, and partnerships carrying on or doing the same business shall be exempt from the provisions of this title. In the case of professional partnerships having no outstanding capital, the income derived from the professional services of the partners shall be exempt from the provisions of this title, and as to all other partnerships, and also as to corporations and associations having not exceeding six members, there shall be allowed as an exemption such part of the income as is fairly to be attributed to the personal services and good will of the active members thereof and not to the capital employed in the business, and the amount of such exemption shall be determined by reference to the partnership or corporation articles, to the normal earnings of past years, and to any other relevant circumstances: *Provided*, That an increase of profits over years prior to nineteen hundred and fifteen arising from higher prices of commodities produced or manufactured by such partnership or corporation or to increased sales

thereof shall be deemed to be earnings on capital, not on personal services or good will. Income derived as interest or dividends on the obligations of the United States, or of any State or Territory thereof, or of any municipality or taxing district therein, or on the obligations of any Government at war with the public enemy of the United States, and income derived from dividends upon stock of other corporations or partnerships which are subject to the tax imposed by this title, shall be exempt from the provisions of this title."

2. The proposed amendment speaks in some part for itself. It is intended to carry out what has seemed to be the desire of the Treasury Department to prevent actual injustice under the present law.

In submitting this brief we desire, on behalf of the members of the association, to state unequivocally that they object to no item of the proposed revenue bill because of the amount of the tax. They do not object to a tax on invested capital as such nor to a tax on personal earnings as such nor to the percentage or amount of either.

We believe that the so-called excess-profits tax is intended to reach a limited class of producing and manufacturing concerns which have been making huge profits out of the war, and we realize the manifest justice of this design. If just this result were accomplished by the tax we would not be heard to question it. But this tax, as it stood in the hastily enacted House bill of the last Congress, now doubled by the present bill, reaches with confiscating and destructive effect thousands of small businesses in all parts of the country which have no share in any war profits. It taxes not their excess profits but their normal profits, not their profits on invested capital but their normal profits from personal services.

Where does this tax begin? Let us take the simplest case, a case common in every part of the country. Tom Jones has a successful mercantile business in a small city, so successful that he makes, say, $9,000 a year. He made it in 1910, and he makes it in 1917. He has a small capital, say, $5,000. If he is an individual he pays no tax. But he has a valued employee who gets $3,000 a year. He wants to give him an interest, to make him a partner. He gives him a fourth interest and the profits are $12,000, or 240 per cent, on the capital.

Its unsoundness is apparent when it is analyzed. Not one man but thousands of men with taxable incomes in 1916 are penniless to-day. More thousands are in comparative poverty, fortunate if they have reserved the money to pay their tax under the present law. To tax them again on their past good fortune is wrong. The average man has spent his 1916 income, presumably reserving the amount of the tax. He has regulated his expenditures according to his income. Whatever it is called, any new tax must be paid out of his 1917 income, if he has any. A 2 per cent tax on his 1916 income may be 50 per cent in fact on his 1917 income, out of which it must be paid.

We raise this question by way of caution rather than of objection. It seems to us that in general the same classes of persons must pay this tax as will pay the increased tax on the 1917 incomes, and that the money sought to be raised by this tax should, if necessary, be raised by a further increase of this tax or from other sources.

Whatever else a tax measured by the income of 1916 may be, it is not, as we view it, an income tax. We do not question the power of "retrospective" taxation, in the absence of constitutional inhibitions, but we doubt whether such a tax can be deemed to be either an income tax or a property tax, unless it is levied on income or property in existence when or after the law is enacted.

The Supreme Court in the Brushhaber case properly upheld the power to levy a tax on the income of the current year measured by a period commencing prior to the enactment of the law.

This is very different from levying a tax on a person measured by the past income of a past year. There is nothing in existence on which the tax can operate or out of which it can be paid except the pocket of the taxpayer, which may well be empty.

In Stockdale *v.* Insurance Companies (20 Wall., 323), cited in the Brushhaber case, no question had been raised as to the tax measured by the income of a prior year being a direct tax. The dictum in that case seems to have rested on the plenary power of Congress to levy a tax. In fact, the court spoke of the power to levy the tax, "although the measure of it was governed by the income of the past year." It seems to us therefore worthy of consideration whether a 1917 tax on a 1916 income is not a tax on the person meas-

ured by a past income; in other words, not an income tax, and therefore still subject to apportionment under the Pollock case. It would, we believe, be wiser to collect the same money by a less questionable tax.

Respectfully submitted.

REED, MCCOOK & HOYT,
Counsel for the Investment Bankers' Association of America.

Brief Submitted by Dr. Jur. Jak. A. Schwarzmann, as Counsel for the Schwarzenbach Huber Co., Relative to the Apportionment of Taxation on Corporations and Partnerships.

Mr. Chairman and gentlemen of the committee, as representative of the Schwarzenbach Huber Co., West Hoboken, N. J., one of the largest silk-manufacturing concerns in the United States, I respectfully submit for your esteemed consideration the following brief in regard to the proposed war excess-profits tax law.

The law as proposed by the Ways and Means Committee suggests in section 201 to amend section 200 of the act entitled "An act to provide increased revenue to defray the expenses of the increased appropriation for the Army and Navy and extensions of fortifications, and for other purposes," by adding at the end of this section 200:

"The first taxable year shall be the year ending December 31, 1917, except that in case of a corporation or partnership which has fixed its own fiscal year it shall be the fiscal year ending during the calendar year 1917."

Such wording of this addition is ambiguous and therefore misleading to everybody not perfectly familiar with the entire law, especially to the taxpayer. It may give the impression that such a corporation or partnership having its own fiscal year has to pay such excess-profits tax for the entire income earned within the whole fiscal year ending during the calendar year 1917.

This is obviously not the intention of the law, neither of the enacted nor of the proposed one. Section 200 of the proposed act states that—

"There shall be paid a like excess-profits tax of 8 per cent upon the income received in the calendar year 1917 and every calendar year thereafter."

Thus the basic intention of this act is: Taxation on income received in the calendar year 1917. No excess-profits tax shall be levied on income derived from any period previous to January 1, 1917. Therefore the "first taxable year" can never be the fiscal year ending during the calendar year 1917, but only such proportion as the time from January 1, 1917, to the end of such fiscal year bears to the full fiscal year.

Section 200 of the proposed act continues—

"and that this tax shall be computed, levied, assessed, collected, and paid for the same years, upon the same incomes, upon the same basis, and in the same manner as the tax imposed by Title II of such act of March 3, 1917, as amended by this act."

But this proposed act does not amend section 203 of the law as enacted March 3, 1917, in which section the principle is laid down of how this tax shall be computed. This act says that—

"where a corporation or partnership makes return prior to March 1, 1918, covering its own fiscal year (ending during 1917), and includes therein any income received during the calendar year ending December 31, 1916, the tax herein imposed shall be that proportion of the tax based upon such full fiscal year which the time from January 1, 1917, to the end of such fiscal year bears to the full fiscal year."

Thus it is shown beyond doubt that this act before and after its amendment does not intend to tax any income derived within any period previous to January 1, 1917, but the wording of this ambiguous amended passus is open to such misinterpretation.

Besides this conclusion ex lege I might draw your attention to the inference de facto, i. e., to the consequences if it should be the real intention of the Ways and Means Committee to tax such corporations and partnerships on their whole income earned during the fiscal year ending 1917. We would have corporations paying excess-profits tax only for the calendar year 1917, such corporations having the calendar year as their fiscal year; and other corporations paying such tax for one, three, six, nine, and more months of the calendar year 1916, if

their fiscal year ends during the calendar year 1917. It is obvious that such an effect is, because unequal and unjust, and therefore un-American and in contradiction to the Constitution, not intended by the Ways and Means Committee.

Such action would be nothing less than putting a penalty upon every corporation or partnership having fixed its own fiscal year in accordance with the peculiarities of its trade, combination, or construction.

I therefore respectfully suggest that either section 200 of the enacted law shall be unchanged or, if amended, submit the following amendment to the objectionable addition:

"The first taxable year shall be the year ending December 31, 1917, except that in the case of a corporation or partnership which has fixed its own fiscal year it shall be such proportion of this fiscal year as the time from January 1, 1917, to the end of such fiscal year bears to the full fiscal year."

Respectfully submitted.

THE SCHWARZENBACH HUBER CO.,
By DR. JAK. A. SCHWARZMANN,
Counsel.

Criticisms and Suggestions Submitted by Cullen & Dykman, of New York, as to Excess-Profits Tax.

Section 202 of the excess-profits tax, so called, approved March 3, 1917, as amended by Title II of the bill now before the House, H. R. 4280, is not only unfair in its provisions but also unworkable and easily evaded.

First. Good will, under the law of practically every State of the Union, is regarded as property and can be taken in payment for the capital stock of corporations in the same way as any other property. Good will enters into the value of every stock to a greater or less degree, and repeated purchases of the stock of corporations extending over long periods of time have entitled the purchasers to regard the good will as a material and sometimes most important part of the assets of the corporation. Under the provisions of section 202 as amended the value of good will can be taken as actual capital invested, provided that cash or tangible property was paid by the corporation for the good will, but apparently if stock was issued for this asset its value may not be taken. The reason for this distinction is plainly fallacious, since any corporation might issue its stock for cash and with the cash pay for the good will instead of issuing the stock directly for the good will. In either case the result would be exactly the same, except that the excess-profits tax in one case might be several times that in the other case.

Second. The provisions of this title can be avoided by the simple expedient of reorganizing a corporation, arranging matters so that the full present value of its assets is capitalized and a cash payment made for the full value of its good will. Certainly a tax such as this should be based upon something more fundamental than the mere difficulty and bother of organizing a new corporation and distributing its securities.

Third. A multitude of corporations which will be subject to this tax have been organized and in existence for generations. Their properties have in most cases no doubt largely appreciated in value and their stocks have been extensively dealt in upon this basis. Yet they are to be severely penalized as compared with a recently organized corporation which has capitalized its property at more nearly its present value.

One or more of the following substitutes or some combination thereof appears to be the only feasible way of meeting the situation:

(*a*) A general increase in the rate of income tax upon corporations. This appears to be by far the best expedient.

(*b*) A comparison of the earnings of corporations under present conditions with the earnings under previous normal conditions treating any increase of earnings as excess profits to be taxed.

(*c*) A determination of the amount of actual capital invested by taking the average value of all assets of the corporation for a period prior to present war conditions. This would give the good will its proper normal value without making allowance for a value dependent upon abnormal profits.

(*d*) A tax upon dividends similar in purpose, although perhaps larger in amount than the tax collected by the State of New York upon corporations existing under its laws. It would probably be possible in this connection to

guard against an accumulation of surplus or undivided profits by treating them as if actually paid out in dividends.

Brief Filed by Mr. John A. Kratz on Behalf of the Association of Partners of Stock Exchange Firms.

To the Committee on Finance, United States Senate:

SUGGESTIONS ON HOUSE BILL 4280, ENTITLED "A BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, AND FOR OTHER PURPOSES."

Availing ourselves of the courteous permission of the committee, we respectfully submit the following memorandum concerning certain phases of the war-revenue bill (H. R. 4280).

This memorandum is submitted on behalf of the Association of Partners of Stock Exchange Firms, representing more than 350 private firms located in New York, Boston, Chicago, Philadelphia, and other cities throughout the country, engaged in business as stock brokers or dealing in securities or engaged in private banking, foreign exchange, or other branches of finance.

We are instructed by our clients to emphasize at the outset that they make no objection to any tax, however high, which may be needed for the proper expenditures of the Government in the present exigency. On the contrary, they will cheerfully assume any burden, no matter how heavy, as a patriotic privilege. But the committee will appreciate that these burdens should be uniform in their distribution and, it is presumed, will welcome its attention being drawn to any aspects of the bill which create inadvertent inequalities between persons identically situated. The bill should be revamped so as to eliminate such inequalities. In this spirit we invite the committee's attention to the following:

INEQUALITIES BETWEEN PARTNERSHIPS, CORPORATIONS, AND INDIVIDUALS IDENTICALLY SITUATED.

We refer to Title II—war excess-profits tax. Take as an example A, B, and C, engaged in the same business, (1) incorporated, they being officers and holding the stock between them; (2) in a partnership; and (3) individually, although associated by having the same office, office force, etc. Assume that in the three cases their combined capital consists of $500,000 personalty, $500,000 realty, and $1,000,000 as the accepted value of their good will, and with an annual net earning of $250,000.

In (1) A, B, and C will be entitled to deduct that amount of the earning which is received by them as salaries and an exemption of 8 per cent on $1,000,000, representing the good will, before arriving at the net profits upon which the tax will be based under the bill. The total tax thus payable, including individual income taxes of the stockholders, would amount to $10,885.

In (2) A, B, and C, although receiving the same amount for their services as in (1) they receive for salaries, would not be allowed to deduct such compensation before arriving at the net profits. Nor would they be allowed an exemption of 8 per cent on the $1,000,000 of good will which is allowed in (1). The amount paid by them in individual income and excess-profits taxes would be $20,840. If in (1) the corporation income tax and the excise tax (both of which the corporation pays for immunities which partnerships do not enjoy) be deducted from the corporation's total tax, the inequality between (1) and (2) under the excess-profits tax law under these circumstances would be $15,600.

In (3) A, B, and C would be liable to the same income tax but would pay no excess-profits taxes at all.

This inequality would be removed (A) by allowing partnerships to deduct the salaries paid to partners which corporations similarly situated may deduct from net profits for payment as salaries to officers. The average partnership pays to partners, as well as to its employees, fixed monthly sums which are all treated as part of the cost of doing business. At stated times in the year the profits are ascertained and distributed to the partners. Sound economic principles not only justify but require that the personal services of partners in carrying on the business, which are identical with the services performed by officers for a corporation in carrying on its business, should be regarded, as in the case of the corporation, as a part of the cost of production of the profits of the enterprise. It is highly unjust that the corporation should be permitted

in the one instance, and the partnership denied in the other, to pay for such identical services before arriving at the net profits of the business.

(B) By allowing partnerships the exemption of 8 per cent on the same assets on which the corporation would be allowed to deduct 8 per cent, including the good will of the business. The committee will recognize that many partnerships enjoy a far more valuable good will than the average corporation. This is property which can not be struck down or taken away. Partnerships are taxed on this good will as a very valuable asset, even though it is not entered as such upon its books. The good will of private firms is an actual asset and is made the subject matter of substantial taxation in the various inheritance-tax systems, both State and Federal.

This inequality puts a heavy penalty on doing business in partnerships. It would seem that partnerships should be entitled to a preference rather than a discrimination. By remaining in business in partnerships individuals offer additional security in their personal liability for firm debts. They enjoy none of the privileges of lessened liability, continuity of existence, etc., which are achieved by those who incorporate. Should this discrimination against partnerships induce incorporation to avoid the tax inequality, much of the purpose itself of the excess-profits tax will be defeated, while an elimination of this inequality will conduce toward a larger revenue from the tax.

These are not abnormal profits. They are not excess profits. They are not war profits.

The tax is on the excess over $5,000 and 8 per cent of the capital. If "and" means "plus" the tax is on the excess over $5,000 plus $400; that is, on $12,000 minus $5,400, or $6,600. Eight per cent of this is $528; 16 per cent is $1,056 on the privilege of taking in a partner in this business. The junior partner pays $264 out of his $3,000 as a tax on capital earnings, and he has not a dollar of capital in the business or in the world.

What chance is there of a partnership under such a penalty? What chance for the employer to reward his employee, for the employee to attain the coveted and deserved advance? How many such partnerships already existing will continue to exist once the meaning of this law is brought home to the business men of this country? Even patriotism relaxes in the face of a manifest and absurd injustice.

The Treasury Department has realized the iniquity of the law and tried to show a way to avoid it, a way that would require the arbitrary recasting of every partnership agreement in the country, and in the case supposed would leave a partnership in name but not in fact.

It should be noted in passing, and emphasized, that a great many of these small mercantile businesses, and also businesses of service such as a local livery business, an engineering or advertising business, or the drug business, combining service and trade, all of which require a relatively small but substantial capital, are corporate in form, but partnership in fact. The junior partner is given a block of stock, possibly with a string to it. He probably receives a salary, but he also receives his dividends as an added measure of his value to the incorporated firm. The actual capital is a minor factor in the earnings. The profits flow from personal services and good will, and may well exceed in normal times several times the capital. Such a corporation is, of course, an artificial though convenient arrangement. It is a partnership in fact, and a tax based on the percentage of earnings to capital is bound to be destructive.

The several thousand dealers in investment securities are all of them, except the individuals, partnerships in fact, employing a capital relatively small to the normal earning power of the members. They are distinctly representative of the small business men of the country, although a minority of them are concerns with substantial capital and normally large earnings.

These partnerships, especially among the smaller dealers, have one senior and one to three junior partners. Practically all of them will disappear, the partnership name being retained where permitted by law, but the junior partner going back to a salary or commission basis. Let us apply the above instance to partnership dealers with a capital, say, of $50,000, which is larger than many dealers employ. Let us suppose that instead of one senior with juniors, we have three men. A is the man with the personal value and earning power. He contributes $10,000 capital and receives one-half the profits. B has good earning power and contributes $5,000 and gets one-fifth of the profits. C contributes good will and $35,000 capital and gets three-tenths of the profits. The profits, say, are $25,000.

The partnership would have to pay a tax of $2,560. This is possibly a moderate case, but is the partnership worth what it costs in addition to its injustice when D across the street is doing a competitive business and making a larger profit and paying no tax?

The partnership is dissolved. A puts in $20,000, borrows $25,000 from C and pays B a salary.

While we emphasize the destructive effect of the tax on partnerships and on the normal business organization and business methods of the country, and the fact that the tax can and will undoubtedly be avoided to a very large extent by the destruction which it works, we emphasize chiefly its unsoundness and injustice.

A pays $1,280 out of an income of $12,500; B, $512 out of an income of $5,000; C, $768 out of $7,500—each of them over 10 per cent. This is a tax on normal, not excess, profits, on a peace income and not a war income, and it is additional to the regular income tax which they have to pay in common with others in like condition.

Let us make it clear that neither A, B, nor C would object to this tax if others in like condition bore a like tax. D, doing the same kind of business with the same capital does not pay it. E, employed by D, on a like basis with B except that he gets a share by way of commissions, not as a partner, pays no such tax. And F, who loans D a large part of his capital, does not pay it. The tax is a tax on normal personal earnings and is not borne by others having equal and substantially like earnings.

The following are two questions with the answers of Acting Commissioner Gates, under date of March 19, 1917:

"Q. Is a trading copartnership, engaged in buying and selling commodities for its own account, liable to taxation on so much of its income as represents the fair and reasonable value of the personal services of an active partner whose time is exclusively devoted to its business?

"A. A trading copartnership engaged in buying and selling commodities for its own account is liable to the excess-profits tax on so much of its net income as is in excess of the authorized exemption. A copartnership engaged in buying and selling commodities must necessarily employ capital in carrying on its business, so that in the opinion of this office the profits received by the copartnership on account of the business so conducted are derived from the use and employment of the capital, and no part of the income so derived, and which may be said to represent the fair and reasonable value of the personal services of an active partner whose time is exclusively devoted to the business, can be excluded from the income for the purpose of this tax.

"Q. If a partnership allows to a partner, in compensation for his personal services in the firm business, a fixed salary, in addition to his share in the profits, which salary is treated as an expense of the business and is no more than the fair and reasonable value of such services, may such partnership in computing its net income deduct the salary so paid, as an expense of carrying on business?

"A. The law with respect to compensation to members of the copartnership as interpreted by various judicial authorities may be summarized as follows:

"'As it is the legal and moral duty of each member of the copartnership, in the absence of an exemption therefrom by the contract, to devote his entire time and business energies to partnership affairs, each member working for himself as well as for the mutual interest of those associated with him, it follows that a partner is not entitled to compensation for services rendered in connection with the business of the copartnership, however valuable to the firm such services may be, unless such compensation is provided for in the articles of agreement or by specific contract ratified by the members of the firm.'

"In the absence of such provision in the articles of agreement or in the specific contract it will not be permissible, for the purpose of the excess profits tax, for the partnership to deduct from its gross income, as a business expense, any compensation which the partnership may allow a partner for his personal services in the firm."

We hesitate to question the soundness of what might be thought to be department legislation, especially when its aim is to relieve from the injustice of the statute. The judicial authorities summarized are undoubtedly directed to the abstract question of the right of a partner without special agreement to claim compensation for his services.

While we have no doubt that a partnership might by agreement bind itself to compensate a partner for special services and might even classify as special his total earning power, and make the profits in fact capital earnings, such

an arrangement would run counter to the proper conception of partnerships and make it a quasi corporation, a combination of capital rather than of men.

As the acting commissioner points out, at common law a partner's whole time, services, and good will belong to the partnership. They are his primary contribution to the partnership. From them primarily flow the partnership earnings and upon them primarily in the common law conception is based his share of the profits.

It is an erroneous conception to think of the earnings of partnerships as flowing primarily from capital. The great things of to-day had simple beginnings and the legal conception and the sound conception of a partnership is primarily that of a joint venture with or without capital, in which the joint efforts or services of the partners are united for a commond end. The services, in the absence of agreement, belong entirely to the business. The capital, small or large, as the case may require, is limited. The services are unlimited. The capital is contributed by one or by several. The services, except by special agreement, by all. It is the occasional exception and very far from the rule that the division of earnings is based on capital contributed. Any man that has had experience with one or more partnerships knows that the relation of the two factors varies not only between different partnerships but from year to year in a single partnership. As the seniors gradually retire and the juniors advance, as the relative strength and value of the partners change, and also, but less frequently, as capital is contributed or withdrawn, new fractions are created.

To change all this to meet an ill considered tax law means the arbitrary recasting of practically all partnerships, their reorganization on an artificial quasi corporate basis.

In the initial case supposed the former employee would go back on a salary, and the partnership in name might remain, but the partnership in fact would disappear.

II. 1917 Tax on 1916 Income.

In the time available we only wish to suggest to the committee the thought that the proposed tax is unsound and apparently unconstitutional.

The incomes of 1916 no longer exist. They are no more a subject of taxation than the incomes of 1915 or 1905 or the devise from one's grandfather in 1902. Assuming the power of taxation to be plenary, this tax is a tax on the person measured by the accident of a past event. It is a direct tax, not an income tax, and should be apportioned among the States.

AMBIGUITY IN THE PHRASE "ACTUAL CAPITAL INVESTED."

The term "actual capital invested," as used in Title II, war excess-profits tax, section 202, and elsewhere in the bill, is ambiguous. Its definition will probably precipitate litigation. It should be clarified now to avoid this, and in the interest of the expeditious administration of the tax law.

It is suggested that "actual capital invested" be defined as "the actual value of all assets employed in the business during the year for which the tax is levied."

The limitation of the term "invested capital," as to assets other than cash, to their value at the time when such assets were purchased is particularly unjust as against firms whose assets have appreciated in value since the time of investment or acquisition. The invested capital of such firms is the actual cash value which can be obtained for their property and assets in open market in the taxable year. It is this actual value which is taken for all purposes of taxation, Federal, State, and municipal. This is their property. It could not be taken from these firms for less than such actual value under the fifth and fourteenth amendments of the Constitution. It is difficult to see why in ascertaining the excess-profits tax an actual value should not be taken instead of the value at some previous date which is not the value at the time of the levy of the tax. To take the old value is to take a fiction, instead of the fact of the present value Indeed, this ambiguity in the definition of "actual capital invested" may assume the more serious aspect of an invalidity on constitutional grounds.

Suppose, for example, A and B own identical properties, of equal present value, and producing equal incomes and taxed equally, except that A is obliged to pay an excess-profits tax on all above 8 per cent on $100,000, because his property cost him that 20 years ago, while B only has to pay an excess-profits tax on all in excess of 8 per cent on $1,000,000 because he purchased his

property recently for that sum. It would seem that this inequality of taxation between two persons identically situated would present a constitutional difficulty in a most acute form.

The persons in whose behalf this memorandum is submitted are already heavily taxed, directly and indirectly, in the various income, stock transfer, corporation income, excise and capital tax, license, personalty and other taxes, and will be subjected also to additional stock transfer and stamp taxes applying to them more particularly than to the rest of the public and peculiarly affecting their business. They submit these suggestions with the hope that the committee will recognize the justice of removing these discriminations, so that, while no less revenue shall be obtained for the Government, the taxing instrumentality shall not be open to the reproach of bearing unequally upon the parties affected.

Respectfully submitted.

STUART MCNAMARA,
52 William Street, New York City;
CHARLES HENRY BUTLER,
JOHN A. KRATZ,
1537 I Street NW., Washington, D. C.;
Of Counsel for Association of Partners of Stock Exchange Firms.

Dated May 15, 1917.

Brief Filed by Mr. John A. Kratz on Behalf of Mr. Edmund E. Wise, as Counsel for Various Mercantile and Manufacturing Firms and Corporations of New York City.

To the Committee on Finance, United States Senate:

In behalf of commercial partnerships and private mercantile and manufacturing corporations, the following criticisms of the House bill "to provide revenue to defray war expenses and for other purposes" are respectfully submitted:

THE EXCESS-PROFITS TAX.

To justify the name, excess-profits taxes should be taxes on the excess earnings of the same capital now over what the same capital earned prior to a specified date.

The fundamental theory of the British and other foreign excess-profits tax is based upon the principle that war conditions have, in certain instances, increased the profits of the same amount of capital and that the excess profits over the normal, created by war conditions, should be and are heavily taxed to raise revenue for the prosecution of the war. Such a tax, however great, presents no features of discriminations and is cheerfully borne by all.

The House bill, although adopting the name, has completely ignored the principle of the foreign excess profits taxes.

It injects not only into our systems of taxation but into our industrial and economic system a theory which may be correct, but which has never been satisfactorily established as sound—that is to say, that a return of 8 per cent on cash capital actually invested, either recently or a generation ago, is the normal return for business enterprise, and that all earnings above that amount are excess profits. This theory may be correct, but it is respectfully suggested that sufficient data have not been collected upon which to base that conclusion, and that there is grave doubt whether it can be applied indiscriminately to all industrial or mercantile pursuits, regardless of the variations in risk which each presents.

In addition to the fact that an arbitrary rate of profit has been fixed upon as a normal profit, the basis upon which that arbitrary normal profit of 8 per cent is to be calculated throws open the door to such vast discriminations and inequalities as to invite great confusion and the usual incidental litigation which may imperil the whole tax.

In defining the term "capital invested" it is expressly provided that good will, trade-marks, and trade names shall not be included in that term unless payment therefor was specifically made in cash or tangible property; and if it was so paid for, then the actual cash or actual value of the property at the time of payment is to be considered as capital. It can no longer be questioned that trade-marks, trade names, and good will are property or property rights which have an actual commercial value. The inheritance-tax law of the State of New

York (and, no doubt, the Federal inheritance-tax law) appraises and taxes the value of the good will, trade-marks, and trade names in which any decedent was interested, either as an individual, as a member of a firm, or as the owner of stock in privately owned corporations.

The proposed tax provides an exemption of 8 per cent on the purchase price of good will, trade-marks, and trade names if they have been purchased, but refuses to grant an exemption upon its fair value if that conceded property right has not been purchased but has been created by the energy, the integrity, the ingenuity, and the individual labor of the members of a partnership or the officers of a private corporation.

Good will, trade-marks, and trade names purchased for cash are permitted exemptions, which are denied to equally valuable good will, trade names, and trade-marks built up by enterprise, ingenuity, and self-denial.

This discrimination against individual enterprise and in favor of cash or other property is all the more marked in view of the well-known fact that during the last 10 years many commercial, manufacturing, or mercantile enterprises have been organized into corporations, which have been "floated" by syndicates and distributed to the public. In these corporations large amounts of stock have been issued for good will and property. It would be difficult to apportion the amounts of stock issued for good will or for the property. Many of them have been organized with great care in appraisal of the good will, trade-marks, and trade names, and the present value of the stock issued for the purchase justifies the judgment of their promoters, pay handsome dividends, and have a ready market value at a great premium. Perhaps the most conspicuous illustration of this is Sears, Roebuck & Co., whose common stock, popularly supposed to have been issued for good will, and amounting to $30,000,000, has been increased by stock dividends to $75,000,000, and each share of the increased stock has sold in the open market at prices fluctuating between $170 and $200 per share.

Other industrial corporations, not so carefully organized, with good will, trade-marks, and trade-names taken at exaggerated values, placed upon the market for the purpose of enabling the organizers to make a profit, might secure the benefit of an undue exemption with the possibility of completely escaping the tax.

A partnership, however, which has built up by persistent efforts and by continuous application, a good will of a value equal to its rival, which has been incorporated and "floated on the market," is deprived of the benefit of any exemption whatsoever. An illustration perhaps may serve to demonstrate this. There are three mercantile estiblishments in the city of New York with approximately the same cash capital, approximating the same earning capacity, each established for a period of 25 or 30 years or more, with a consequent good will to each of approximately the same value. "X" was organized into a corporation in 1908 with a capital stock of $7,500,000. "Y" was incorporated in 1912 with a capital stock of $10,000,000. "Z" never was incorporated and is still conducting its business as a firm. The actual cash capital of each concern actually engaged in the conduct of the business is about $3,000,000. If the 8 per cent deduction is made on the basis of capitalization, it can readily be seen that there is an injustice to the partnership which might prove ruinous. "X" would be entitled to an exemption of $600,000; "Y" to an exemption of $800,000; and "Z" to an exemption of $240,000. If an attempt be made to ascertain the actual value of the stock turned over for the good will, trademarks, and trade-names of its competitors, perplexing and complicated questions would arise, which it would be almost impossible to solve, but in any event the partnership would be discriminated against.

This discrimination and inequality can be removed in several ways. First, by taxing the net profits of all corporations, partnerships and individuals, arising from trade or commerce, at a fixed percentage regardless of the cash invested. Secondly, by including in the capital invested, the actual value (not the purchase price) at the beginning of the fiscal year, of all assets whether cash, good will, trade names or other property.

The latter method would no doubt cause considerable difficulty in establishing valuations, but that difficulty has been met by the various States in their inheritance-tax provisions, and a rough and ready formula might be established from the experience of those States which would do substantial justice.

SALARIES.

Another inequality between corporations and partnerships is presented in the fact that administrative expenses of a corporation are deducted from its net profits, while a partnership is not permitted to make deductions for the services of individual partners unless the partnership contract, prior to March 3, 1917, expressly provided for the payment of salaries (which is most exceptional), and provided further, the collector of internal revenue is convinced that such salary is not a mere withdrawal of a portion of the profits.

The practical inequalities, resulting in discrimination against partnerships, are shown in the following example. Assuming a private corporaton with a cash capital of $1,000,000 and stock issued for good will of an accepted and approved value of $1,000,000, for which that amount of stock was issued, and an annual net profit of $250,000, it would be permitted to deduct from that net profit reasonable salaries for its officers amounting to, say, 25 per cent of its profits, 8 per cent of its total capitalization, and including the income tax to be paid by its officers, would pay under the proposed law approximately $30,500. A partnership composed of three partners with the identical assets, the identical good will, the identical earnings would have to pay, inclusive of the excess-profits tax and the individual-income tax, approximately $51,000. The total tax of the corporation for the excess-profits tax would be $2,000 and of the partnership would be $24,000. The tax of the individual officers of the corporation, including their salaries, would be approximately $20,000, and of the three individuals composing the partnership approximately $20,000.

The difference is due to the permissible deductions of salary by the corporation and the probable exemption of 8 per cent on its capitalization inclusive of the shares of stock issued for its good will.

If this inequality is continued, it will undoubtedly result in the incorporation of numerous businesses now carried on by partnerships. This course will inevitably involve the ination of stock values which, aside from its injurious effect upon the public at large, may result in the defeat of the very object of the excess profits tax law.

The exemptions in the excess-profits tax, based on antecedent values, likewise creates inequalities.

If A and B own adjoining properties of equal present value, producing equal incomes and taxes, and A is obliged to pay an excess-profits tax on all above 8 per cent on $100,000 because his property cost him that 20 years ago, while B only has to pay an excess-profit tax on all in excess of 8 per cent on $1,000,000, because he has recently purchased his property for that amount, and inequality is presented which is not only economically unsound, but which would seem to violate constitutional provisions. It is difficult to understand why present values should be ignored for tax purposes, and this particular provision is intended, apparently, to punish those who purchased earlier, or at a better price than their competitors. Enterprise should be encouraged and not penalized. Mr. Edison's inventions, purchased many years ago when they were new and untried, form but a small portion of their present value when the whole world recognizes their importance. Yet under the proposed law, the original purchase price would present the basis for calculating the exemption and not their present value.

INCREASING CUSTOMS DUTIES.

The increase of 10 per cent of all customs duties, including a duty on the articles formerly on the free list, inflicts hardships, which, though temporary, are nevertheless severe. A number of contracts to supply imported articles have been made at fixed prices, many of them on a very narrow margin of profit. If the vendor is compelled, as he will be under the present law, to pay the additional duties, it will not only diminish his profit, but in some instances will result in serious loss. Unlike other customs duties, he can not shift the burden of the tax or distribute it. It is no longer indirect taxation. So far as he is concerned it is a direct tax.

This situation can readily be remedied as it was done by the tariff act of 1864 by compelling the purchaser, who can distribute the duty, to pay the same.

Sections 602 and 603, making provisions for the payment of a tax upon articles enumerated in certain preceding paragraphs, present questions of administration involving some difficulties. These sections require the payment of a

tax on certain articles at the rate of 5 per cent of the price for which sold by the manufacturer, producer, or importer, to be paid by the parties holding such articles. If these articles, so to be taxed, are held by the ultimate consumer, it will be almost impossible to collect it. If such tax is to be paid by the wholesale purchaser, it will require stock taking at the time that the bill goes into effect, which, in many instances, is impracticable.

EDMOND E. WISE,
Counsel for Various Mercantile and Manufacturing Firms and Corporations.

NEW YORK, *May 14, 1917.*

Brief Submitted by Servan & Joyce on Behalf of the National Association of Insurance Agents.

Amend section 204 as contained in the bill, beginning with the word "in," in line 16, and ending with the word "title," in line 19 of page 8 thereof, to read as follows:

"In the case of partnerships and corporations having no substantial capital and engaged in a business not requiring the employment of capital for profit, the income of which is derived from the professional or personal services of the partners and officers, shall be exempt from the provisions of this title."

THE EXCESS-PROFITS TAX AS PROPOSED IN H. R. 4280, ENTITLED "A BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, AND FOR OTHER PURPOSES.

Hon. F. M. SIMMONS,
Chairman Finance Committee, United States Senate,
Washington, D. C.

SIR: We desire to call your attention to the proposed change in the language of section 204 of the act entitled "An act to provide increased revenue to defray the expenses of the increased appropriations for the Army and Navy and the extension of fortifications, and for other purposes," approved March 3, 1917, as contained on page 8 of the pending bill, H. R. 4280, entitled "A bill to provide revenue to defray war expenses, and for other purposes."

Section 204 of the act of March 3, 1917, among other things, provides, "and the tax imposed by this title shall not attach to incomes of partnerships derived from agriculture or from personal services." The pending bill substitutes for this language the following: "In the case of professional partnerships having no substantial capital, the income derived from the professional services of the partners shall be exempt from the provisions of this title."

The difficulty with the proposed language seems to be that the words "professional services" must be construed for administrative purposes as the term is commonly used in such a broad sense as to include nearly every occupation or vocation. Webster's Dictionary defines "profession" as "that of which one professes knowledge; the occupation, if not mechanical, agricultural, or the like, to which one devotes one's self; the business one professes to understand and to follow for subsistence."

We understand that the purpose of the proposed language is to exempt such occupations as are of a technical character but which do not require the investment of a substantial amount of capital for the transaction of the business connected therewith, where the services for which the income is received are of a personal nature.

We therefore suggest the following amendment as more nearly designed to carry out the purposes and reasons of the language used in the pending bill and at the same time to assist the administrative construction thereof.

Amend section 204, as contained in the bill, beginning with the word "in," in line 16, and ending with the word "title," in line 19 of page 8 thereof; to read as follows:

"In the case of partnerships and corporations having no substantial capital and engaged in a business not requiring the employment of capital for profit, the income of which is derived from the professional or personal services of the partners and officers, shall be exempt from the provisions of this title."

This language not only confines the operation of the exemption to such partnerships and corporations as have no substantial amount of capital invested and that are engaged in a business not requiring the employment of capital for profit, but the income of such partnerships and corporations must also be

derived from the professional or personal services of the partners and officers thereof. The language here proposed would seem to be more appropriate than that contained in the pending bill if the purpose is to not exempt partnerships and corporations where profit is to be made out of the use of capital but to limit this exemption to such partnerships and corporations only as are engaged in business requiring nothing more than a nominal capital.

Some of the occupations in which the partnerships and corporations might be engaged, under the language here proposed, are attorneys, physicians, surgeons, dentists, accountants, insurance agents, writers, lecturers, and several others where the customary office facilities represent practically all of the capital necessarily employed for the prosecution of such business.

Under the language now contained in the bill your committee will readily understand that actors, advertising agents, photographers, dancing masters, writing masters, and very many other "professors" will be entitled to the exemption provided under that language.

We think the language suggested in our proposed amendment much more nearly restricts the exemption to the particular classes of technical business in which the amount of capital invested has no possible relation or bearing upon the amount of compensation received for the particular professional or personal services rendered by the partnerships and corporation.

It must be admitted that to base an excess-profits tax upon the business where the amount of "actual capital invested" is not a factor in the earning of such profits, appears to be entirely inappropriate and unjust. It must also be remembered that the members of such partnerships and corporations are subject to the same income tax as the individuals who are engaged in the same classes of business, and that the partnerships and corporations do not offer any amplified facilities in a financial way for the transaction of the particular business in which it is engaged. There would therefore seem to be no sound reason whatever for taxing these particular classes of partnerships and corporations unless the individuals engaged in the same classes of work were also equally taxed.

Attention is also called to the fact that the imposition of the excess-profits tax upon the particular partnerships and corporations hereinbefore referred to, would undoubtedly result in the dissolution of very many of them, as this heavy tax could thus be easily escaped.

The amendment herein proposed is attached hereto on a separate sheet.

Respectfully submitted.

NATIONAL ASSOCIATION OF INSURANCE AGENTS,
By SERVAN & JOYCE.

Brief Submitted by Mr. H. H. Shelton as Counsel for R. J. Reynolds Tobacco Co.

THE REVENUE BILL—THE EXCESS-PROFITS PROVISION.

MEMORANDUM IN SUPPORT OF THE PROPOSITION THAT AN EXCESS-PROFITS LAW, BASED ON CAPITAL INVESTED CAN NOT BE FAIRLY ENFORCED.

The Finance Committee is, of course, familiar with the existing excess-profits law, an amendment to which, in the form of a revenue bill from the Ways and Means Committee of the House, it now has under consideration.

The existing law, in its practical application, is unjustly and needlessly discriminatory. The proposed amendment, without reason or excuse, only makes it more so.

I shall only undertake to discuss its unfair features, as my client has no desire to avoid paying a tax that is fairly assessed. Equal rights to all, special privileges to none, is the principle that originally inspired patriotism, and patriotism now demands the enforcement of that principle and that our country, in her time of need, be not deprived of the revenue to which she is entitled from the great money-making corporations that will escape taxation under this law. Again, the country should not be placed in the embarrassing attitude of knowingly relieving one class, amply able to pay, and casting the burden upon a less favored class. It is unlike the America we have heretofore known.

In my study of this law, covering a period of several months, and in which I have been assisted by some of the ablest lawyers in the country, by expert

accountants, and men of broad financial experience, I have tried time and again to work it out upon a fair basis. I have experimented by redrafting the law, adopting the theory upon which it is predicated, namely, "actual capital invested," but on each occasion I have abandoned the effort as futile. My conclusion is that an excess-profits law based upon capital invested can not, in its practical operation, be so drawn as to equitably and justly distribute the tax.

I believe this conclusion to be absolutely sound. It is said by advocates of the law that no law can be drawn that will not apply, at times, unjustly. That is true, and isolated and rare cases will be found. But where a law, in its operation, fails of its real purpose and does broadside injustice, the result is discrimination, and the law becomes class legislation.

The evil of the law springs from the percentage exemption it allows, the exemption of 8 per cent being calculated on "actual capital invested," which is so defined as to bring about the discrimination.

In a letter to the New York Times, under date of May 8, the president of the Winston-Salem Board of Trade brings out the point I am making by concrete example. I quote the letter in full:

"I have read with interest articles appearing in your paper, also your editorial of February 24, 1917, pointing out the unfairness of the excess-profits law, stating that it was merely an experiment that should not be tried out in this time of crisis, and calling attention to the fact that it would not produce the revenue expected from it. Yours is the only great metropolitan paper that has given the public any information of value on the subject.

"A striking illustration of the correctness of your position is taken from the Wall Street Journal, issue of May 2. Commenting upon the effect of the law upon tobacco manufacturers, it says: 'On the 8 per cent basis of excess profits the cost to the American Tobacco Co. would be $118,000 annually, or one-fourth of 1 per cent on the outstanding $40,242,400 common stock.' Small as it is, these figures are not correct. The American is not given the full benefit of the law. Apply the law to its 1916 annual statement:

Capital invested:		
Common stock		$40,242,400
Preferred stock		52,699,700
Surplus		37,081,533
Total capital invested		130,023,633
Deduct stocks and bonds owned by it in other companies not engaged in the tobacco business		22,606,486
Capital used in tobacco business		107,417,147
Exemption of 8 per cent on this is		8,593,357
Add specific exemption of		5,000
Total exemption		8,598,371
Profits from the tobacco business	$8,699,338	
Deduct interest on bonds	102,248	
Net profits from the tobacco business		8,597,090
Exemptions exceed profits by		1,281

"The result is that the company will pay no excess-profits tax on its tobacco manufacturing business. It may be that the Journal, in its calculation, included in the company's profits earnings received from stocks, etc., owned by it in companies not engaged in the tobacco manufacturing business.

"All other tobacco manufacturing companies, so far as I know, pay some excess-profits tax, the amount depnding to some extent upon how much stock each has issued against good will, trade-marks, etc. But the American, as shown, pays none. R. J. Reynolds Tobacco Co., for example, using the same method of calculation, pays $455,011. Carry the comparison further: The sales of the American for 1916 were approximately $70,000,000 and those of the Reynolds Co. $60,000,000. The percentage on profits was substantially the same, the American being 12.37 and Reynolds 13.31.

"I have no desire to bring either of the companies mentioned into notoriety. I am merely using the tobacco industry as an illustration, because the Journal

uses the largest tobacco company in the country for the same purpose. Investigation will show that the same situation exists in all branches of business. The law simply wipes oue business competition upon a fair basis. It unjustly distributes a burden that all should bear alike and it will fail to produce the revenue desired.

"From the standpoint of business it is a question whether it is for the best interest of any corporation to escape paying its fair proportion of the tax, and a law so manifestly and unnecessarily unjust is apt to breed dissension among our people, particularly at a time when they should stand united.

"I will appreciate it very much if you will publish this letter and, in addition, comment thereon in line with your former forceful editorial. I do not believe you could do the American people a greater service at this time than to reiterate your views on this very important subject."

As stated in the foregoing letter, the figures only show the discrimination in one line of business. But I have had tax experts and accountants take the large corporations that have gone through periods of reorganization; that have capitalized earning capacity, good will, trade-marks, etc.; that have large stock issues, with stocks listed on the New York exchanges; and it is known that the same condition applies to them. It is believed to apply to every line of business.

Newspapers generally have not printed the excess-profits law, and apparently they have taken but little, if any, interest in its provisions. The avenue of information being closed, the public knew but little about the law, which is so vitally important when analyzed and applied to existing conditions, until a few public-spirited men and boards of trade, at their own expense, saw the justice of letting the facts be known.

So far as I know, one of the country's leading business men, an advocate of the square deal, was the first men to discover the injustice this law would result in. Writing to a United States Senator on the subject he said, in part:

"When the thousands of firms and corporations of this country, who will have to pay taxes under this law, come to understand that hundreds of the big concerns with listed stocks pay nothing you can well imagine that they will resent it, and condemn not only the law but those who are responsible for it. We believe that a great many of those who are permitted to escape taxation do not desire to be given that advantage. Corporations and firms who have organized upon a conservative basis are hard hit by this law, while practically all of the large concerns capitalized and organized upon less than an 8 per cent earning basis go free. Of course a few of the munition companies and others making abnormal profits because of the war will pay something during the war period. In normal times they would pay nothing, as a great majority of the others pay nothing now. A special war tax of 4 per cent on profits, which would increase the rate during the war period to 6 per cent, will produce several times more revenue than the existing excess profits law, and it will place the burden on all alike. Such a law will help to keep the country upon a sound financial basis, because it should not further reduce stock values. They have declined to that extent in anticipation of a war tax, and if the law does not exceed that per cent there should be no further decline. This idea keeps business intact, and at the same time produces the revenue that the Government needs."

The purpose of the law is to secure a war fund. Because of its theory of levying the tax, namely, on so-called actual capital invested, the purpose will not be accomplished, for the reason that there are no profits exceeding 8 per cent on the capital invested in corporations of the kind referred to. They are capitalized on a basis less than the 8 per cent exemption. But this capitalization has been done in a way to show that the money was actually paid in.

Those in charge of the bill admit, I am reliably informed, that such corporations as the American Sugar Refining Co. pays nothing. The last figures that I have show that the International Harvester Co. pays nothing. All of this is because the law tries to deal with the situation by allowing an exemption on so-called capital invested, whereas the only fair method of calculation applicable to an excess-profits law is that of income. In other words, arrive at the excess from the standpoint of income, not capital invested. In this connection, I quote from an editorial from the New York Times of February 24, written at a time when the existing law was being considered:

"Taxes proportioned to profits discriminate between investments which make large profits on a slow turnover or small profits on a quick turnover. It is a discrimination against the nimble sixpence which is the life of trade, in favor

of the big business which may make larger profits. At the root lies the trouble of the calculation of profits. Assets must be valued, and assets include good will. How shall good will be valued in order that profits on it may be reckoned? How shall the cash value of assets be settled for the purpose of taxation? What a premium is laid upon flagitious increase of nominal assets in order to reduce the rate of taxation! Why should anybody pay taxes so long as earnings can be distributed as salaries among those who understand each other? The bill is rather a bill to debauch the virtue of taxpayers than to levy taxes for the support of Government.

"Waiving these details, assuming that the bill is made to work somehow, the debate developed the idea that the bill would be obnoxious, for the same reason that the New York personal-tax law is hated and evaded, because it confiscates an unjust share of the income of the small capitalist who is not in trade. That the bill is invidious in its discrimination between sections of the country is something to which the Senate is as indifferent as was the House. There is no lack of patriotism, no excess of partisansship, in such remarks upon the bill. The willful disregard of familiar and approved methods of taxation at times like these is a reproach to all sharing in it, regardless of party lines. There is no justification for novelty at a crisis. Experiments are best tried in quiet times. The Senate would be justified in returning the bill to the House with the substitution of taxes which have been tried and have not failed."

The words "excess profits" sound well, but the joker lies in the connection in which they are used and, in that connection, they are as misleading as words could well be. The author of the bill doubtless saw that England had an excess-profits tax. He used England's words, but did not adopt the English principle, and he drew a law for our country as different from the English system as night is from day. Pointing out the difference, Columbia University has published an article from which the following is taken:

"There is a great and important difference between the European taxes and our own excess-profits tax. All of the European laws measure taxable profits by comparing present profits with the average profits of business before the war began; in some cases this average is taken for a number of years. Our law, however, takes the arbitrary figure of 8 per cent on the 'capital invested' (plus $5,000) as the normal profit and taxes everything above that 8 per cent.

"The principle of taxing very heavily excess profits above normal peace profits is indeed defensible; but to penalize all profits above 8 per cent applied to a base such as that prescribed in our present law can scarcely be upheld. Instead of bringing any more revenue, a larger rate upon such excess profits might yield actually less revenue, in addition to placing an unfair burden upon a particular class of investors. It can not be emphasized too strongly, therefore, that if we are to have a high excess-profits tax, we should follow the European principle and abandon the arbitrary methods now being followed."

It will be seen that the underlying English principle is that the per cent is based on income in normal times and provides a definite method of arriving at what it is. Our law takes a per cent of profits estimated on unascertainable capital invested and carries an exemption that lets the big concern, that has manipulated its capital for speculative purposes, go scot free, while the company that has kept its business within conservative capitalization is penalized for what the country once called a virtue.

Realizing that the public generally were not advised as to the unfairness of this situation, the Winston-Salem Board of Trade, hoping to enlist the cooperation of the newspapers in letting the people know the facts, addressed to them a letter, copy of which is attached and marked "Exhibit No. 1." The same organization wrote a letter to boards of trade throughout the country asking their cooperation, copy of which is attached, marked "Exhibit No. 2." The inclosures referred to in these letters are attached hereto, marked "Exhibits Nos. 3, 4, and 5." A careful consideration of these exhibits by the committee is asked.

Again, the law makes no provision for depreciation or revaluation. It arbitrarily adopts a standard that is not ascertainable. On this point I quote the New York Post:

"Since the excess-profits tax bids fair to be extended, it is imperative that it be cleared of its present mystery. 'Excess' profits implies some standard of 'normal' profits, and this at present is set at 8 per cent. But 8 per cent of what? Of invested capital. But how is this to be found? Clearly par value of the stock is not meant. Reproduction costs would merely produce endless disputes, especially in regard to those items which are not reproducible. Such

things are 'worth what they are worth.' If we try to find out the money invested at the inception of the company, plus new capital, less depreciation, we soon become lost in the quagmire of figures. The difficulty lies in that capital values depend on income and can not be found independently of income. What, then, can be done? 'Normal profits' is a vague enough term at best, but it can only be approximated with reference to past actual profits. England, according to the Economist has taken an average of two out of the three prewar years, although the exact nature of her detailed provisions is not clear; Germany is reported to have taken an average of three out of the five prewar years, excluding the highest and the lowest. Some such plan would seem to fit our need better than the present method; it would also emphasize the temporary nature of the tax."

The committee has at its disposal unlimited resources for ascertaining the correctness of the position herein taken that what the country knows as "big business" will not, as a general proposition, pay this tax. I earnestly, but with great respect, urge the committee to call upon the Treasury Department for a statement of the amount it expects to get from corporations with listed stocks.

The proviso added by the Ways and Means Committee dealing with good-will capitalization is wholly ineffective as will be seen, if carefully analyzed. It merely points out to the present beneficiaries how to bring themselves within the saving clause. They are so capitalized already that this can be readily shown. The proviso does not get the Government any revenue and does not eliminate this discrimination, the feature of the law I am objecting to.

Mr. O. Frank Kireker, in a letter to the New York Times, commenting upon the uncertainties of the existing law, says:

"If there be any perplexity or chaotic condition which recent legislation has failed to inject into the business of the country, the suggested tax on profits in excess of a fixed per cent ought to provide it."

The proviso only adds to the confusion and is not productive of results.

I can not better close this memorandum than by quoting a telegram sent by the Winston-Salem Board of Trade to all boards of trade throughout the country:

"Please wire Senators and Congressmen to-day protesting against any excess profits law based on capital invested, because such a law unjustly discriminates in favor of all corporations with inflated capital, many paying no tax at all, and places a very heavy and unfair burden on business conservatively capitalized."

This committee has it in its power to right a great and national wrong, and I believe when the injustice and unfairness of the law is seen and understood the wrong will be corrected.

Respectfully submitted.

H. H. SHELTON,
Counsel R. J. Reynolds Tobacco Co.

MAY 12, 1917.

EXHIBIT No. 1.

WINSTON-SALEM BOARD OF TRADE,
Winston-Salem, N. C., May 8, 1917.

GENTLEMEN: Newspapers generally have not printed the excess-profits law, nor have they apparently taken much interest in its provisions. This statement is not made in a spirit of criticism. It is given as the principal reason why the public knows so little about a law so vitally important when analyzed and applied to existing conditions.

Editorial writers, usually quick to detect injustice and equally as prompt to aid in remedying it, have not, we believe, thoroughly considered the practical operation of this law or they would long since have called their readers' attention to its injustice and unfairness.

We are taking the liberty of inclosing herewith an editorial appearing in the Winston-Salem Journal of May 6, also two interviews with Senators Overman and Underwood on the law. We ask that you carefully consider the statements contained in these inclosures, and we believe you will agree with us that you could not render the public a greater service at this time than to publish these interviews of Senators Underwood and Overman, and otherwise bring to the attention of your readers the unfair working of this law.

Very truly, yours,

WINSTON-SALEM BOARD OF TRADE,
By A. H. GALLOWAY, *President.*

EXHIBIT NO. 2.

WINSTON-SALEM BOARD OF TRADE,
Winston-Salem, N. C., May 8, 1917.

GENTLEMEN: Believing that the excess-profits tax is of more vital importance to commerce and industrial development than is generally realized, and a vote on the subject being now under way by the Chamber of Commerce of the United States, we think it proper to submit some information on the subject.

We herewith enclose an editorial from the Winston-Salem Journal, issue of May 6, and also quotations from two interviews given by United States Senators Underwood and Overman. We do not believe that you could do the industrial development of this country a greater service at this time than by urging your newspapers, as we have urged ours, to publish this information in full. This is particularly important, because there has been so little newspaper discussion throughout the country on the subject that the people do not understand the incurable injustice of the law in its practical operation.

The editorial illustration is known to apply to lines of business other than that mentioned, and it is believed to apply with equal force to all lines.

We would appreciate it very much if you would give us the benefit of your consideration of the practical application of this law, and also advise us what conclusion you reach as to a special war tax on "profits" or income, after allowing, of course, the present exemption of $5,000 or other fixed sum.

Important. Act quick!

Respectfully,

WINSTON-SALEM BOARD OF TRADE,
By A. H. GALLOWAY, *President.*

EXHIBIT NO. 3.

[Winston-Salem Journal, Sunday Morning, May 6, 1917.]

THE EXCESS-PROFITS TAX.

The excess-profits law passed by a small majority in the last Congress illustrates how a new and seemingly good theory often works out very badly in practice.

A concrete illustration is going the rounds in the case of two competitive corporations in the tobacco-manufacturing business. The sales of one of these companies having a large "good-will" capitalization for the year 1916 amounted to $70,009,436.91, with profits of $8,699,338.05, or 12.37 per cent. This company, under the proposed increase in the excess-profits tax would pay the Government $118,000, according to a statement in the Wall Street Journal of April 25, 1917. Sales of the other company having much smaller "good-will" capitalization for the same period amounted to $60,399,210.47, with profits of $8,043,617.75, or 13.31 per cent. This latter company, under the proposed increase, would pay the Government $789,000, or more than six times the tax of the first company, although the sales of the first company are much larger with about the same percentage of profits on sales.

While on the surface the excess-profits theory seems reasonable, the trouble comes in applying the law, which bases the tax on capital invested, which frequently includes capitalized good will that has become legitimate through resales of the firms or corporations to new companies on basis of earning capacity of about 8 per cent, and would therefore pay no "excess" profits tax, while, on the other hand, many firms and corporations, and especially the smaller ones, have not gone through this process and would be unjustly hit.

In England, where an excess-profit tax has been operated during the war, the excess is not calculated on capital, but on the excess over the average profit for three years before the war.

It has been suggested that such injustice as caused in this country by the present and the proposed law would be best overcome by basing the tax simply on profits and omitting the complications which follow any "excess" idea. For example, in the case of the two companies above mentioned, by placing a straight-out war tax of 5 per cent on the profits or net amount of earnings of each of them, the Government would collect from them, respectively, $620,000

and $402,150, or a total of $1,022,750, as against $907,000 under the so-called excess-profits plan.

It is difficult to see how the excess-profits law as it now stands could be administered by the tax-collecting department without an untold amount of inquisition and litigation and in the minds of some who know corporation financing there is conviction that the present law will not only fail to raise the revenue expected but will inflict injustice on those conservatively capitalized and put a premium on inflation.

Exhibit No. 4.

MANY BIG CORPORATIONS ARE CAPITALIZED ON LESS THAN 8 PER CENT EARNING BASIS AND THEREFORE PAY NO EXCESS-PROFITS TAX.

Hon. Lee S. Overman, United States Senator from North Carolina, who opposed the passage of the excess-profits bill at the last session of Congress and who will fight to repeal it at the present session, in an interview given in Washington on May 4 said:

"The excess-profits law, even as it is to-day, is unjust and unfair, and I will fight to have the law repealed and a small tax on net or gross profits substituted in its place."

Senator Overman is thoroughly convinced that the Government will not derive anything like the amount expected from this source, because many of the larger corporations with watered stocks, capitalized trade-marks, good will, etc., will escape without paying their share of the tax and many of them without paying a penny. Continuing, he said:

"Even a tax of 1 per cent on the gross or net earnings of all corporations would raise from two to three times as much money as the excess-profits law. The proposed plan of increasing the percentage from 8 per cent to 16 per cent will not help. It would only place a heavier burden on the smaller corporations while the larger enterprises would still get by without paying a tax.

"Not only is the law unfair but it will so retard the progress of the country that we will feel the effects of it for many years to come. The old English excess-profits tax would not be so bad, because if followed in this country it would be far more just than the law as it now stands. But the real way to raise this large amount of money to finance the war is to levy a net-profit tax, to be applied as the income tax is now collected, in order that everybody may pay his full share of the burden. I voted against the excess-profits law the last time it was up, and I shall vote and work against its passage when it comes to the Senate from the House this time."

As newspapers generally have not published this law and have not advised the public with reference to its unfair and unjust provisions, we are taking the liberty of calling your attention to it by quoting Senator Overman's remarks, which we believe are clearly correct. We hope you will at once wire your Representatives in Congress and ask them to repeal this unfair excess-profits law and substitute a law that is fair to all.

WINSTON-SALEM BOARD OF TRADE.

WINSTON-SALEM, N. C., *May 7, 1917.*

Exhibit No. 5.

SENATOR UNDERWOOD CALLS THE "EXCESS-PROFITS LAW" THE MOST UNFAIR TAX EVER BROUGHT TO HIS ATTENTION.

We quote in part an interview as reported in the Greensboro Daily News:

"Such men as Senator Oscar Underwood, probably the best authority on revenue and taxation in recent years, certainly the best in the present Congress, says the excess-profits law is the most unfair and unjust form of taxation that has ever been brought to his attention in his twenty-odd years in Congress. Senator Underwood says the law is not only unfair, but that it will seriously cripple the business industries of the country unless changed. Underwood strongly advocates the repeal of the excess-profits law in its entirety and to substitute in its stead either a special war tax or increase the present income-tax law to the point where the necessary revenue will be raised."

For some reason unknown to us but few newspapers published this excess-profits law when passed during the first days of March, and fewer of them have commented upon it. It is very probable that your attention has not been called to its very unfair provisions.

Briefly stated, the law provides that all corporations and partnerships (omitting individuals), after deducting $5,000 and 8 per cent on actual capital invested from their net profits, must pay a tax of 8 per cent on the balance, based on capital employed. The two important sections of the law are as follows:

"SEC. 201. That in addition to the taxes under existing laws there shall be levied, assessed, collected, and paid for each taxable year upon the net income of every corporation and partnership organized, authorized, or existing under the laws of the United States, or of any State, Territory, or District thereof, no matter how created or organized, excepting income derived from the business of life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, a tax of eight per centum of the amount by which such net income exceeds the sum of (a) $5,000 and (b) eight per centum of the actual capital invested.

"SEC. 202. That for the purpose of this title actual capital invested means (1) actual cash paid in, (2) actual cash value at the time of payment of assets other than cash paid in, and (3) paid in or earned surplus and undivided profits used or employed in the business, but does not include money or other property borrowed by the corporation or partnership."

You will observe that "actual capital invested" is so defined that a business capitalized upon a conservative basis pays a heavy tax, while companies with capitalized good will, watered stocks, etc., will pay nothing. A large majority of the corporations with stocks listed on the New York Exchange will escape the payment of this tax because they are capitalized upon less than an 8 per cent earning basis.

We do not believe that fair-minded men, whether benefited or not by it, approve of a law which permits such unfair conditions and results in such injustice.

In the interest of fair play and for the welfare of the business of our country we call your attention to the situation, hoping that you will at once wire your Senators and Representatives in Congress and ask that the excess-profits law be repealed and that a fair law be substituted.

WINSTON-SALEM BOARD OF TRADE.

WINSTON-SALEM, N. C., *May 7, 1917.*

Brief Submitted by the Association for an Equitable Federal Income Tax, Benjamin C. Marsh, Executive Secretary, New York City.

Nothing would more quickly achieve the object for which the declaration of war against Germany was made—to establish a democratic form of government in Germany—than the enactment of a revenue bill by Congress which would tax privilege and monopoly and recognize the right of the workers and producers of this country to a decent standard of living and saving.

The proposed revenue bill is a scandalous repudiation of democracy and an unjustified use of the taxing power of the State to make the rich richer and the poor poorer. If enacted it will give aid and comfort to the enemy, for the enemy will then know that we have no desire for real democracy in this country.

The fundamental principles of taxation, which should be observed continuously, but especially in time of war, are:

1. Taxes should be levied for services rendered.
2. Taxes should be levied according to ability to pay.
3. Privilege and not poverty should be taxed.
4. Unearned incomes should be taxed at a higher rate than earned incomes; i. e., incomes from property should be taxed at heavier rates than incomes from service.

The proposed revenue bill violates every one of these canons of taxation. It must be remembered that the only taxes which can not be shifted to the consumer are taxes on land values, on incomes, and on inheritances. Of the $1,810,420,000 which it is estimated the pending revenue bill will yield, only, roughly, $850,000,000 are derived from taxes which can not be shifted to the

ultimate consumer or which will not defeat their own purpose by cutting off the source. These taxes are the income taxes, including those on excess profits. The major part of the nearly $1,000,000,000 additional taxes provided for in the bill will fall on those who are least able to pay, because their income is small and the cost of living is increasing so rapidly. No serious objection can be raised to taxes on spirits, liquors, wines, and tobacco in its various forms as a war measure, but the other taxes are utterly indefensible from the point of view of democracy and justice.

The taxes on transportation, aggregating nearly $180,000,000, will be shifted for the most part to the consumers of freight and the users of the railroads. The railroads, though recognizing this fact, are asking for permission to increase freight rates because of the proposed taxes on transportation.

The profits of many large industrial corporations have increased since the war began from threefold to twentyfold, and excess profits should be more heavily taxed; the maximum rate should be at least 60 per cent to 70 per cent. By increasing the tax rate on large incomes up to a maximum of 75 per cent to 80 per cent the income from property and privilege will be taxed, in effect, more heavily than incomes from service. Obviously a person deriving an income of $3,000 from secure investment or from possession of some natural resource is much better able to pay high taxes than a person who secures an income of $3,000 from his own exertions and whose income would be cut off were he to stop work.

Congress can not tax directly for services rendered because by constitutional provision Congress can not levy a direct tax on land values. The total yield from the proposed revenue bill can, however, be secured by rapidly progressive taxes on large incomes, on excess profit, on spirits, liquors, wines, and tobacco in its various forms, permitting the repeal of existing tariff duties on the necessities of life.

We urge the Finance Committee to amend the proposed revenue bill in this way. To the criticism that heavy taxes on large incomes and excess profits will prevent subscriptions to the national loan, the obvious answer is that it does not make any difference to the Government whether it raises its $2,000,000,000 loan from a few individuals or from a great many small subscriptions, except that if the loan is to be tax exempt the Government will secure more revenue through a rapidly progressive tax on large incomes and through having the loan subscribed by hundreds of thousands of people in small amounts. Therefore, the latter method is preferable.

Brief Submitted by Mr. William L. Sweet, President of the American Specialty Manufacturers' Association of New York City.

NEW YORK, *May 10, 1917.*

To the Committee on Finance of the United States Senate:

The undersigned, representing the American Specialty Manufacturers' Association, composed of about 125 members manufacturing articles for the grocery trade, wishes to call your attention to a certain feature of the proposed revenue bill now pending in the House of Representatives.

The members of our association and many other like concerns have spent large sums in establishing their various trade-marks and in making them valuable. These trade-marks are property and are so recognized both in business and by the courts.

The trade-marks that we refer to cover specific articles of commerce, which are the insignia of the owners' protection and afford a protective guaranty to the public as to the quality of the goods.

In many instances they constitute the principal asset of the business.

They have been made valuable by the expenditure of money, just the same as though such expenditure had gone into factory buildings and machinery, and in the event of the sale of the business would be much more attractive to the purchaser than buildings and machinery.

The proposed revenue bill contains, as we believe, an obviously unfair provision, in that the value of such trade-marks, except where owned by a purchaser, is not to be taken into consideration in computing the capital invested in the business upon which to base allowed 8 per cent earnings before determining the excess-profit tax.

Our contention is recognized by the provision of the bill which protects the value of trade-marks to the extent of their cost to the purchaser. In equal fairness their fair value should be protected in the hands of the original owner, who has spent money in developing them, but has retained ownership.

There are many companies that are such original owners, and which have not realized upon the value of their several trade-marks by exploitations of same through sale or reorganization. They should be protected the same as later purchasers.

We suggest as a fair and effective amendment that section 202 shall be so modified as to provide that the good will, including trade-marks and trade brands, or the franchise of a corporation or partnership, shall be included in the actual capital invested at a fair valuation to be determined and fixed by the Secretary of the Treasury.

PROPOSED AMENDMENT.

"SEC. 202. That for the purpose of this title actual capital invested means (1) actual cash paid in, (2) the actual cash value of property paid in other than cash, for stock or shares in such corporation or partnership, at the time of such payment, and (3) paid in or earned surplus and undivided profits used or employed in the business: *Provided*, That the good will, including trade-marks and trade brands, or the franchise of a corporation or partnership, shall be included in the actual capital invested at a fair valuation to be determined and fixed by the Secretary of the Treasury."

ILLUSTRATION.

Actual capital invested:	
(1) Cash paid in	$100,000
(2) Cash value of property, etc	500,000
(3) Surplus and undivided profits	500,000
	1,100,000
Value of trade-marks, etc	880,000
Total capital invested [1]	1,980,000

SUGGESTION OF METHOD FOR DETERMINING VALUE OF TRADE-MARKS, ETC.

Earnings, say	$220,000
8 per cent of actual capital invested ($1,100,000)	88,000
Excess for determining value of trade-marks, etc	132,000

$132,000 representing income of 15 per cent would make value of trade-mark, etc.,[1] $880,000.

Illustration of computation of amount of tax:	
Allowance of 8 per cent on $1,980,000 equals	$158,400
Plus allowance of	5,000
	163,400
Excess	56,600
Total profit	220,000

Sixteen per cent of $56,600 equals $9,056, amount of tax.

Respectfully submitted.

WM. L. SWEET, *President.*

Copy of Resolutions passed by the National Retail Dry Goods Association, in Spring Meeting Assembled, May 14–15, 1917, at Blackstone Hotel, Chicago, Ill.

Desirous of giving fullest expression of our loyalty and patriotism, as well as our willingness to bear any burden of taxation that is fair, just, necessary, and not discriminatory to meet the great and extraordinary expense of the present

[1] Amount of earnings to determine value of trade-marks, etc., should be based upon average for period of three or five years.

war, we, the members of the National Dry Goods Association, in meeting assembled, after a full, frank, and free discussion, believe that a retroactive tax as proposed is unjust, unfair, and impracticable.

We are further convinced that the proposed tariff, if put into immediate effect, would be unjust and unfair because of contracts of sale already made upon a basis of present tariff laws, and we hereby desire to protest against such legislation.

We are further convinced that the present and proposed excess profit, corporation tax, and supertax should be changed to a flat per cent tax, to be levied on the net profits of all earning business of the Nation, including corporations, partnerships, and individuals.

We are further convinced that, in view of the vital importance to the prosperity of our Nation, of all such legislation, that this or any similar bill should not be enacted into law without first affording the business interests of the Nation the fullest opportunity for expressing itself as to the effect of such legislation upon both the present and future business of the Nation.

Business does not shrink from bearing its just share of all necessary taxation, but, inasmuch as the Government expects to collect its war taxes from the business of the Nation, it behooves our national legislators not to cripple business by hasty or ill-advised legislation.

We therefore request our president to appoint a committee of five representatives to immediately proceed to Washington, and there personally present our attitude to the Members of Congress.

The following committee was appointed by President F. H. Riker: Alfred B. Koch, chairman, La Salle & Koch, Toledo, Ohio; H. T. Willis, Champaign, Ill.; C. Herzfeld, Herzfeld-Phillipson Co.; R. M. Chalmers, John G. Myers Co., Albany, N. Y.; E. L. Howe, executive secretary, N. A. R. D. G.

NATIONAL RETAIL DRY GOODS ASSOCIATION,
By E. L. HOWE, *Secretary*.

The CHAIRMAN. The next subject to be taken up is that of beverages. We would rather hear the discussion in the order in which they appear in the schedule of hearings. The first is distilled and rectified spirits, and we would prefer to hear from the representatives of distilled spirits. Title 3 relates to beverages; the first item is distilled spirits, and that is the one we will take up first.

Mr. COOKE. I would like to have sufficient time to outline the proposition thoroughly. It is rather a complex question—distilled spirits and rectified spirits and the supertax. I will have to discuss the two separately.

The CHAIRMAN. It is understood you are to occupy the whole time?

Mr. COOKE. I represent the grain-distilling trade, part of the molasses-distilling trade, the rectifying trade, and other interests.

The CHAIRMAN. Mr. Cooke, we will give you 15 minutes, and one other gentleman can have 10 and the other 5. You proceed first, Mr. Wile.

TITLE III. WAR TAX ON BEVERAGES.[1]

Sec. 300. DISTILLED SPIRITS.

STATEMENT OF MR. ALFONS WILE, OF JULIUS WILE SONS & CO., 64 NINTH AVENUE, NEY YORK CITY.

Mr. WILE. Mr. Chairman and gentlemen, I speak as a member and in behalf of the Wine-Spirit Importers' Association of the United States, an organization comprising the importers of wines and spirits throughout the United States, whose importations comprise 90 per cent of the wines and spirits brought into this country. We are desirous of paying taxes as large as the amount of the income from these goods will bear. In considering this matter it is essential to figure on the cost of our merchandise on the other side. The large requisitions which have been made by the French and English and other foreign governments on the wines and brandies for their troops and navies has greatly depleted the stocks, and the result is that the wines and spirits have gone up as much as 100 and even 250 per cent in value, so to-day we pay from two to three times as much for our merchandise as under ordinary conditions. In addition we have war-risk insurance to pay and very much increased freight rates. Notwithstanding these conditions we are of the opinion that certain classes of our merchandise will stand an increase in taxation in one form or another. The bill as it has just been presented by the Committee on Ways and Means, however, proposes an increase in the import duties of 10 per cent ad valorem, as well as a greatly increased rate on internal-revenue taxation, and the result will be that with the heavy duties that will be provided for, the cost of our merchandise will be so great as to make its sale almost prohibitive, at least so largely reduced that importations will be reduced, and the revenue derived by the Government will grow less instead of more.

In the first place it is proposed on page 47, title 10, section 1000 [reading]:

> That on and after the day following the passage of this act there shall be levied, collected, and paid upon all articles when imported from any foreign country into the United States, or into any of its possessions (except the Philippine Islands and the islands of Guam and Tutuila), if such articles are now dutiable by law, a duty of ten per centum ad valorem in addition to the existing duty (whether ad valorem or specific), and if not now dutiable by law, a duty of ten per centum ad valorem.

In connection with that I would like to point out that to fix the duty ad valorem means that the values of merchandise will have to be appraised. There is no man in existence in this country or anywhere else who can qualify as an expert on all wines and liquors. In fact, it is a difficult thing to qualify as an expert on any one class of merchandise, but even men who have been a full generation in our line of business would hesitate to tell the value of a given sherry

[1] Further hearings on this title will be found on page 514.

from one place and a similar one from another. It is difficult to find an expert who can qualify on any class of goods; it is absolutely impossible to find anybody who can qualify on all and can fairly estimate and appraise that value. Yet that very task is imposed upon the United States examiners because they can not fix the duty on merchandise unless they verify the values.

The Government has realized such a condition, and for a great many years duties on wines and spirits have been fixed specifically and not ad valorem, because to make them ad valorem would promote undervaluation and result to the disadvantage of the honorable merchant and to the advantage of those who would try to evade the duty by undervaluation.

With the permission of the committee I will later submit a letter in support of our oral representations.

The CHAIRMAN. It will be printed as a part of these proceedings.

(The letter referred to by Mr. Wile was subsequently submitted and is here printed in full as follows:)

WINE AND SPIRIT IMPORTERS' SOCIETY,
New York, May 11, 1917.

The honorable COMMITTEE ON FINANCE,
United States Senate, Washington, D. C.

MR. CHAIRMAN AND GENTLEMEN: The Wine and Spirit Importers' Society of the United States, comprising the principal importers of wines, spirits, cordials, liqueurs, ales, and other beverages, whose members import probably 90 per cent of the total volume of such beverages brought into the United States, begs leave to submit briefly the following facts to be considered in support of the oral representations made to your honorable committee at the hearing granted to us on May 11, 1917, with respect to the rates of duty and internal-revenue taxes now proposed in H. R. 4280.

It is our desire to see import duties and internal-revenue taxes on the merchandise imported by us fixed at such rates as will yield the largest possible revenue of which they are capable. At the present time the general prosperity of this country and its increased buying power on account thereof, will make possible the fixing of duties and taxes somewhat in excess of those which would be feasible under normal conditions, without prejudice to the sale of such merchandise, but it must be borne in mind that under normal conditions, when the public is less prepared and less willing to pay the present prices to which it is now accustomed, the taxes and duties must be lower than at present to insure the largest possible revenue to the Government.

The present suggestions are now made, however, with the object of raising revenue under the existing conditions.

In considering this matter, it is essential that the foreign cost of such goods be taken into account. The large requisitions of wines, brandies, and other spirits by foreign governments for supplying their armies and navies, have so greatly reduced the available stocks in the hands of foreign producers and dealers that the cost of all such merchandise has advanced heavily. In addition to that, consideration should be taken on greatly increased freight rates, high war-risk insurance, and other items which result in landed costs much in excess of those prevailing under normal conditions.

The original shipping prices of foreign producers of wines and spirits have increased since the beginning of the war from 50 per cent to 300 per cent, so that we are to-day paying for wines and spirits purchased abroad from one and one-half to four times as much as was paid prior to the war for identically the same merchandise. Even if no higher duties or internal-revenue taxes were imposed on these goods, the greatly increased cost to the consumer has already resulted in reduced sales and lessened importations, and the Government is therefore receiving to-day a smaller revenue from such merchandise than it has received at lower rates of duty and tax in former years.

Notwithstanding these conditions, we are of the opinion that certain classes of our merchandise are capable of producing larger revenue. The bill which has just been presented by the Committee on Ways and Means, however, proposes an increase in the import duties of 10 per cent ad valorem in addition

to a new internal-revenue tax on imported spirits, and greatly increased internal-revenue taxes on still and sparkling wines, vermuth, cordials, etc., and it is our firm belief that with such heavy duties and taxes the importations of wines and spirits will unquestionably be greatly reduced and the Government, instead of increasing its revenues from our branch of the trade, will find them smaller than under existing rates of duty and taxes.

Prior to October, 1914, imported wines, spirits, etc., were not taxed under internal-revenue laws at all, but were subject only to duties as specified in the tariff. It was only as a war-emergency measure that imported wines, vermuth, cordials, and similar compounds were included in the list of articles taxable under the internal revenue. Under the general revenue bill of September 8, 1916, these internal-revenue taxes on imported wines, cordials, etc., were continued under slightly changed rates. House bill 4280 now proposes to materially increase these internal-revenue taxes on wines, vermuth, cordials, and similar compounds, and furthermore, proposes to place a high internal-revenue tax on imported brandies and other spirits, and at the same time provides for an increase of 10 per cent ad valorem in the duties on such goods. The result of this is that our industry is to stand an increase from two different directions—first, in the internal-revenue tax, and secondly, through customs duties. It can hardly be the purpose of Congress to place a double additional burden upon our branch of trade. We are prepared to stand whatever Congress may determine as the proper increase in one form or another, but a double increase in taxation would result in a substantial reduction in the importations of wines and spirits and would thereby defeat the purpose of raising additional revenue.

As imported merchandise rightfully and properly comes under tariff administration, it is the opinion if this society that the logical manner of securing additional revenue from imported wines and spirits would be by increasing the tariff duties and not through the internal-revenue office; but in any event the total amount of the increase which may be assessed upon these goods should not exceed the figures which will be given below, whether they be assessed through additional customs duty or through internal-revenue taxes.

Before going into this phase of the matter, however, this society begs leave to refer to the plan in House bill 4280, under section 1,000, page 47, of levying—in addition to the prevailing customs duties—an additional duty of 10 per cent ad valorem. On this subject we beg leave to submit that wines and spirits have for many years invariably been made subject to a specific duty, the principle of ad valorem duties on such goods having been abandoned as impracticable many years ago. Ad valorem duties are, of course, assessed upon the foreign value of merchandise. There are so many styles and qualities of wines and spirits shipped by each foreign producer and shipper that no one is qualified to properly appraise all the qualities and styles that are imported. The judgment of one person may fix the value of a wine, brandy, or other beverage at a certain figure, and another, equally well qualified, may in entire good faith judge the same goods at a much higher or much lower value. Even men who have been identified with the trade for a generation or more do not feel themselves qualified to judge of all classes of imported wines and spirits. How much less could a customs appraiser, therefore, be expected to judge properly of the value of the thousands of different classes of wines and spirits which come before his notice in the course of a year from all parts of the world.

The result of these conditions is that there would be great incentive to undervaluation of merchandise, and even when goods are invoiced correctly and in good faith the values would be subject to revision by appraisers or examiners who are even less qualified than importers to correctly pass upon them.

It is because of a realization of these conditions that Congress has since many years fixed specific instead of ad valorem duties upon wines and liquors, and it is earnestly requested, therefore, in the interests of both the Government and honorable and conscientious importers of wines and spirits, that whatever increase in customs duties may be decided upon they be fixed at specific and not ad valorem rates.

Another point which should be brought out on this subject is that owing to the high cost of wines and spirits abroad, as explained in the beginning of this brief, the duties, if levied ad valorem, would be collected upon abnormal values, and would therefore be excessive and disproportionate to the normal market values.

Bearing all of these arguments in mind, this society begs leave to submit the following rates as likely to produce the largest amount of revenue which can be secured by the Government, and it is the honest belief of the members of this society that these figures represent the maximum revenue-producing possibilities of imported wines and spirits. As a matter of convenience, we shall take these up in the order in which they appear in schedule H of the tariff:

PARAGRAPH 237.—BRANDY AND OTHER SPIRITS.

The House bill, on page 8, line 24, proposes an internal-revenue tax on all distilled spirits produced in or imported into the United States of $1.10 on each proof gallon, in addition to the tax now imposed by law. This would mean on imported brandies and other spirits an internal-revenue tax of $1.10 per proof gallon in addition to the customs duties to which such goods are subject. The present high cost of imported brandies and other spirits, as explained above, has already resulted in an increase in their landed cost of from $6 to $8 or more per case. If they now were to be subject to an internal-revenue tax of $1.10, together with an increased duty, the cost would be still further advanced $3 or more per case, and would make them so high in price as to put them beyond the reach of all but the most wealthy. Reduced importations mean reduced revenue to the Government, and as productive of the largest amount of revenue it is therefore proposed that the duties under paragraph 237 on brandies and other spirits be changed as follows:

Present duty: $2.60 per proof gallon. Duty and internal-revenue taxes proposed in House bill: $1.10 per proof gallon internal revenue, plus present duty $2.60, plus 10 per cent ad valorem. Rate now recommended by this society: $3 per proof gallon duty; no internal-revenue tax.

The proposed duty of $3 per proof gallon affords more than ample protection to American brandies and other spirits, even at the newly proposed internal-revenue taxes of $2.20 per proof gallon on American spirits, as the costs of the American goods have advanced very slightly over those under normal conditions, whereas the foreign products have advanced from 50 per cent to 200 per cent over the prices prevailing before the war, and war-risk insurance is from 6 per cent to 12 per cent. Even if foreign costs were no higher than they normally are, the difference between the new rate proposed for domestic spirits of $2.20 and the rate now recommended by this society for imported spirits, $3 per proof gallon, affords a margin of 80 cents per proof gallon between domestic and imported spirits, which should be ample protection to the American product.

PARAGRAPH 240.—CORDIALS, LIQUEURS, AND OTHER SPIRITUOUS BEVERAGES OR BITTERS, ETC.

The House bill, on page 12, line 12, calls for a tax in addition to the tax now imposed by law upon liqueurs, cordials, etc., equal to such tax, and on page 13, line 3, it provides that the additional tax herein imposed shall apply to all domestic or imported liqueurs, cordials, or similar compounds, by whatever name sold or offered for sale, and without reference to the kind of spirits or wines used in the manufacture thereof. The effect of this is to impose upon imported cordials, liqueurs, etc., a tax of 1½ cents per one-half pint or fraction thereof, whereas under the present general revenue law of September 8, 1916, imported cordials, liqueurs, etc., not being made of wines fortified in accordance with the provisions of the act of September 8, 1916, are not taxable. Imported cordials are further to be assessed an additional 10 per cent ad valorem for duties. The effect of these two increases will be to greatly reduce the importation thereof, as they are already burdened with the heavy increase in their initial cost in foreign countries where produced. To yield the maximum revenue, they should be exempt from internal-revenue taxation, but we believe that they will stand an increase of 40 cents per proof gallon in the duty, and we therefore recommend the following change in duty:

Present duty: $2.60 per proof gallon. Duty and internal-revenue taxes proposed in House bill: Present duty, $2.60, plus 10 per cent ad valorem, plus 1½ cents per one-half pint internal-revenue tax. Rate now recommended by this society: $3 per proof gallon duty; no internal-revenue tax.

PARAGRAPH 243.—CHAMPAGNE AND ALL OTHER SPARKLING WINES.

The House bill, on page 12, line 13, proposes a tax upon all champagnes and other sparkling wines in addition to the tax now imposed by law, equal to such

tax, and on page 47, line 14, proposes the addition of 10 per cent ad valorem to the duties. The importation of champagnes and other sparkling wines has already fallen off very considerably as against previous years as a result of the high duties and taxes which have been assessed thereon. The present duty is $9.60 per dozen quart bottles, and the internal-revenue tax thereon, $1.44 per case, making $11.04. In the year 1909, when the duty was $6 per dozen under reciprocity agreements, the importations amounted to upward of 436,000 dozens, and the revenue derived by the Government therefrom was $2,616,768. In recent years, under the higher rates of duty, and with an internal-revenue tax, the importations fell off appreciably, and in 1916—notwithstanding the great prosperity which this country enjoyed—they amounted to only 206,210 dozens, yielding at the present rate of duty and internal revenue, only $2,276,558, or approximately $343,000 less revenue than when the rate was only $6. These figures, in our opinion, clearly bear out our claim that the limit of revenue production on champagnes and other sparkling wines, has already been exceeded. Nevertheless, we believe that champagnes and other sparkling wines will stand a further moderate increase, and we suggest, therefore, an increase of 96 cents per dozen bottles in the duty, making the total of the duty and revenue tax $12 per dozen, or $1 per bottle. We therefore recommend that the rates be changed under paragraph 243 of the tariff, as follows:

Present duty and internal-revenue tax: Duty, $9.60 per dozen quarts; tax, $1.44 per dozen quarts; total tax, $11.04 per case. Duty and internal-revenue taxes proposed in House bill: Present duty, $9.60, plus 10 per cent ad valorem, plus $2.88 internal-revenue tax. Rate now recommended by this society: Total, $12 per dozen; no internal-revenue tax.

PARAGRAPH 244.—STILL WINES, INCLUDING GINGER WINE OF GINGER CORDIAL, VERMUTH AND SIMILAR BEVERAGES.

The House bill, on page 12, under section 304, line 12, proposes upon all still wines, including vermuth, and upon all artificial or imitation wines or compounds sold as wine, except wines containing not more than 14 per cent of absolute alcohol, in addition to the tax which is now imposed by law on such articles, a tax equal to such tax; and upon wines containing not more than 14 per cent of absolute alcohol, in addition to the tax now imposed by law upon such wines, a tax equal to one-half such tax; and on page 47, line 14, it is provided that the duty shall be increased over the present rates 10 per cent ad valorem.

While the same arguments as have been advanced above in respect to brandies and other spirits, cordials, etc., as to the high costs in the countries of origin, apply with equal force to imported still wines, vermuth, etc., we believe nevertheless that these goods will stand moderate advances in duties without impairment of revenue at the present time, and we recommend, as in the other cases, that these advances be secured by increase in duties instead of by increases in internal-revenue taxation. We recommend, therefore, the following changes for paragraph 244 of the tariff:

STILL WINES, INCLUDING GINGER WINE OF CORDIAL, VERMOTH, AND SIMILAR BEVERAGES IN CASKS AND PACKAGES OTHER THAN BOTTLES OR JUGS, IF CONTAINING 14 PER CENT OR LESS OF ABSOLUTE ALCOHOL.

Present duty and internal-revenue tax: Duty, 45 cents per gallon; tax, 4 cents per gallon; total tax, 49 cents per gallon. Duty and internal-revenue taxes proposed in House bill: Duty, 45 cents per gallon, plus 10 per cent ad valorem, plus 6 cents internal revenue. Rate now recommended by this society: Total, 54 cents per gallon; no internal-revenue tax.

SAME GOODS, IF CONTAINING MORE THAN 14 PER CENT OF ABSOLUTE ALCOHOL.

Present duty and internal-revenue tax: Duty, 60 cents per gallon; tax, 10 cents per gallon; total tax, 70 cents per gallon. Duty and internal-revenue taxes proposed in House bill: Duty, 60 cents per gallon, plus 10 per cent ad valorem, plus 20 cents internal revenue. Rate now recommended by this society: Total, 80 cents per gallon; no internal-revenue tax.

SAME GOODS IN BOTTLES OR JUGS—PER CASE OF 1 DOZEN BOTTLES OR JUGS CONTAINING 12 QUARTS OR 24 PINTS EACH.

Present duty and internal-revenue tax: Duty, $1.85, plus internal-revenue tax varying from 10 cents to 30 cents per case, according to alcoholic strength and

capacity of bottles. Duty and internal-revenue taxes proposed in House bill: Duty, $1.85, plus 10 per cent ad valorem, plus internal-revenue tax varying from 15 cents to 60 cents, according to alcoholic strength and capacity of bottles. Rate now recommended by this society: Total, $2.25 per case; no internal-revenue tax.

PARAGRAPH 245.—ALE, PORTER, STOUT, AND BEER.

The House bill, on page 47, line 14, provides for an increase of 10 per cent ad valorem in the present duties. This society believes that notwithstanding a heavy increase in the foreign cost of these goods, they can stand an increase in the duty of 10 cents per gallon when imported in bottles or jugs, and of 7 cents per gallon when imported otherwise than in bottles or jugs, and therefore recommends the following changes in paragraph 245 of the tariff:

Present duty: In bottles or jugs, 45 cents per gallon. Duty proposed in House bill: Forty-five cents per gallon plus 10 per cent ad valorem. Rate recommended by this society: Total, 55 cents per gallon; no internal-revenue tax.

Present duty: Twenty-three cents per gallon. Duty proposed in House bill: Twenty-three cents per gallon plus 10 per cent ad valorem. Rate recommended by this society: Total, 30 cents per gallon; no internal-revenue tax.

The foregoing rates, appearing in the last clause of each article, represent, in the opinion of this society, the maximum of the duty and tax which these goods can bear without decreasing importations, and thereby reducing the amount of revenue which the Government would receive therefrom, and whether in the final bill these goods be assessed in the form of increased duty or by a duty and internal-revenue tax, the totals should not exceed the figures recommended by us, if the maximum revenue which they are capable of producing is desired.

Aside from the other considerations mentioned above, this society respectfully draws your attention to the question of foreign exchange, which would be appreciably affected by a reduction in the imports of our merchandise. If the duties and taxes are raised to a figure beyond what the goods will stand, the importations will necessarily decrease, and foreign exchange rates will be weakened to that extent.

We urge that our representations be given favorable consideration.

Respectfully,

WINE AND SPIRIT IMPORTERS' SOCIETY OF THE UNITED STATES,
By ITS EXECUTIVE COMMITTEE.

Executive committee: Henry E. Gourd, of Henry E. Gourd, president; H. T. Eschwege, of Francis Draz & Co., first vice president; Chas. H. Simonds, of F. O. De Luze & Co., second vice president; Maurice La Montagne, of La Montagne-Chapman Co. (Inc.), treasurer; Grosvenor Nicholas, of Grosvenor Nicholas & Co. (Inc.), secretary; H. I. Bowne, of Bonfort's Wine and Spirit Circular (Inc.); Julius F. Geertz, of W. A. Taylor Co; W. A. Gibbs, of Haig & Haig Co. (Inc.); Wm. W. Gleason, of Luyties Bros.; Waldemar H. Grassl, of L. Gandolfi & Co.; Montaigu La Montagne, of E. La Montagne's Sons; Alfred F. X. Leeb, of Batjer & Co.; Geo. D. F. Leith, of Wm. G. Moehring & Co.; H. D. McCann, of Nicholas Rath & Co.; Alexander McLean, of E. & J. Burke Co. (Ltd.); Andre G. Prost, of Cusenier & Cie.; Frederick Renken, of Renken & Yates Smith (Inc.); Joseph Garneau Ringwalt, of The Jos. Garneau Co. (Inc.); Munson G. Shaw, of Alex. D. Shaw & Co.; Alfons Wile, of Julius Wile, Sons & Co.

Mr. WILE. In respect to internal-revenue taxation, it is proposed in the bill that the internal-revenue tax on spirits shall be increased by $1.10, applied both to imported and domestic spirits. That is on page 2, title 3, section 300. It is also provided that there shall be an additional tax on wines, liquors, etc. We will therefore be subject to a double taxation—first, because of the increase in the duties which are proposed, whether specific or ad valorem, and, second, because of the increased internal-revenue tax to which our goods will be subject. It is hardly intended by Congress that we should be doubly taxed. Every other industry is taxed once, but we are to be taxed

twice—first, as importers, and, second, under the internal-revenue law. If we should be taxed under both, it is unquestionable that with the present high cost on the other side the high war-risk insurance and high rate and increased duty and increased internal-revenue taxation, our goods will cost such a large amount as to make it almost impossible to sell, or restrict it from sale, except to the wealthiest class, and make it impossible for a man of ordinary means to use them at all. The result will be diminished importations and diminished revenues for the Government. We are anxious to pay a larger amount of revenue, but we want to see the rates fixed so that they will be practical and will result in higher revenues to the Government and not small ones, because if through the result of taxation at figures as proposed now the sales will be reduced and the revenue to the Government will be reduced we will be blamed for it. We have taken leave to suggest that the duties on wines and spirits be advanced to a specific figure by a specific amount, not ad valorem. We are perfectly satisfied to pay whatever may be deemed wise by Congress as an increase in the tariff, but we want to make it specific and not ad valorem, because the honorable merchant will pay his share and the dishonorable one if this plan is adopted would not be able to take advantage of his honorable competitor. We think a fair addition to the present duties would be 10 per cent of the present duties—not 10 per cent ad valorem in addition to the present duties which are specific. Or if your committee does not think that feasible we would suggest that the rate of duty on spirits be increased by 40 cents per gallon, from $2.60 to $3 a gallon, and that the duty on sparkling wines, which are already under a great disadvantage, be increased 96 cents a case, making the total amount of duty and tax which they would be subject to $12 a case or $1 a bottle.

Proposed import duties on wines and spirits with no increase on internal-revenue taxes:

On brandies and other spirits, increase 40 cents, equals $3 per proof gallon.

On brandies, sparkling wines, increase 96 cents per one dozen quarts.

On brandies, still wines, and vermuth in bottles or jugs, increase 25 cents per dozen.

Still wines and vermuth in bulk, not over 14 per cent alcohol, add 5 cents per gallon.

Still wines and vermuth in bulk, over 14 per cent and not over 24 per cent, add 10 cents per gallon.

Still wines and vermuth in bulk, over 24 per cent alcohol, to be classified as spirits and dutiable accordingly.

Cordials and liquors, etc., taxable as spirits, add 40 cents per gallon.

Ales, stout, beer, etc., add 7 cents per gallon.

We believe those rates would be productive of a larger income to the Government than the rates proposed.

There is one other point in regard to the protection to be afforded the domestic merchandise. We realize the imported goods should be at a certain disadvantage with respect to the domestic goods, that the taxes on imported goods should be higher than those applying to domestic goods; but even if the present rate proposed would raise

the domestic spirits to $2.20, to-day we are paying $2.60, and we suggest that should be increased to $3 a gallon, which will make a net difference of 80 cents a gallon. It must be borne in mind that as a general principle duty is enacted in order to place foreign merchandise on an equality with domestic goods; in other words, to make up for the difference in the cost of labor, the cost of production, etc., and afford a certain amount of protection to the domestic merchandise that we have to-day to pay much higher prices in Europe for our wines than the same merchandise could be purchased for in this country. There is no protection needed any more.

The CHAIRMAN. This is not for protection, but for revenue.

Mr. WILE. But there is always an element of protection to domestic products considered even in a revenue measure, and if we should drop the idea of protection altogether and consider it as a measure of revenue only, we must consider how much the goods will stand. I thank you, gentlemen.

The CHAIRMAN. The next gentleman to discuss distilled spirits is Mr. Levi Cooke.

STATEMENT OF MR. LEVI COOKE, REPRESENTING THE NATIONAL WHOLESALE LIQUOR ASSOCIATION.

Mr. COOKE. I represent the National Wholesale Liquor Association, which comprises some 700 distillers, rectifiers, and wholesale liquor dealers. The question of distilled spirit taxation raises the question of the amount of tax which can be borne by distilled spirits and how much revenue will be secured. The House committee in its draft of the bill, on page 8 and section 300, doubles the tax on distilled spirits, from $1.10 for proof gallons to $2.10 per proof gallon. The distilled spirit interest is anxious to pay all the tax that the traffic will bear, but there is a point beyond which taxation on distilled spirits ceases to produce the revenue, actually resulting in a decrease, because overtaxation brings about illicit production. Distilled spirits are the most highly taxed single article in the United States; the ad valorem ranges from 300 to 500 per cent, according to the price of the material of which it is made. You can make a gallon for from 20 to 25 cents. A tax at $1.10 is four or five times the cost of the material, whereas at $2.20 you make it from eight to ten times the cost of production and close to 1,000 per cent ad valorem. It is impossible to collect that kind of a tax, in our judgment. You can not make taxation on distilled spirits in the United States past a certain point that will not result in great illicit production. Every time you produce a gallon of distilled spirits illegally and market it you displace the revenue from several gallons of whisky. At a tax of $2.20 per gallon anyone could take a bushel of corn or 5 gallons of molasses and transfer that into eight or ten dollars advantage through having defeated the tax payment.

I speak about this with great authority on account of the historical lesson which this Congress has had for a period of 50 years. The question was first raised as to whether the Government could tax whisky. The first real tax was during the Civil War, when 20 cents per gallon was proposed. It was raised to 50 cents during the war, and in 1867 Congress undertook to pay off the debt of the Civil War by taxing whisky and put the rate at $2 per proof gallon. That tax

reduced the number of gallons from 16,000,000 to a total of only 7,000,000 on which a tax was collected. The frauds were so great and the reduction of the revenue was so manifest that Congress returned in 1868 and reduced the tax to 60 cents per gallon and $4 a barrel tax, because the Government desired to eradicate the illicit production. At the new rate it secured a revenue on 80,000,000 gallons as against 7,000,000 at the $2 rate. The debates in Congress at the time included arguments by all the leading statesmen both in the Senate and House. Senator Sherman and James A. Garfield and Robert G. Ingersoll in the House and all of the leaders of the House and Senate agreed it was impossible to collect $2 a proof gallon on distilled spirits. Mr. Ingersoll said the distillers in Peoria, Ill., had been compelled to abandon their property, to discharge employees, and stop feeding some 15,000 head of cattle at their distilleries because those registered distilleries were unable to compete with the illicit production which sprang up everywhere under the $2 rate. The illicit production of that period was not confined to the wilderness sections, but was practiced in New York City and St. Louis and Chicago and other cities, and that is exactly what, in the opinion of the liquor trade to-day, will occur if a $2.20 rate is attempted by Congress. You will inaugurate illicit production in the great centers of population, and it will only be a step from the point of manufacture to the point of distribution, and all the internal-revenue officers in Christendom could not keep up with that illicit production.

The trade wishes to take an increased tax, but urges upon the committee that instead of attempting to make a very high rate they carefully adjust the increases to a point that is collectible, that will mean an increase over the total collected in the past two years. Last year we paid $148,000,000 on distilled spirits, and this year the total tax production will be in the neighborhood of $165,000,000 at $1.10 per proof gallon. It would be the part of unwisdom so to tamper with that $1.10 per gallon rate as to endanger the whole thing. As a friend of mine expressed it, a lawyer might attempt to double his income by doubling his fees and find all of his clients departing from his office. Congress must consider the same proposition. Double the tax and you may get none at all, or a very small amount. I fear that the respectable distillers of this country would be charged with part of the frauds, when they would be absolutely innocent, because they have no more opportunity to control illicit production than anyone else. Illicit production occurs in small quantities in a multitude of places, but every 5 gallons illicitly produced takes the place of the registered distiller's production on which he would pay the tax if he had the opportunity.

We urge a comparatively small increase in this rate, and we are going to submit to the committee now a proposition which we think will simultaneously take care of increased gross revenue and prevent this fraud which we are so fearful of. In England the tax rate is based upon this scheme: They charge 14 shillings and 9 pence on spirits over 3 years of age and 16 shillings 9 pence on spirits under 3 years of age, and substantially the same principle we urge upon this committee, that is, to select a rate upon goods produced prior to the date of the passage of this act, which will be less than the tax upon goods to be produced after the passage of this act, and we recommend a 20-cent differential. The effect will be the conservation

of grains that go into spirits at a time when that grain is valuable for other uses. You have got to have not less than 170,000,000 gallons of distilled spirits in this country for industrial and other purposes. You can curtail new production for beverage uses, and the differential similar to the 2-shilling differential in England would compel the use of existing stock and leave spirits from new grain for pharmaceutical and other industrial uses. We say the rate should not be too high on old goods produced prior to the passage of the act, as those goods produced prior to the passage of the act will stand as a bar to illicit production which would take advantage of a higher rate upon all production new and old. The new production for pharmaceutical purposes is the kind of production that is almost impossible to compete with by illicit production. Two dollars is too high; it will be a great injury to the tax-paying trade. We therefore urge you to make two rates, first a rate, a substantial but not too large increase upon distilled spirits produced prior to the passage of the act; then a higher rate, 20 cents higher or whatever you deem proper, on goods to be produced after the passage of the act, thus conforming to the English precedent which I understand has worked out very well, and you will then have an eventual working up in a period of 18 months or more to an entire production upon the higher rate of tax with the differential ceasing to operate but the higher rate in force on all goods. In making this statement against a higher rate of taxation I would not have the committee believe the liquor interests are protesting against an increase tax. But they protest against anything that will reduce the gross revenue and reduce the gross collections.

I will pass over the question of the retroactive clause and go to rectified distilled spirits. A proposal has been incorporated in the House bill which is an iniquitous proposal in principle. There ought to be no differentiation or distinction between distilled spirits——

The CHAIRMAN. I think we would like to hear you on rectified spirits when we reach that. As you can readily see, in the consideration of this bill to have these oral statements and these briefs before us as we take up the particular subject will be very helpful. It will insure thorough consideration of what you gentlemen are saying to us. Therefore I prefer you would not mix these items.

Mr. COOK. To go back to the flat-increase tax proposition. The tax rate in Canada is $2.40 per gallon, but the gallon in Canada is an imperial gallon of 277 cubic inches as against the American gallon of 231 cubic inches, and the proof at which they pay is 114, whereas ours is 100 proof. In other words, they tax a larger gallon at $2.40 than we tax pay at the rate of $1.10, and figured in terms of our standard the Canadian rate is $1.75 per American proof gallon. In other words, this proposition from the House is 45 cents higher. We would be perfectly willing to pay upon our proof gallon if we could do it and avoid illicit production. Some 70 or 90 millions of dollars of trade-tax money are always kept in the hands of the Treasury for six or eight months before the trade gets it back. It is a great banking operation to finance the whisky tax. They would do it to any possible amount if the United States would guarantee no illicit production. But the United States officers have seized

nearly 20,000 illicit places in six years, and occasionally a registered distillery goes wrong and beats the Government out of several million dollars before the Government can catch it.

Canada imports corn to make whisky; England, Ireland, and Scotland import American maize to make their whisky. Up to 1825, in England, the illicit production of distilled spirits was rampant, and then the demand of the people for food became so great that they had to import the material with which to make the distilled spirits and the Government was able to suppress illicit production. In the United States there is a cornfield at every distiller's door and every man can use it.

The CHAIRMAN. I want to say that you gentlemen see the importance of having written briefs in as soon as possible, because our purpose is to print the oral hearings and the briefs all together under the head of the subject to which they relate, and in this way it would be obvious that when we take up that section of the bill we will have both the oral hearings and the printed statements before us and it will be especially essential in view of the fact that we are not asking questions but are giving you gentlemen all of the time.

Mr. COOKE. We will file our brief in ample time; also a supplemental brief.

The CHAIRMAN. It will be well to have it filed by Tuesday or Wednesday at the latest, so it may be printed.

(The brief referred to by Mr. Cooke was subsequently submitted and is here printed in full, as follows:)

BRIEF ON BEHALF OF THE NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION OF AMERICA, COMPRISING GRAIN AND MOLASSES DISTILLERS, RECTIFIERS, AND WHOLESALE LIQUOR DEALERS.

Submitted by Levi Cooke as general counsel of the association and under special authority of a meeting of the trade held at Pittsburgh, Pa., May 9, 1917.

The propositions made in this memorandum represent the views of the mass of the manufacturing and distributing liquor trade of the Nation, by which is tax paid not less than 90 per cent of the liquors tax paid annually in the United States.

POINTS.

1. We protest the rate of $2.20 per proof gallon in section 300 of the House bill (page 8, line 24) as uncollectible, conducive to frauds on the revenue, and futile to increase the gross collections from this source.

2. We advocate an increase of the present distilled-spirit tax of $1.10 per proof gallon to a reasonably safe point, and urge a differential over that rate of 20 cents per gallon applicable to spirits produced after the date of the act, the effect of which will be to curtail use of material in new production and enforce recourse to bonded stocks without giving such stocks the monopoly which would be created by total arbitrary suspension of the use of distilling materials in the interest of food conservation.

ARGUMENT.

A rate of $2.20 per proof gallon would cause a disaster to the revenue and the legal tax-paying trade.

The act of July 1, 1862, put the rate at 20 cents per gallon. Taxes at this rate were paid on 85,295,393 gallons, producing over $10,000,000. The rate was rapidly increased during 1864 to 60 cents, $1.50, and finally to $2 per gallon. Tax payments immediately began to fall off, but 16,973,074 gallons being tax paid in 1865, 14,847,043 gallons being tax paid in 1866, 14,588,740 gallons being tax paid in 1867; and in 1868, after 18 months of the $2 rate, the tax payments fell to 7,224,809 gallons.

Thus little more than $13,000,000 was received from distilled spirits at a $2 rate, with the Bureau of Internal Revenue field force well organized following the war, and the total collections were reduced far below the gross taken during the war and in the immediate aftermath at much lower rates.

The act of 1868 reduced the rate to 60 cents per gallon and $4 per barrel, a rate equal to about 70 cents per gallon. The great leaders of that Congress, Gen. Schenck, James A. Garfield, Robert G. Ingersoll, Gen. B. F. Butler, Gen. John A. Logan, Messrs. Allison of Iowa, Kelly of Pennsylvania, Pruyn of New York, Payne of Ohio, Boutwell of Massachusetts, Holman of Indiana, in the House, and Senators Sherman of Ohio, Morrill of Vermont, Yates of Illinois, Williams of Oregon, Hendricks of Indiana, and others of the Senate joined in agreement that the $2 rate was impossible of collection; that it had produced frauds impossible to combat; and that the situation could be met only by repeal of the rate and the imposition of a tax more consonant with the cost of production of the article.

It is respectfully urged that the debates of that year be consulted before the fatal experiment is repeated of destroying the revenue in the effort to double its amount by doubling the rate.

The effect of the reduction of 1868 was immediately apparent. In 1869 a total of 62,092,417 proof gallons was paid at 70 cents per gallon, returning a revenue of more than $42,000,000 against less than $14,000,000 the previous year at $2 per gallon. The next year there was an increase to 78,490,198 gallons and more than $52,000,000 of revenue.

In 1872 the barrel tax was repealed and a flat rate of 70 cents established, and in 1875 the rate was fixed at 90 cents. There were normal increases of revenue under these rates, Commissioner Wells holding that the 90-cent rate was economically the best revenue producer. In 1894 the rate was raised to $1.10 per proof gallon, the present rate, and it is a commentary on the subject that five years elapsed before this rate produced as much revenue as the 90-cent rate had previously produced. Commencing in 1899 the total collections reached previous high figures, and excepting for years of commercial depression have since continued to increase. The collections under the $1.10 rate have increased from $79,862,627 in the year following its adoption to $156,391,487 in 1912, and during the present fiscal year will exceed $160,000,000.

That illicit production occurs under the $1.10 rate in great quantity can not be denied. In the fiscal year 1916 there was seized a total of 3,286 illicit stills. The number seized has been steadily increasing. For six years there were seized by the internal-revenue officers 19,018 stills operating without registry. Large frauds have been discovered in certain registered distilleries.

It is urged that the increase be made experimentally at not too high a point. It can later be further advanced if experience under the first increase justifies the expectation that frauds will not wipe out the larger collections. If the trade as a whole were consulted, it would urge with solemn sincerity that the rate go not above $1.30 per proof gallon, subject to further increases warranted by collection returns.

As stated on oral argument, the trade recommends a tax rate 20 cents per gallon greater on spirits produced after the act's passage than imposed on prior produced spirits; for instance, if the rate be fixed at $1.30 per proof gallon on goods in bond at the act's passage, let the rate be $1.50 per proof gallon on spirits thereafter produced.

This would accomplish three results:

First, it would curtail new production to necessitous uses, as in the pharmaceutical, perfumery, and similar trades requiring new spirits, and thus conserve distilling materials to necessities.

Second, it would force out of bond spirits which would cause no drain upon materials without giving these spirits the monopoly created by arbitrary total suspension of use of materials.

Third, it would immediately increase the revenue to $1.50 per proof gallon on at least 35,000,000 gallons of tax-paid spirits that have to be produced new each year for necessitous uses; and at the same time it would leave a temporary barrier to illicit production, since, while the bonded goods were being withdrawn at the lower rate, illicit production would of necessity be actuated only to the extent of the impulse of this smaller increase in the present rate. It is obvious that in the course of time exhaustion of stocks in bond would put all tax payments on the higher rate and thus by transition the higher rate established for all spirits tax paid.

The Distillers' Securities Corporation, a large interest in the distilling and distributing trade, whose subsidiary houses are members of the national association, addressed a circular to Congress while this bill was in the Ways and Means Committee, and by its president, Julius Kessler, Esq., suggested the rate of $2.20 per gallon, or double the present rate. It is respectfully submitted that Mr. Kessler, in his anxiety to do what all distillers and dealers wish to do, i. e., pay all the tax possible on spirits in a time of national emergency, failed to realize the effect upon total collections of a fraud-producing rate of tax. Patriotic effort to turn in all the tax possible should not blind either Congress or the trade to the lessons of history and the conditions of the country.

Mr. Kessler in his circular also protested the material tax on new production which had been advocated in the House by the trade organization, intended to accomplish the same objects as the differential tax now proposed. He now advises the writer of this memorandum that he favors the differential tax of 20 cents per gallon extra on new production, aimed at curtailing use of materials in new production to necessities, and raising additional revenue over the minimum rate.

England has adopted the differential principle by placing a tax of 14s. 9d. on spirits over three years of age and 16s. 9d. on spirits under three years of age.

The trade advocates this differential tax of 20 cents per gallon as a solution of the question of material conservation as well as a means of increasing revenue while lessening the peril of illicit production.

In conclusion, we call attention to the fact that Canada taxes distilled spirits but $1.75 per American proof gallon, while England taxes for goods three years old but $2.60 per American proof gallon.

In neither of those countries is illicit production a danger, because the materials are unavailable there except by importation, and at all times capable of Government ascertainment. The material for distillation is available on all sides in the United States.

The taxpaying American trade wishes to pay all the taxes possible on spirits, but urges Congress with all earnestness to place the rate, with the differential proposed operating upon all alike, at such a point as will not destroy the object of the increase, i. e., increased total collections. If this be done now, the trade will at any time in the future cooperate to take a further increase, if experience demonstrates its possibility or feasibility.

Respectfully submitted.

NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION OF AMERICA,
By LEVI COOKE, *General Counsel.*

Sec. 301. RETROACTIVE FLOOR-STOCK TAX.

Mr. COOKE. I would rather treat rectified spirits as a distinct proposition in this bill. Then I will close the statement on the floor-tax matter. Section 301 of the House act attempts to put the increased tax of $1.10 per proof gallon on all stock held by dealers at the time of the passage of the act. The criticism which I first wish to make of that tax is that it applies not to the proof gallon of distilled spirits in the hands of the dealer, but the wine gallon. In other words, a wholesale liquor dealer having 50 barrels of 80-proof spirits is going to pay $1.30 increase upon each proof gallon instead of $1.10. The tax upon the wine gallon means the laying of increase not upon the alcoholic unit in stock, but the imposition of that increase upon the added water which he put into the distilled spirits to reduce it to 70, 80, 90, or 95 proof, and it is an inequitable method of securing a tax to impose the increase upon the wine gallon instead of upon the proof gallon spirits that were originally bought by the dealer.

Whatever increase is put upon goods in the hands of the dealer should be imposed as distilled tax has always been imposed, not upon the wine gallon but upon the proof gallon of distilled spirits.

The dealers protest against any floor tax. Some of these men have held the goods for years and did not anticipate being compelled to pay a tax on them. There is one distiller that has over 3,000 barrels of whisky that was tax paid 10 years ago, and to be compelled to pay this increase proposed in the present act would certainly be onerous, at least, and if this committee could devise some method by which the retroactive feature of the floor-stock tax could be applied to goods within a reasonable period of time prior to the passage of the act the committee would be doing an equitable thing. That would leave out the man who has held goods for a long period of time with no intention or purpose of anticipating this tax. I would be very glad to submit an amendment and will do so with my memorandum.

I will present a brief on the floor-stock tax for printing in the record.

The CHAIRMAN. That will be done.

(The brief referred to by Mr. Cooke was subsequently submitted and is here printed in full, as follows:)

FLOOR-STOCK TAX ON DISTILLED SPIRITS—SPECIAL MEMORANDUM FOR THE NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION REGARDING THE RETROACTIVE TAX ON DISTILLED SPIRITS (SEC. 301, H. R. 4280).

Presented by Levi Cooke, as general counsel for the association, and under special authority of a trade meeting held at Pittsburgh, Pa., May 9, 1917.

STATEMENT.

Section 301 proposes to levy a tax equal to the increase of the distilled-spirits tax on tax-paid goods by the wine gallon held by any dealer and intended for sale, with an exemption of 50 gallons in the hands of retail dealers.

ARGUMENT.

This retroactive tax, aside from any criticism of the principle of a retroactive and unapportioned tax, is very bad in its form and extent, and to this point is protested by the trade.

The only justification of such a tax is its proper penalizing of attempted excessive tax payments of distilled spirits to anticipate the increase in tax. To this extent the trade can not protest such a measure, as the trade has no wish to safeguard individuals who would thus curtail the Government's expected increase of revenue to their own advantage.

Nevertheless, the retroactive tax goes far beyond this point, and in two respects works great hardship on the holding trade.

In the first place, it assesses the retroactive increase upon the wine gallon and not the proof gallon. The effect of this is to make tax-paid stocks subject to a higher per unit of alcohol tax than goods to be tax paid out of bond after the passage of the act. Thus, an 80 per cent proof spirit in stock would pay on the $1.10 increase per wine gallon a tax equal to $1.39 per proof gallon, and the lower the proof the more extortionate the laying of the retroactive increase would become. All these goods were reduced in proof after tax payment at the old rate.

The retroactive tax, if laid at all, should be upon the proof gallon.

This can be accomplished by eliminating the words "or wine gallon below proof," in line 19, page 9, and the words "or wine," in line 19, page 9.

The tax, if laid at all, should apply only to goods tax paid and received by rectifiers or dealers and still held at the time of the passage of the act, when tax paid within a limited time before the passage of the act, as, for instance, May 1. This would cover all excessive tax payments by individuals intended to cheat the Government out of the increase, in case such tax payments have occurred, and at the same time will not cause a breaking burden to those dealers who have habitually carried large stocks of liquors. Some of these dealers have goods on hand, either by domestic tax payment or through importation, which have been in their possession for months and years. These

persons have had no intention of evading a tax increase, and to penalize them now with this retroactive tax is a great injury.

CONCLUSION.

The trade, therefore, most respectfully urges that the wisdom of Congress be addressed to laying the retroactive tax, if laid at all, upon the proof-gallon measure of distilled spirits on hand, and to a limitation of the antedating of the increase, so that it will not reach far back into the past and cause great injury to the honest dealers who have long since tax paid goods at the legal rate, neither with the hope of evading a tax increase on the one hand nor with any hint of the peril of long afterwards being subjected to this kind of a direct and ruinous retroactive impost upon their ordinary tax payments at the then prevailing rate.

The trade as a whole greatly fears that the sudden obligation to taxpay all goods in hand at an impost proposed as equal to original taxpayment, and greater than original taxpayment if paid on the wine gallons, would bankrupt many members of the trade and financially cripple so many that the trade would be embarrassed in financing the tax to the Government for many months to come, to say nothing of the effect upon the credit of the dealers and their power to meet commercial obligations one to another and to their banks.

We earnestly urge that some relief be granted in the final framing of section 301.

Respectfully submitted.

NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION,
By LEVI COOKE, *General Counsel.*

Sec. 302. SUPERTAX ON RECTIFIED DISTILLED SPIRITS.

Mr. COOKE. I wish the committee would look at section 302 [reading]:

That in addition to the tax now imposed or imposed by this act on distilled spirits there shall be levied, assessed, collected, and paid a tax of 15 cents on each wine gallon and a proportionate tax at a like rate on all fractional parts of such wine gallons on all distilled spirits or wines hereafter rectified, purified, or refined in such manner, and on all mixtures hereafter produced in such manner, that the person so rectifying, purifying, refining, or mixing the same is a rectifier within the meaning of section thirty-two hundred and forty-four, Revised Statutes, as amended and on all such articles in the possession of the rectifier on the day this act is passed.

Then the next paragraph provides that after that rectification has occurred and the tax has been assessed and paid on the wine gallon, a 15-cent supertax, there shall be no further reduction of proof. Rectification of distilled spirits is as ancient as distillation. Rectification of distilled spirits originally meant the purification and refinement of the raw, rough spirits secured in rough distillation.

They used to make the rough spirits or high wine in the country; the farmer would distill it and carry it to the rectifying centers of the United States, and the present trade centers are the places where before the war they used to rectify the high wines—in Baltimore, Philadelphia, New York, and Cincinnati, the chief distilled spirit centers in this country now. The high wines which were about 160 proof, or about 80 per cent alcohol by volume, were taken by the farmer to the rectifying houses and they were redistilled and leeched through charcial until the potable spirit was manufactured. In 1872 the internal-revenue laws were amended. Prior to that time there had been every allowance made for the rectifier. In 1872 the act was amended so as to permit continuous distillation and refinement by one operation of distillation and the Coffee still which had been invented in France was installed in the rectifying centers of

this country and they distilled the high wines and forced it through the leeching tubs into the rectifying apparatus where they made it a highly pure, sweet, palatable spirit, and that is the neutral spirit of to-day. You can never so purify the spirit as to drive out of it the indication of its origin. Your grain spirit at high proof, 190 proof, 95 per cent alcohol by volume, still has its grain character. Your molasses spirit made from molasses and driven up to that proof has its molasses character. Those are sold to the rectifier and he takes these refined spirits and makes them into beverage liquors, by reduction of proof, by coloring them, and by mingling them with other spirits. The whiskies of commerce are whiskies reduced at the time of distillation, from 160 or 170 proof, put into charred wood containers, held for six months or a year, or five or eight years, and those whiskies take their color from the charred oak; so that your aged whisky is nothing more or less than whisky put into a charred oak package with the heat raised to at least 70° winter and summer, to cook the flavor out of the charred wood, a flavor obtained which could not be put into the whisky otherwise except by a qualified rectifier.

Now, the great whisky business of the United States has been 75 per cent the business of mingling the fine spirits, purified, refined, redistilled, with the aged kind of whiskies stored for a time in oak packages in heated warehouses. The great Scotch whisky of commerce, which has circled the globe, is a whisky made identically after the same fashion in Scotland where they take a malt whisky and age in the highlands and bring it into the lowlands and mingle it with the same kind of refined spirits we use here as made in the patent still in this country. The mingling and blending of whiskies is the art and the industry of the rectifiers of this country. A man is a rectifier also when he makes other kinds of liquors, as when he makes a cordial and adds sugar and some kind of fruit flavor. To put a spirit tax upon that mingled product of the distilleries is simply to make it impossible for the rectifier to continue his ancient and honorable business, which has been in existence so long as there has been whisky in the United States, and which was, prior to use in the patent still, a monopoly of the rectifier both in the purification of the spirit and its later flavoring. To put 15 cents a proof gallon upon that rectified spirit would be the imposition of a supertax which would destroy that business because the rectifier could not sell those spirits in competition with unblended whisky and get away with it at all. This tax adds discrimination because it adds not only that 15 cents to the rectified spirits as tax paid, but puts it on the wine gallon. In other words, the distiller tax pays at $1.10 per proof gallon, and the second the rectifier adds a gallon of water to his 50 gallons of spirits he has to pay 15 cents on the wine gallon. A man who is not a rectifier can withdraw his spirit from bond, reduce the proof after tax payment, and no additional tax attaches to him, but the imposition of this 15 cents upon each wine gallon for the rectifier makes that tax on 80-proof goods, 40 per cent alcohol and 60 per cent water, 18 or 19 cents, and you have not only driven him out of business but you hurt him as he departed. Those few that would survive the imposition would be driven out of business in six months. Every rectifier present at a meeting of the general trade

this week at Pittsburgh, Pa., said it was an absolute destruction of the whole rectifying business. Some of the most valuable whisky brands in the United States are blend brands, and those are destroyed by this bill because the goods under them can not compete with the production that does not take this iniquitous supertax.

For three years in Congress they have been trying to put a supertax upon rectified spirits as if there was some reason why a supertax should be imposed on rectified goods. It has been defeated as an unfeasible proposition in taxation, and now of all times is the last when it should be seriously urged. If you are going to raise the tax on distilled spirits there is all the more reason you should adhere to a method of taxation that is uniform. Tax the proof gallon and let it come out of the distillers' tax and leave it to the rectifier or dealer or anyone else to treat the spirit as any other free article of merchandise. The rectifiers have long since paid an additional tax for rectifying. They pay $200 a year if they rectify more than 500 barrels a year and they pay $100 a year if they rectify less than that. This special tax, with the wholesale tax the rectifiers have to pay to dispose of their finished goods, totaled more than $500,000 last year. There was a time when there was an occupation tax on the distillers and the rectifiers. It has been taken away from the distillers but never from the rectifiers. It is impossible to examine the rectifiers tax with any knowledge of the distilled-spirit business whatever and justify this supertax. Nature abhors a vacuum, and lawmakers ought to abhor a discrimination, and this is a discrimination that will destroy the rectifier. They have been good men and you can not destroy them now. The rectifier must be preserved if the fabric of the industry that pays the great distilled tax is to be preserved.

In drafting this act there was a blunder made by some man, or else this discrimination is intended to regulate the business. There are one or two distillers in the United States who make whisky not rectified, who have fought for a rectifiers' tax in order to burden their competitors. They have always said rectified distilled spirits were impure or imitations—an absolute falsehood. They are not. There is whisky now being made in distilleries for Scotch whisky. That is an imitation because you can not make it except in Scotland. You could imitate any kind of whisky in the world if you have whisky to start with. I can take a rye whisky and imitate a bourbon, and vice versa, but you can not say that the product of a rectifying house is an imitation. It is possible to make an imitation in a rectifying house, but the food and drugs act of the United States takes care of that, and the whole question as to the character of the terminology of distilled spirits was settled years ago under the food and drugs act. You can not misbrand your product. The public is protected from adulteration by the food and drugs act and to undertake the regulation of the whisky business at this time in this revenue bill is the height of folly and ought not to be indulged. Assuming this supertax is intended to accomplish that, we then have in this section a provision which authorizes and indorses misbranding and adulteration, and I will show you where that is.

The CHAIRMAN. Where is that?

Mr. COOKE. If you will notice the language in the first full paragraph on page 11, beginning with line 8 [reading]:

All distilled spirits taxable under this title shall be subject to uniform regulations concerning the use thereof in the manufacture, blending, compounding, mixing, marking, branding, and sale of whisky and rectified spirits, and no discrimination whatsoever shall be made by reason of a difference in the character of the material from which same may have been produced.

Is that a tax measure? No; that is meant to do the following: When the food and drugs act was passed there was a general understanding that you could not make whisky out of molasses. Whisky is a grain product. Yet the first case that came up under the food and drugs act relating to whisky was a case in which certain barrels containing alleged whisky branded "Four Roses Whisky," or some such brand, were proved to have been made from molasses, and the Government seized those barrels of whisky and secured a decree of condemnation for them. I spoke of molasses spirits like grain neutral spirits that can be made in a patent still up to 190 proof. That is made in New Orleans by the owners of a distillery there. The whole question of whisky was very carefully gone into before Solicitor Bowers during President Taft's administration; a most exhaustive investigation was made, and they decided that whisky could not be made out of molasses. Therefore neutral spirits from molasses could not be blended with grain spirits to make blended whisky. It was contended that this molasses spirit was identical with grain spirit, and it was found it was not; that you could not make the whisky blend with molasses spirits because you would get a rum flavor. This distillery in New Orleans filed a bill in equity against the collector of internal revenue to forbid him from following the direction of that commission appointed during President Taft's administration.

An injunction proceeding has stood from that time to this. A temporary injunction was granted forbidding the gaugers in the Federal district from branding a blend of whisky and molasses as whisky compound and calling upon them to brand it whisky blend. That injunction has stood in the southern district of Louisiana, and testimony has been taken under the equity rules for some six or seven years with great delays on the part of the plaintiff in the taking of testimony and many things tending to delay it. Testimony has been taken in all the great cities of the United States, in London, and in Paris, and is still being taken, and the question of whether you can brand molasses spirits to signify it is whisky is still an open question in the United States courts; but in the meantime this act takes that case out of existence and forecloses it by saying there shall be no lack of uniformity whatever in "the manufacture, blending, compounding, mixing, marking, branding, and sale of whisky and rectified spirits, and no discrimination whatsoever shall be made by reason of a difference in the character of the material from which they may have been produced."

In other words, you can not look back and say whether this was made out of molasses or grain. You have got to say it is whisky. There is a provision that calls for misbranding under decisions already made. The decision of the United States district court at Baltimore, Md., has been entered, and a case is pending in the United

States district court for the eastern district of Louisiana. I will file a brief in relation to this question.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Cooke was subsequently submitted and is here printed in full as follows:)

BRIEF ON BEHALF OF THE NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION OF AMERICA, COMPRISED OF GRAIN AND MOLASSES DISTILLERS, RECTIFIERS, AND WHOLESALE LIQUOR DEALERS, PROTESTING AGAINST THE DISCRIMINATING SUPERTAX ON RECTIFIED LIQUORS.

Presented by Levi Cooke as general counsel for the National Wholesale Liquor Dealers' Association and under special authority given by a meeting composed of representatives of all branches of the trade, Pittsburgh, Pa., May 9, 1917.

PROPOSITION.

The discriminating supertax of 15 cents per wine gallon on rectified distilled spirits is an extra tax over and above the flat distilled-spirit tax, is inequitable, discriminatory, and oppressive, and would destroy the rectifying industry. It has no justification either as a revenue-producing measure or as a measure of regulation by taxation, and should be eliminated in toto.

ARGUMENT.

All distilled spirits subject to tax have hitherto, and should in the future, pay a flat uniform rate per proof gallon; i. e., that gallon of distilled spirits which at the standard fixed by the internal-revenue laws holds one-half its volume in alcohol and one-half its volume in water. This is the American standard proof gallon. Once the distilled spirits are tax paid at the prevailing legal rate on this basis, further supertaxation of particular kinds against other kinds, harassing revenue regulations upon the handling of the tax-paid article unrelated to the protection of the revenue and inequalities of tax treatment resulting from such actions, should be avoided by the lawmaking authority.

This is the prime public necessity, not only to avoid those discriminations which are hateful in any taxing system but to avoid likewise, in this particular field, actual injury to the distilled-spirit revenue by virtue of destroying the rectifying industry through which at least 70 per cent of the tax-paid beverage liquors now reach the market.

Rectifiers already pay a special tax for the privilege of rectifying. This occupation tax is as old as the present system of spirit taxation. In the last fiscal year the 2,093 rectifiers registered in the United States paid $504,126.08 special tax covering their privilege to rectify and later to sell the finished rectified product.

To make the supertax perfectly patent it is necessary only to point out that the House language (H. R. 4280, sec. 302, p. 9, line 21) taxes only those spirits the handling of which makes the handler a rectifier under the special taxing statute (sec. 3244, R. S.).

To make the supertax all the more drastic and destructive the tax of 15 cents is laid not upon the proof gallon but upon the wine gallon (p. 9, line 23).

In other words, the rectifier is compelled to tax pay at the regular rate of tax, and then after he has rectified, for which privilege he has paid a special tax, he is compelled to tax pay again at 15 cents per wine gallon, thus paying tax covering reduction of proof.

The wholesale dealer who does not rectify withdraws whiskies or other beverage spirits from bond, and reduces the proof and pays no supertax whatever either on proof or wine gallons after reduction.

It is manifest that the supertax even on proof gallons would drive the rectifier out of business. Imposed upon the wine gallon measure the supertax is plainly seen as a death warrant to the rectifying industry.

To illustrate the facts: Gin is a compounded liquor, from time immemorial a product of rectification. It is a mixture of fine grain spirit at potable proof flavored with juniper berries. Prior to 1872 rectification could not be done on distillery premises. An act of that year permitted rectification in distilleries if performed in patent stills in one continuous process of distillation, redistilla-

tion, and rectification through closed pipes and vessels. To-day gin is made at the distilleries through closed pipes and vessels, the alcoholic vapor taking up the gin flavor in the last doubling before condensation. Likewise, gin is made in the rectifying houses by redistilling tax-paid spirits and addition of flavor therein as at the distillery. The effect of this supertax would be to put 15 cents a wine gallon (at 90 proof equal to 16.6 cents per proof gallon) on the gin made in the rectifying house by a special tax-paid rectifier in excess of the flat tax per proof gallon paid by a distillery finished gin. The distillery finished gin could be tax paid at the flat rate, and then reduced in proof without any further payment. Such a supertax would crush immediately the manufacture of gins in the rectifying houses, and some of the most famous brands of gin would be forthwith taxed out of existence, and the owners' property rights destroyed.

The excuse put forward for this supertax is the broad statement that rectified liquors are imitations, or impure liquors. This is an absolute misstatement. The rectifying of liquors is as ancient as distilling. Orginally all high wines had to go to the rectifying houses to be redistilled, leached, and purified, the finished spirit thereafter being flavored, colored, and blended or not, as the case might be. The act of 1872 above mentioned permitted leaching and redistillation of high wines at the distilleries by the newly patented stills, and thereafter the rectifiers bought their finished spirits tax paid at the distilleries and confined themselves to the blending, flavoring, and coloring of the whiskies and other liquors.

At the time of the Civil War and with the later extension of the bonded period distillers found that by making heavy bodied unrefined or only partly refined spirits and leaving them on storage in heavily charred oak barrels in heated warehouses the spirits in course of time extracted heavy color and much flavor from the oak wood. These whiskies came to be blended with refined spirits at the rectifying houses, and to-day at least 70 per cent of all whiskies, including many of the most widely known brands in the country, are blends of more or less aged heavy bodied whiskies with the light whiskies made by reducing to potable whisky proof the refined and redistilled grain spirits produced in continuous redistilling and rectifying stills. The blending, however, under section 3244, must be done by a special tax-paying rectifier, i. e., the established manufacturer of potable beverage liquors.

The bottling-in-bond act of 1896 permitted the bottling of distilled spirits in bond. Distillers made light-bodied whiskies which by aging took color and flavor from the barrel and could compete with blended whiskies without further treatment or rectification. A certain few of these distillers, after the passage of the food and drugs act, tried to limit the name whisky to unblended spirits of the kind they manufactured and sold and to deny the name whisky to the time-honored refined whiskies and blended whiskies of commerce.

This led to the "what is whisky" controversy under the food and drugs act, which, after a most thorough investigation conducted by Solicitor General Bowers, ended in a decision by President Taft in 1909, now effective as Food Inspection Decision 113 of February 17, 1910, Department of Agriculture, by which it was decided under the food and drugs act as follows:

"All unmixed distilled spirits from grain colored and flavored with harmless color and flavor in the customary ways, either by the charred-barrel process or by the addition of harmless color and flavor, if of potable strength and not less than 80 per cent proof, are entitled to the name whisky. If the proof be less than 80 per cent—i. e., if more water be added—the actual proof must be stated upon the label, and this requirement applies as well to blends as to compounds of whisky.

"Whiskies of the same or different kinds—i. e., straight whisky, rectified whisky, redistilled whisky, and neutral-spirits whisky—are like substances and mixtures of such whiskies, with or without harmless color or flavor used for the purpose of coloring or flavoring only, are blends under the law and must be so labeled."

Misbranding is prohibited by the food and drugs act. No tax measure is necessary to correct any evil of this sort in the liquor trade. In fact, imitation or misbranded liquors can be made in the distilleries as well as in the rectifying houses, as witness the manufacture of a corn whisky branded to be sold as rye, or of an American-made whisky distilled and branded to imitate Irish or Scotch whisky.

To tax rectified liquors out of existence on the ground that such liquors are imitations or impure is to couple libel with discrimination and ignominy with injustice.

Under any circumstances, the entire field is covered by the food and drugs act and has been specially ruled upon by the authorities thereunder, and any attempted regulation contrary thereto in the guise of a discriminatory tax measure would constitute legislative error. To burden a tax measure of the magnitude of this with provisions of this sort is the height of bad policy. The rights of the question and of all parties should not be thus endangered.

But if this be the avowed object of the provision it enacts the very thing it pretends to eradicate.

At page 11, line 8, the House bill provides that—

"All distilled spirits under this title (i. e., rectified spirits) shall be subject to uniform regulations concerning the use thereof in the manufacture, blending, compounding, mixing, marking, branding, and sale of whisky and rectified spirits, and no discrimination whatsoever shall be made by reason of a difference in the character of material from which same may have been produced."

This provision, as stated by J. P. McGovern, Esq., attorney for the Industrial Alcohol Co., large distillers of molasses spirits for industrial uses, is intended to make legal the blending of molasses spirits with whisky to be sold as whisky. This provision amends the food and drugs act, if it is possible for a revenue measure to do so, and at least compels internal-revenue branding of rum spirits as whisky. Mr. McGovern frankly stated that he wished in behalf of his clients to remove the "discrimination" by which under the facts and the law rum spirits can not now be sold as whisky and to open the whisky market to the sale of the Industrial Alcohol Co.'s molasses spirit under a legalized use of the name whisky.

This was all thoroughly considered in the original "What is whisky" controversy. It was then decided that whisky can only be made from grain; that a potable spirit from molasses is and always has been rum. Mr. McGovern desires statutory authority in a revenue act to misbrand rum spirits as whisky. He can not be heard to complain that the existing provisions of the food and drugs act are a discrimination. If so all persons who are forbidden to misbrand are discriminated against by that act in favor of the genuine article.

No one is complaining that the restriction of the term "rum to molasses spirits" is a discrimination against grain spirits. In fact no molasses distiller so far as known is seeking to break down the food and drugs act in this way, except the Industrial Alcohol Co., and there are a number of molasses distillers who are members of this association and join in this protest.

Food Inspection Decision 113, the whisky decision above mentioned, expressly provides that a mixture of whisky and molasses spirit may be branded "A compound of whisky and cane distillate." Mr. McGovern's clients are not forbidden to have their product used. They are only required to brand it properly on the facts and under the law.

Prior to the promulgation of Food Inspection Decision 113, a jury sitting in the United States District Court in the Eastern District of Maryland, in the case of United States *v.* Fifty Barrels (165 Fed., 966), condemned and forfeited as misbranded under the food and drugs act 50 barrels of molasses spirit branded "whisky."

In case of Louisiana Distillery Co. (Ltd.) et al. *v.* Seyburn, collector of internal revenue. Equity No. 13824, District Court Eastern District of Louisiana, is now and has for several years been pending, on a bill in equity seeking to enjoin internal-revenue gaugers to make them gauge and brand mixtures of whisky and molasses spirits as "whisky, a blend" and unmixed molasses spirits simply as "whisky."

Testimony is being taken in this case, and has already been taken in the chief cities of this country, and in England and France, and eventually the suit will go to final hearing and decree. The Department of Justice of the United States is defending the suit against the collector of internal revenue as one arising under existing internal-revenue laws and regulations and the food and drugs act.

It is respectfully submitted that the effort in the guise of a technical provision in connection with a discriminatory supertax on rectified liquors, to enact a statutory abatement of this suit, and enter a statutory decree authorizing the branding of molasses spirits as whisky, an article universally recognized as made from grain, is unwarranted to the last degree.

No one would have the temerity to seek in this bill an enactment authorizing the branding of whisky as rum; no interest should be permitted especially in the face of pending litigation in the Federal courts, to which it is a party, to secure congressional sanction for the branding of rum as whisky. It is

nothing less than seeking an amendment of the food and drugs act to authorize misbranding in a particular case.

CONCLUSION.

We do not wish to dwell too long on the foregoing molasses spirit branding provision of the rectified liquor tax section, except that it silhouettes in brief the whole vicious character of the proposed supertax.

The rectified liquor tax is not a revenue producing measure in any sense or respect. It taxes rectified liquors out of existence, except to permit molasses spirits to be misbranded as whisky and pay the rectified liquor tax for the statutory exemption from the charge of misbranding.

Honestly branded blended whiskies and all other products of rectification could not carry this supertax and survive competition with other articles not carrying this killing impost.

The proposed exemption respecting blending of whiskies more than four years of age reduced not below 90 per cent proof is really no exemption at all. The great blends of commerce are mixtures of different ages of grain spirits, some partly refined and aged and some highly refined and comparatively new. These would cease to be marketable under the discrimination.

The proof at which the blends are sold is immaterial. The tax paid proof gallon is present in tax paid form. Whiskies may be reduced to 80 per cent proof for bottling in bond for export, and the decisions recognize that down to 80 per cent proof, i. e. 40 per cent alcohol, whisky is not adulterated by addition of too much water. Below that proof even the bottle must be branded to show the alcoholic strength. Mere reduction of proof injures neither the flat spirit tax revenue nor involves any question of adulteration or misbranding. In any event unmixed whiskies, even of the cheapest kinds known to the trade, may be reduced to any point without incurring the supertax provided in this section.

The Congress should not seek to regulate the question of the proofs at which liquors are sold by provisions in a taxing measure. A taxing measure should raise revenue, and not be made the vehicle for regulation of sales of articles taxed.

Not only blended whiskies, but all liquors manufactured by rectifiers, gins, cordials, and a host of products would be supertaxed heavily by this impost, the lower the proportion of alcohol, the higher the proportionate tax under the wine-gallon feature. It is the consensus of opinion in the rectifying trade and in the trade as a whole that the rectifying trade would be substantially destroyed by this tax, with consequent reaction at a crucial time upon the whole taxpaying machinery of the distilled spirit business. No revenue would be gained from the supertax, and the general distilled spirit revenue would inevitably be adversely affected, while special occupation taxes from rectifiers would be cut off.

The effort should be made to keep the distilled spirit tax on the basis of the long-existing system, i. e., a uniform tax upon the proof gallon of distilled spirits tax paid, i. e. a uniform tax per unit of alcohol. This is all the more mandatory at this time when a raise in the uniform tax is about to be made.

The entire rectified spirits supertax section should be stricken from the bill as discriminatory, unproductive of revenue, and destructive of the rectifying industry.

Respectfully submitted.

NATIONAL WHOLESALE LIQUOR DEALERS' ASSOCIATION,
By LEVI COOKE, *General Counsel.*

The CHAIRMAN. Mr. Cooke,[1] your time is up. We will now hear Mr. McGovern.

STATEMENT OF MR. JAMES P. McGOVERN, OF NEW YORK CITY, REPRESENTING THE UNITED STATES INDUSTRIAL ALCOHOL CO.

Mr. McGOVERN. I represent the United States Industrial Alcohol Co. They have two plants in New Orleans, one in Baltimore, one in New York City, and one in Boston. We manufacture ethyl alco-

[1] The argument and brief of Mr. Cooke on the supertax on distilled spirit cordials will be found on p. 514.

hol, or neutral spirits from cane molasses. I have also been called upon to speak for the producers of like alcohol from beet-sugar molasses. I have listened to my friend Mr. Cooke, and the only criticism I have to make of his remark is that he places himself in the class of which Chairman Kitchin spoke yesterday, because he knows we have to carry the burdens of increased taxation, but he wants the other fellow to bear it. Distilled spirits always have paid enormous taxes, and my people are prepared to pay their share, but we want equal treatment with others in the same industry.

At the fear of perhaps suggesting a leak, I am informed by members of the Ways and Means Committee that the provisions of this bill were in large measure recommended by the United States Internal-Revenue Department, including the very provision of which Mr. Cooke has last spoken as regards the removal of the discrimination between neutral spirits, with one possible exception, and that is that one of his own clients suggested the $1.10 increased distilled spirits tax, the Internal-Revenue Department having recommended $2.

Neutral spirits made from sugar-cane molasses and neutral spirits made from beet-sugar molasses and neutral spirits made from grain are chemically, physically, physiologically, and otherwise identical, and Mr. Cooke knows the statements here made with regard to the court records will not be confirmed by an examination——

Mr. Cooke. How is that?

Mr. McGovern (continuing). Of the facts as I understand them.

Mr. Cooke. All right, "as you understand them."

Mr. McGovern. Eighty-five per cent of the product of our distilleries goes into use other than for beverages in the manufacture of pharmaceutical products, medicines, flavoring extracts, food preservatives, and many other things, which enter the human stomach. We have had to meet and do meet in competition with the specifications of every department in the Federal Government. Every gallon of neutral spirits used in the Department of Agriculture, in the pure-food laboratories, for the past 10 years has been distilled by the Purity Distilling Co., of Cambridge, Mass., from sugar-cane molasses produced in Louisiana, Porto Rico, and Cuba. We had to measure up to every chemical test to get that business. Now, Mr. Cooke suggests that in the case of beverages neutral spirits made from sugar-cane and beet-sugar molassses should be discriminated against because whisky can only be made from a grain distillate. I believe this committee should be prepared to rely upon the recommendations of the Internal-Revenue Department of this Government, which is most conversant with this trade discrimination—a discrimination without parallel in the history of commercial operations in this country. That department says that that discrimination is ridiculous; that it never should have been permitted to creep into the rectified-spirit business; that it is time to wipe it out, and they want absolute authority in order to make all taxpayers equal before the law, and I doubt whether there is any member of the Internal-Revenue Department who will come before this committee and say this man producing neutral spirits from sugar-cane molasses and beet-sugar molasses and paying $2.20 a proof gallon, and willing to do it, should not have the same equal competitive and commercial rights as the other taxpayer who produces the same stuff from another raw material.

Senator SMITH. How are you discriminated against now?

Mr. McGOVERN. In this way: When the rectifier attempts to make a rectified whisky from neutral spirits he has to reduce it to potable shape and add coloring matter to it, and at present he must either use a grain distillate or he must dominate the cane distillate with sufficient amount of the grain distillate. That, in a few words, shows the discrimination. Let us see in the proposed revenue measure how it is going to affect the revenue.

Senator SMITH. You insist it can be made without any grain at all?

Mr. McGOVERN. I insist that neutral spirits, regardless of the base from which it is produced—whether you produce the neutral spirits from the starch or sugar in corn or whether you produce it from an identical sugar in cane or beet molasses—is the same chemical product; and if you can reduce one to a potable condition and add coloring matter to it and call it whisky, we simply say our product should be given that same right. If neither should be called whisky, we simply say, "All right, then; we do not want it so used." We do not manufacture whisky; we manufacture neutral spirits. We have not anything in bond. We do not suggest a graduated distilled-spirits tax because we have $250,000,000 worth of whisky in bond to speculate with. There is nothing subtle in our position. We realize that you have got to have revenue and that distilled spirits should pay a large part of the revenue. We do not care for the beverage business to any great extent, but we don't want our goods discriminated against.

Senator SMITH. You make that for the arts and industries?

Mr. McGOVERN. For medicines, flavoring extracts, and hundreds of other uses. There is no discriminating regarding those articles. The United States Government to-day is getting its alcohol for powder making from us cheaper than these other grain men could possibly give it to them. We have only 10 or 15 per cent of our goods going into the manufacture of beverages.

Let us see what will be the result. They are making their stuff from corn. Corn is selling for $1.50 a bushel—Mr. Cooke will know the quotations. He knows that although the price of molasses has increased we are still able to make it cheaper. With reference to a rectified-spirits tax, what will be the result? It will be that you are not going to get any revenue unless the discriminations are removed, because the straight-whisky men can blend with two or more straight whiskies without paying an rectified-spirits tax.

Senator WILLIAMS. They blend them after they have become aged.

Mr. McGOVERN. After at least four years. That distiller four years ago produced that whisky from cheaper material. I am not objecting to it if the Internal-Revenue Department thinks it is fair, but they say if this man sells his whisky as a blend he need not pay a rectified-spirits tax. Now we come to the rectifier. Mr. Cooke comes along and says, "You can make rectified-spirit whisky, but you have got to make it from my high-priced material; you can not make it from alcohol made from beet-sugar and cane-sugar molasses." And I say that is an unjust discrimination.

Mr. COOKE. Mr. McGovern has begged the whole question. He does not deny the case is pending on the question whether molasses spirit can be used in blending whisky. Whisky can not be made out of molasses, and he is attempting to acquire that privilege in this bill.

The CHAIRMAN. I will have to insist that you gentlemen do not disregard the rules. The next subject to be treated of in the table is beer. Proceed, Mr. Crain.

Sec. 303. BEER.

STATEMENT OF MR. ROBERT CRAIN, GENERAL COUNSEL OF THE UNITED STATES BREWERS' ASSOCIATION, WASHINGTON, D. C.

Mr. CRAIN. I represent more than 90 per cent of the brewers of the country. We are not here to protest against the tax that was recommended by the Ways and Means Committee of the House. The chairman of that committee and one or two of the members accorded the brewers an opportunity to appear before them.

We said to that committee then, and we say to this committee now, that whatever tax the Congress of the United States may put upon the brewers, after careful examination of all the facts, they will willingly and gladly accept. I think we may say with some pride that in times of peace the brewers have always been taxed, and in times of distress they have been doubly taxed, and without one single word of protest. I doubt whether there is a Member of Congress who can recall when a representative of the brewers, in times when this country was in trouble, ever protested against the imposition of an increased tax against the brewing industry. During the Spanish-American War we paid $2 per barrel, and the tax remained through that whole period of trouble and for a year or more after. When it was necessary to raise an emergency tax in 1914, the brewers of the country were taxed an extra 50 cents per barrel. A provision of the bill imposing these taxes was that the tax should exist for 12 months. At the expiration of the 12 months the tax was removed from all articles with the exception of beer, and therefore beer has borne the extra tax from that time to the present day.

The Ways and Means Committee has thought it wise to impose a tax of $2.75 a barrel. We are hopeful that even that tax, as large and onerous as it is, can be collected. When the tax of $2 was levied at the time of the Spanish War the cost of brewing material in the country was at a medium figure. To-day prices have been increased threefold, and to make a barrel of beer it costs more than three times what it cost during the days of the Spanish War tax. It goes without saying that whatever tax is placed upon the brewers of the country will be collected. It is somewhat of a satisfaction to the brewers to know that never in the history of this Government has a brewer been accused of failure to pay the whole tax imposed by the Government, nor has any brewer been charged with the attempted evasion of the Federal revenue tax.

I will leave a memorandum for the consideration of the committee.

The CHAIRMAN. It will be printed.

(The memorandum referred to by Mr. Crain was subsequently submitted and is here printed in full, as follows:)

WASHINGTON, D. C., *April 17, 1917.*

To the Members of the Ways and Means Committee of the House of Representatives, Washington, D. C.

GENTLEMEN: At a meeting of the trustees of the United States Brewers' Association, held April 5 last, the following resolution was adopted:

"At this critical juncture the United States Brewers' Association places itself unreservedly at the service of the President of the United States and pledges him its unqualified support in any measures he may take in behalf of our beloved country.

"We further pledge ourselves, individually and collectively, to any service that may be deemed necessary, in order that the honor of our flag, the integrity of our Nation, and the spirit of our institutions may be preserved.

"*Resolved*, That the board of trustees of this association be hereby appointed a committee of cooperation with full power, for the purpose of assisting the Government in every possible way, and that this resolution be communicated to the President of the United States and to the Senate and to the House of Representatives."

A copy of this resolution was sent to the President of the United States and copies to the President of the Senate and the Speaker of the House of Representatives, with the request that the resolution be laid before their respective bodies.

This resolution expresses the attitude of the American brewers on the question of taxation, which your committee is now considering. The brewers at this time are not only willing but anxious to pay every dollar of tax that the industry can stand, and the figures which we present are given for the information of the committee, to the end that the committee may be able to determine how much tax it ought to levy in order to gain the greatest possible revenue for the Government in this crisis, having in mind that the industry can not exist if it is taxed beyond that point where it is unable to meet the running expenses.

Notwithstanding the advances in price which the brewers have had to make to the trade within the past year because of the enormous increase in the cost of materials, the average profit of a barrel of beer is considerably less than 50 cents. (See Schedule A.)

We submit herewith for your consideration a statement of facts, which was presented to the Ways and Means Committee of the Sixty-fourth Congress in April, 1916, which is revised to April 4 and 6, 1917, to show the present prices of the raw materials specified therein. This statement shows that the raw materials have increased over 100 per cent, and are still advancing steadily. (See Schedule B.) In addition, the labor cost has advanced considerably, while the hours of labor have been reduced; and the price of coal has gone up so as to add at least 9 cents to the cost of a barrel of beer; gasoline has increased enormously in price.

A great factor in the popularity of beer is the low price at which it is sold. The standard price for a glass of beer all over the United States is 5 cents, and it is probable that fully 75 per cent of all the beer is consumed by the wage-earning class. It may be taken for granted that any very material increase in the wholesale price of beer would be reflected at once either in a jump from 5 cents to 10 cents a glass, or in a considerable reduction in the measure of the glass. In other words, there is a point beyond which the tax can not be raised with benefit to the taxing authority. If the tax is made too high, production is curtailed automatically.

The brewers have always met willingly all additional taxation imposed by the Government in time of need. We submit this statement solely for the purpose of assisting your committee in determining how much additional revenue the Government can obtain from the beer excise. You will observe from this statement, however, that the brewing industry is not as well able to stand an increase in the tax as it was at the time of the Spanish War, when it was raised to $2 per barrel. Whatever course your judgment determines, we pledge our full cooperation.

Respectfully submitted.

GUSTAVE PABST,
President United States Brewers' Association.

In addition to the revenue obtained by the Federal Government, it should be stated that a large revenue is collected by the States and municipalities in the form of license fees for the retail sale of liquor. This was estimated in 1913 at $100,254,044 on the basis of 115,096 retail establishments. While this number has since been reduced by the spread of prohibition territory, the average license fee has materially increased, so that it is reasonable to estimate the present receipts at a round $1,000,000. The loss of this revenue would involve a radical readjustment of the budgets of almost all our important municipalities.

Schedule A—Income statement of 7 breweries.

	Capital.	Per cent of earnings or loss on capital invested.	Sales.	Net earnings or loss.	Average per barrel, 1915.
			Barrels.		*Cents.*
Pabst Brewing Co., Wisconsin	$12,000,000	3.1	735,098	$372,666.07	50.70
St. Louis breweries, Missouri	5,250,000	8.2	716,691	429,091.41	59.87
Dayton, Ohio, breweries, Ohio	2,500,000	.3	135,379	6,762.00	4.99
Independent Brewing Co., Pittsburgh, Pa.	9,000,000	4.8	525,458	432,767.00	82.36
Milwaukee and Chicago breweries, Wisconsin and Illinois	10,000,000	2.3	858,801	216,038.00	25.16
Pittsburgh Brewing Co., Pennsylvania	13,000,000	2.7	600,869	344,570.00	57.35
Kansas City breweries, Missouri	3,500,000	.7	249,502	23,174.00	5.29
Total	55,250,000	3.2	3,821,828	1,778,720.48	46.54

These are corporations whose securities are listed on the New York Stock Exchange. Their accounts are audited by public accountants and can therefore be readily verified. The certified accountants' reports for 1916 have not yet been published.

Schedule B.

	Apr. 3, 1916.	Apr. 6, 1917.
Malt, at New York per bushel	$0.87-$0.89	$1.51-$1.53
Corn grits, at New York per hundredweight	2.00	3.35
Rice, f. o. b. Chicago do	3.10- 3.20	3.75- 3.80

In order to manufacture beer it is necessary to have a brewery, and in order to have a brewery it is necessary to spend a large sum of money. I doubt if there is a single brewery in this country that cost less than three to four hundred thousand dollars to build and equip, and those figures increase to millions of dollars in some instances. Therefore, when the Government come to tax the product of a brewery, the law-making power understands fully that if it destroys the product of that brewery by reason of the tax, it has destroyed an investment running into large sums of money.

(Thereupon, at 1.15 o'clock p. m., the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

(At 2.30 o'clock p. m. the committee reassembled, pursuant to the taking of the recess, Senator Furnifold McL. Simmons presiding.)

The CHAIRMAN. The committee will come to order. Mr. Henry desires to make a 10-minute statement with reference to alcohol not used as a beverage. He thinks there ought to be some differentiation

in taxation upon alcohol not used as a beverage as against that which is so used. We will give Mr. Henry 10 minutes.

Sec. 300. ALCOHOL.

STATEMENT OF MR. SAMUEL C. HENRY, OF PHILADELPHIA, PA., REPRESENTING THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS.

Mr. HENRY. Mr. Chairman and gentlemen of the committee, my name is Samuel C. Henry; I live at 508 South Sixty-first street, Philadelphia. I have the honor to represent the National Association of Retail Druggists, an organization which comprises about 50,000 retail druggists in the United States.

We realize the position in which the Congress of the United States is placed at the present time and the necessity for additional revenue. Therefore, we come before you with a specific request for consideration of the question which, we believe, should at this time receive particular consideration at your hands. In view of that, sirs, I thank you for the courtesy extended to me, and I shall simply make a brief statement for your consideration.

The National Association of Retail Druggists, on behalf of the 50,000 druggists of the United States, and the countless thousands of citizens who require and consume medicines, earnestly appeals to your honorable committee to differentiate between distilled spirits used for intoxicating liquors and those indispensable in the manufacture of medicines, when increasing the tax for war revenue.

Alcohol is 188 per cent proof when used for pharmaceutical and chemical purposes. This means that the present tax of $1.10 per gallon 100 per cent proof amounts to $2.07 per gallon for alcohol used in pharmacy and chemistry. The bill pending in the House, H. R. 4280, increases the tax to $2.20 per proof gallon, which means $4.14 per gallon for alcohol for medicinal purposes. How can a tax of $2.20 per gallon for whisky and $4.14 for alcohol for medicine be justified before the American people? Is whisky more necessary to the public welfare than medicine? If so, how, where, and when?

Alcohol is constantly used as a solvent or preservative by the retail druggist in compounding medicinal preparations. Alcohol is used in the manufacture of fluid, solid, and powdered extracts, tinctures, concentrations, solutions, etc., and the medical profession would be without medicinal chemicals and similar products for the treatment of disease without alcohol. Pills, tablets, mixtures, and compounds, also prescribed by the doctor, could not be furnished the public without alcohol. As has been pointed out in an enlightening brief prepared by the American Drug Manufacturers' Association, few botanic or organic drugs in their crude state are adapted to modern medicine and could not be unless their active ingredients were separated from their inert by the use of lacohol, the only available solvent. This pertains with equal force to chemicals, chemical compounds, alkaloids, resins, etc.

I might just incidentally remark that it has been stated that medicinal preparations could be manufactured without the use of alcohol. From my knowledge gained in a course in pharmacy some thirty-odd years ago, and added to that the thirty-odd years' ex-

perience in the practice of pharmacy, I have not yet learned how that could be done. Alcohol is absolutely essential in the separation of medicinal agents from our active drugs.

How can the Army and Navy, not to mention the civilian population, be supplied with necessary medicinals without the use of alcohol? Will the United States Senate impose a greater or as great a tax on alcohol when used for medicine as when used as whisky? What considerations of public policy demand that such a discrimination be made in favor of the consumption of intoxicating liquors and against the sick and afflicted?

The only argument heard in opposition to a differential between the tax on whisky alcohol and medicine alcohol is the contention that the Treasury Department does not know how to make such a distinction in the administration of the law. If this be true, is it not time that the Treasury Department should be shown how to do this? Perhaps your honorable committee can direct it by making the distinction clear when H. R. 4280 reaches the Senate, if the House does not make it before that time.

The attention of your honorable committee is respectifully invited to the phraseology of title 3 on page 8 of H. R. 4280, namely, "War tax on beverages." We assume that Congress intends to make the provisions of the act under this title entirely consistent with the title. Accordingly, the National Association of Retail Druggists respectfully submits for your careful consideration the following amendment in order that the tax imposed be limited to beverages:

Amend title 3 by inserting on page 9, between lines 20 and 21, a new section, as follows [reading]:

Sec. 301A. That the provisions of sections three hundred and three hundred and one of this act shall not apply to distilled spirits used for sacramental, medicinal, scientific, mechanical, and other nonbeverage purposes.

The effect of this amendment will be to exempt distilled spirits from the additional tax imposed in this act, when used for other than beverage purposes, leaving them, however, subject to the tax of $1.10 per proof gallon imposed under existing law. In other words, alcohol used for medicinal and other nonbeverage purposes now bears a tax of $2.07 per gallon, or only 13 cents less than $2.20, the tax imposed in this act for whisky.

I trust, Mr. Chairman and gentlemen, that you will give due consideration to this suggestion. I can assure you that it is not made from any selfish point of view. You perhaps realize as well as we do that eventually the public has this to pay, and in view of our constant contact with the public and various demands that are made upon them in the way of additional taxes at the present time, we realize that such a burden, a burden of $4.14 per gallon upon alcohol used in the manufacture of medicinal preparations, would be a very hard one, and, we believe, an unwarranted one on such a line of preparations. I desire to submit a brief and ask that it may be printed.

The CHAIRMAN. That will be done.

(The brief referred to by Mr. Henry was subsequently submitted and is here printed in full, as follows:)

MAY 11, 1917.

FINANCE COMMITTEE,
United States Senate, Washington, D. C.

GENTLEMEN: The National Association of Retail Druggists, on behalf of the 50,000 druggists of the United States, and the countless thousands of citizens

who require and consume medicines, earnestly appeals to your honorable committee to differentiate between distilled spirits used for intoxicating liquors and those indispensable in the manufacture of medicines when increasing the tax for war revenue.

Alcohol is 188 per cent proof when used for pharmaceutical and chemical purposes. This means that the present tax of $1.10 per gallon 100 per cent proof amounts to $2.07 per gallon for alcohol used in pharmacy and chemistry. The bill pending in the House, H. R. 4280, increases the tax to $2.20 per proof gallon, which means $4.14 per gallon for alcohol for medicinal purposes. How can a tax of $2.20 per gallon for whisky and $4.14 for alcohol for medicine be justified before the American people? Is whisky more necessary to the public welfare than medicine? If so, how, where, and when?

Alcohol is constantly used as a solvent or preservative by the retail druggist in compounding medicinal preparations. Alcohol is used in the manufacture of fluid, solid, and powdered extracts, tinctures, concentrations, solutions, etc., and the medical profession would be without medicinal chemicals and similar products for the treatment of disease without alcohol. Pills, tablets, mixtures, and compounds, also prescribed by the doctor, could not be furnished the public without alcohol. As has been pointed out in an enlightening brief prepared by the American Drug Manufacturers' Association, few botanic or organic drugs in their crude state are adapted to modern medicine and could not be unless their active ingredients were separated from their inert by the use of alcohol, the only available solvent. This pertains with equal force to chemicals, chemical compounds, alkaloids, resins, etc.

How can the Army and Navy, not to mention the civilian population, be supplied with necessary medicinals without the use of alcohol? Will the United States Senate impose a greater or as great a tax on alcohol when used for medicine as when used as whisky? What considerations of public policy demand that such a discrimination be made in favor of the consumption of intoxicating liquors and against the sick and afflicted?

The only argument heard in opposition to a differential between the tax on whisky alcohol and medicine alcohol is the contention that the Treasury Department does not know how to make such a distinction in the administration of the law. If this be true, is it not time that the Treasury Department should be shown how to do this? Perhaps your honorable committee can direct it by making the distinction clear when H. R. 4280 reaches the Senate, if the House does not make it before that time.

The attention of your honorable committee is respectfully invited to the phraseology of title 3 on page 8 of H. R. 4280, namely, "War tax on beverages." We assume that Congress intends to make the provisions of the act under this title entirely consistent with the title. Accordingly, the National Association of Retail Druggists respectfully submits for your careful consideration the following amendment in order that the tax imposed be limited to beverages.

Amend title 3. "War tax on beverages, Union Calendar No. 19, H. R. 4280," by inserting on page 9 between lines 20 and 21 a new section, as follows:

"SEC. 301A. That the provisions of sections three hundred and three hundred and one of this act shall not apply to distilled spirits used for sacramental, medicinal, scientific, mechanical, and other nonbeverage purposes."

The effect of this amendment will be to exempt distilled spirits from the additional tax imposed in this act when used for other than beverage purposes, leaving them, however, subject to the tax of $1.10 per proof gallon imposed under existing law. In other words, alcohol used for medicinal and other nonbeverage purposes now bears a tax of $2.07 per gallon, or only 13 cents less than $2.20, the tax imposed in this act for whisky.

Very respectfully,

SAMUEL C. HENRY,
Chairman Legislative Committee.
EUGENE C. BROKMEYER,
Counsel.

Mr. HENRY. I thank you, Mr. Chairman and gentlemen.

The CHAIRMAN. The next subject is "Wines."

Mr. CLAWSON. Mr. Chairman, might I suggest that you hear from the flavoring-extract people and what they have to say at this time, it being right in the same line with what Mr. Henry has just stated?

The CHAIRMAN. Very well; if there is no objection to that, we will hear from the flavoring extracts at this time.

Senator SMOOT. Will not the same argument made by Mr. Henry apply to all extracts?

Mr. CLAWSON. Not quite, sir; very nearly, in a good many instances.

The CHAIRMAN. This finishes flavoring extracts.

ADDITIONAL BRIEFS RELATING TO WAR TAX ON BEVERAGES FILED WITH THE COMMITTEE.

Letter from Mr. H. R. Shehan, Secretary of the Wildroot Chemical Co., Buffalo, N. Y.

BUFFALO, N. Y., *May 10, 1917.*

Mr. JOHN SHARP WILLIAMS,
Member United States Senate, Washington, D. C.

DEAR SIR: From to-day's press we have noted that the Ways and Means Committee of the House of Representatives have made the recommendation for taxation to help finance our present war.

From this information we find that it is proposed to increase the internal-revenue tax on distilled spirits 90 cents per proof gallon. In our business we use alcohol of 188 proof, and this increase would mean an advance of $1.692 on each and every wine gallon. This amount would be added to the present tax of $1.10 per proof gallon, which would give our Government $3.76 per gallon on every gallon of alcohol used from manufacturing our preparation. This will make such an increase in cost of preparations such as ours, as the cost will be so great that we can not afford to use alcohol. This would cause a large loss to the Government instead of an increase in revenue, and, in addition, will cripple industries such as our own.

We also note it is recommended that schedule B be reenacted, which is a tax of 5 per cent on our business, if this schedule is applied in the same manner as it was applied heretofore. We hope you will use every effort to have it so written that consumer will pay this tax when the article is purchased, and in this way the tax will be distributed, and the burden taken from a few manufacturers and placed on the public in general.

We know that all manufacturers in our line will be in accord with us along these lines.

We wish to say that we are ready, willing, and anxious to help our Government bear this burden of taxation, and do all in our power in so far as we are qualified at this critical time. We will be only too glad to double our income tax, excess-profit tax, increase postage rates, and in general any or all additional tax so long as they are fairly and justly distributed, but we think that industries such as ourselves should be permitted to purchase alcohol without being obliged to pay such a tremendous tax, as we are operating a legitimate business, and have been and are now paying a large revenue to our Government in alcohol tax.

Using our last year's figures as a basis, we would advise that the proposed increase in tax on alcohol would amount to $40.000 for us, and if the schedule B is reenacted it will mean another $15,000, or a total of $55,000 tax from our business. Please note that this is additional taxation, as at the present time we are paying $50,000 internal revenue tax on alcohol per year.

We are submitting these figures to you with the earnest request that you will use your efforts to relieve us of a burden that is altogether too heavy, and endeavor if possible to keep the alcohol tax as it is for business of our character and distribute the stamp taxes as indicated, allowing us to pay increases on incomes, two, three, or four times what they are at present, taxes on excess profits, taxes on capital stock, postage, etc.

Very truly, yours,

H. R. SHEHAN, *Secretary.*

Letter from Mr. James M. George, Secretary of the Interstate Manufacturers' Association.

To the honorable F. M. SIMMONS (CHAIRMAN) AND MEMBERS OF THE FINANCE COMMITTEE OF THE SENATE OF THE UNITED STATES:

OBJECTIONS TO CERTAIN PROVISIONS OF THE WAR REVENUE BILL.

The Interstate Manufacturers' Association wishes to protest, first, to the 5 per cent gross-sales tax, contained in Title VI, and, second, to the increased tax on alcohol not used for beverages.

This association is composed of manufacturers of household remedies, veterinary remedies, spices, flavoring extracts, soaps, toilet articles, and similar articles. The entire output of these manufacturers is sold to men who go from house to house in rural communities selling these goods on a cash and credit basis, on their own account, to consumers. There are about 30 manufacturers engaged in this line of business in the United States, doing a total annual business roughly estimated at from twenty to thirty millions of dollars. Not all of these companies, however, are members of this association, but all of them do business on a similar plan and carry an almost identical list of articles. The competition in this particular method of business being very keen, practically all of the articles of the different manufacturers have been standardized as to quantity and quality, and the cost of manufacture for each concern is about the same.

Inasmuch as there seems to be a dearth of specific information in the hands of Members of Congress as to just exactly what these taxes will do to the medicine business in general, and ours in particular, this opportunity is taken to present further light on the subject.

The following data applies only to the manufacturers who sell to traveling salesmen, or "wagon men," as they are commonly known in the country.

On $100,000 worth of sales to the retailer made up of the following items in the percentages given—household remedies, 33.33 per cent; veterinary remedies, 14.71 per cent; toilet articles, 17.33 per cent; flavoring extracts, 20 per cent; spices, 12.90 per cent; miscellaneous, 1.73 per cent—the 5 per cent gross sales tax would be $3,258.50; the increased tax on alcohol would be $5,951.25, and the 10 per cent ad valorem duty would add at least $1,000, making a total burden of $10,219.75 in addition to the advertising tax, increased postage, freight and express rates, and other items of the bill. This constitutes a little over 10 per cent of the gross sales, and these figures would be higher were it not for the fact that about 20 per cent of the items included in the $100,000 sales illustration do not contain alcohol, and do not come under the 5 per cent gross sales tax.

Referring to specific articles covered by both taxes, the figures are even more startling. A liniment that sold at $3.60 per dozen before the war now sells at $4.25, which is an increase to the retailer of 18 per cent; a pain application has been increased from $5.20 to $6 per dozen, making a 15 per cent raise. Lemon extract, which, of course, will be subject to the 5 per cent gross sales tax, sold at $2.25, now sells at $2.60, making a 15 per cent increase. Should the first article mentioned be subjected to two proposed taxes, the increased cost would be $1.29 per dozen, which, added to the present price, would be $5.54 per dozen, or a 30 per cent increase; on the second item, $2.02 per dozen, being added would make $8.02, or 34 per cent raise; on the third item, 85 cents per dozen being added would make $3.45, or a 32 per cent raise.

Should the burden of the alcohol and 5 per cent gross sales taxes be passed on, the raise in wholesale prices since June, 1914, on liniment would be 48 per cent; on pain application, 49 per cent; and on lemon extract, 47 per cent. These three items are selected as an illustration because of the fact that they are the three items in which the volume of sale is heaviest and they are fairly representative of the entire line.

Your attention is here called to the fact that a $1.10 tax per proof gallon amounts to a $2.08 tax per 188 proof gallon, which is the quality of alcohol used in the manufacture of medicines and extracts.

It might be well to also state here that this $100,000 unit or illustration is already carrying a revenue tax on alcohol of $5,951.25, which is a tax of nearly 6 per cent.

Should the proposed schedule of taxes on alcohol, gross sales, and ad valorem, alone become a law, the business would have to carry or pass on a 16 per cent tax on gross sales. This percentage is arrived at by adding the present tax on alcohol of approximately 5.9 per cent to the 10.2 per cent tax under the gross sales, alcohol and ad valorem tax provisions of the proposed bill. This does not contemplate any of the tax provisions relating to freight, express, postage, advertising, and other items.

It can be safely said that no business in America can stand such a tax burden, and this in addition to the general provisions of the bill, and the greatly increased cost of raw drug materials caused by the cutting off of the European supply. While the association comprises but a small number of the medicine manufacturers in the United States, we are in no worse condition than the rest of the industry. Part of the increased cost since 1914 has been borne by the

manufacturer and part by the dealer, and little, if any, has been passed to the consumer. But with this increase, neither the manufacturer nor the dealer can carry it, and an effort must necessarily be made to shoulder it onto the consumer.

Trade conditions in this industry have been in a deplorable state since early in 1915. The increasing shortage in raw materials continues with a corresponding increase in price to the manufacturer. The increase in wholesale prices made generally in March, 1917, has already produced a noticeable effect in the volume of sales, and an attempt to pass this proposed increase on would result in disaster, equally as bad as an attempt on the part of the manufacturer to carry it himself.

The net earning of the different members of the association is about 10 per cent, or, in other words, $10,000 on each $100,000 of sales. The increase in taxes under Title VI, the alcohol tax and the ad valorem tax, amounts to $10,210.75 on this same volume of business, consequently the tax figures exceed this profit by $210.75. These manufacturers have for years depended upon volume with a small profit margin as a means of producing earnings. The proposed bill will undoubtedly cut down the volume of sales and completely take away the margin of profit. Companies not having a powerful reserve will probably fail; those who come through will have lost money. This suggests the thought that the average business man will hesitate to invest any of his reserve funds in liberty bonds when such funds may be necessary to meet the burdens imposed under the pending revenue measure.

Equitable taxation does not affect the prosperity of the country. Occupation taxes, a small gross-business tax, an increased tax on net incomes, taxes on dogs and other pets, and similar taxes can well be borne without affecting industries and trade conditions. Certainly this is the time of all times when trade conditions should remain normal.

Apparently no sound reason can be advanced for the 5 per cent gross-sales tax on the industries selected for that burden, and the alcohol tax as applied to alcohol used for other than beverage purposes is manifestly unfair. Of all the industries covered by Title VI, manufacturers of medicine, perfumes, extracts, and toilet articles are the hardest hit, for they must also bear the tax of $4.16 per 188 proof gallon on alcohol, which is used to a large extent.

What would happen if a 5 per cent gross-sales tax were placed on all business? The answer is disaster. Why, then, should a few industries be selected for this fate? The data given above conclusively shows that such will be the result, and it is hoped that knowledge of the actual facts will have its influence on the committee and Members of Congress.

Respectfully submitted.

THE INTERSTATE MANUFACTURERS' ASSOCIATION,
By JAMES M. GEORGE, *Secretary*.

RALEIGH HOTEL, *May 21, 1917*.

Letter from Mr. C. F. Sauer, President of the C. F. Sauer Co., of Richmond, Va.

RICHMOND, VA., *May 15 1917*.

Hon. FURNIFOLD McL. SIMMONS,
Washington, D. C.

HONORABLE SIR: Appreciating that your time is taken up and that your committee will probably cripple a good many businesses on account of not having enough time, we would like for you to take the following facts into consideratin:

We take for granted that you will put up the tax on alcohol or spirits, which we are compelled to use in our business, to about $4.25 per gallon, based on 190 proof.

We only ask, for the interest of ourselves as well as manufacturers all over the country, that you separate alcohol for culinary and commercial purposes from whisky.

As far as we know you may decide in the very near future to do away with whisky entirely, and then our industry as well as others would be left high and dry, or someone might decide to put whisky up to $5 per gallon, and in that case we would have to pay $10.

Second. It has been intimated that your committee contemplates dating this bill back to May 10. We can not understand how you can do anything of this kind; it would not be fair. We have nearly $100,000 worth of business in our

house which was taken lately and before there was any reason to think alcohol would be put on a higher basis. We will have no way of collecting the extra tax, as the bill has not even been passed as yet.

Third. Under your proposed tax the 25-cent bottle of flavoring extracts with the duties on oils, etc., will be taxed $10 per gross, and the 10-cent bottle will have approximately $3.50 per gross in taxes. This makes it not only the highest taxed food product in the United States, but we believe in the world. Our average profits on bottled extracts for the past couple of years has been about 3 per cent, so you can see there is no room for greater taxes.

We will have to say to the people that the Government puts a tax on us of 1,600 per cent based on normal cost of raw material, which is less than 25 cents per gallon, based 190 proof, or more than $4 per gallon in taxes.

We are willing to put ourselves on record that your bill, with the excess tax, will bring in less revenue than the lower tax. Why? Because the working class and the poor colored man will not pay 15 cents for the small 10-cent bottle, but will turn to the substitutes which pay the Government hardly anything.

The baker is not compelled to use alcohol, and will turn to all kinds of emulsions, fakes and everything else. The legitimate extract manufacturer who puts up high-class goods and pays the Government a revenue of nearly $5 per gallon in a great many instances, will suffer, his business will decline, and substitutes will prosper accordingly.

We have been in the business for over a quarter century and have built up the largest sale on 10-cent extracts. We are no longer able to market them, under your bill; they would have to go to at least 15 cents. Neither can we market a 2-ounce bottle for 25 cents with a $10 tax on lemon.

Not only this, but you are disturbing conditions of living more than is necessary, without compensating returns to the Government.

We also note on page 14, section 308A, you have a special tax of 10 per cent on all flavors sold by soda fountains, bottling establishments, and other similar places. This would hardly be fair, with the increase on alcohol. It would make the tax on alcohol, with the special tax of 10 per cent, about $5 on 1 gallon of lemon, and it would have to sell for at least $10, while it can be bought to-day for around $6. We do not think your committee has noticed this. The tax should be specific, if at all.

We are all ready and willing to do our part, but we feel that you have made a big mistake on alcohol.

Yours, very truly,

THE C. F. SAUER CO.,
C. F. SAUER, *President.*

Statement of Clarence True Wilson, General Secretary of the Board of Temperance, Prohibition, and Public Morals of the Methodist Episcopal Church, Washington, D. C., Regarding the Proposed Increase of the Revenue from Alcoholic Beverages.

It is with very great regret that I feel it my duty in the name of the Methodists of the United States to ask your careful consideration of the consequences of increasing the revenue to be derived from the manufacture and sale of alcoholic liquors.

The retail liquor bill of the United States at the minimum figure is very nearly $2,000,000,000, and a fair estimate would place it at two and one-half billions. If this expenditure could be turned into legitimate channels or into savings, it would take care of the recent bond issue offered to the public.

As a church we believe that the exigencies of the war situation demand immediate prohibition, at least for such time as the war shall last. The sentiment for such action over the country is overwhelming, but if the Government now increases the revenue from this vice not only will the difficulties facing war prohibition be quadrupled, but in case prohibition is adopted the fiscal policy will be disturbed. We should not lose sight of the fact that the liquor traffic has built up its present power for evil upon the action taken by a war Congress in 1862.

There never was a more wanton and impudent falsehood than the pretense of the men engaged in the liquor trade that they pay a tax to the Federal Government. They do not pay one cent of it. Drinkers pay the tax, and only drinkers, for to the price of what they buy is added the "tax" which is really

the share of the United States Government in the profits. Those who pay the tax are the washerwomen, who bend long hours over the steaming tubs, the women who wait with bitter anxiety for the coming of drunken husbands. The tax is paid not only in gold, but in blood and tears.

The opinions of various liquor dealers on this question may be judged from the following quotations:

"The most effective weapon with which to fight prohibition is a high license."—J. M. Atherton, liquor dealer, Louisville, Ky.

"Advocate high license. Don't think that you can silence the pulpit, but you can induce some of them to advocate high license on moral grounds."—A published letter of Deveraux & Marsele, liquor dealers, Boston.

"A license law * * * makes the business more respectable."—Peter E. Iler, brewer, Omaha, Nebr.

"The retail liquor dealers of the State of Indiana, or of any other State in the Union, stand higher morally than any preacher or priest in the land. Why? Because they hold a certificate from the Government of a good moral character."—Our Standard, liquor journal, Indianapolis, Ind.

All of these quotations are old. They prove conclusively that, from the very beginning, the liquor trade has realized, in the words of a prominent wholesale whisky man. "The business should be taxed to the utmost it will stand if its own safety is to be assured."

There are quotations not so old. In 1914, when the liquor tax was increased, the Liberal Advocate declared that the proposed increase in the Federal tax on beer and whisky would "sound the death knell of Federal prohibition." The Advocate asserted that the imposition of an additional tax will be an indorsement of the liquor trade by Uncle Sam. In part, this editorial said:

"The war special revenue bill has sounded the death knell of Federal prohibition for a few years at any rate. The Government can not obtain taxes from liquor and prohibit it at one and the same time. The passage of the additional revenue bill stops for the time being all effective work in behalf of Federal prohibition. If the protection given the brewing and distilling industries is sufficient inducement to the magnates of those industries to cause them to regard high taxation as a benefit rather than a burden, both Republican and Democrat candidates who want the wet vote will probably vote conspicuously for the revenue measure."

At that time Justice, the organ of the liquor trade in New Jersey, hailed the proposed increase in the liquor tax with these headlines:

"Hobson measure doomed to defeat—Exigencies of war situation final blow to amendment that has agitated liquor industry of the country."

That part of the daily press which is inclined to deal with the situation frankly then saw good cause for the jubilation of the liquor dealers. The Washington Post declared in headlines:

"War tax will likely set back prohibition a few years, at least—Government can not obtain revenue on brewed and distilled liquors and prohibit their use at the same time—Situation new bulwark for manufacturers."

Said the Champion of Fair Play of September 12, 1914, organ of the Illinois liquor dealers:

"The wets in Congress will not oppose an increase on liquor and beer taxes, providing some guaranty is made that this constant and nonsensical fight on the liquor interests is stopped for a definite time. The time makes little difference, just so the time is definite."

It continues: "Oh, but this prohibition crowd is a hummer! You have all heard of the dry leader standing up in the market places and saying that money derived from liquor is tainted and that it should not be accepted by Uncle Sam. During the last couple of weeks many of those same leaders have intimated that the Government now should take double the amount of the tainted money by doubling the tax on beer and liquor. Consistency on the part of the prohibitionists is a fraud."

Any honest and well-informed temperance man must agree with the liquor press and the daily press that the proposed war tax is a great haven of refuge for the threatened liquor trade.

It is because of these things that we are very deeply concerned over the proposal to increase again the tax on liquors. I do not think there is the slightest doubt that sooner or later the people are going to make this a dry war, and I think the Congress of the United States should consider that probability in shaping its financial program.

103242—17——8

Letter Signed by the Legislative Committee of the Anti-Saloon League of America Submitting Certain Reasons Why There Should Be No Increased War Tax on Liquor.

NATIONAL LEGISLATIVE COMMITTEE,
THE ANTI-SALOON LEAGUE OF AMERICA,
Washington, D. C.

To the members of the Finance Committee of the Senate of the United States.

GENTLEMEN: As representatives of the Anti-Saloon League of America on behalf of the churches and prohibition forces fighting for advanced prohibition legislation, we respectfully submit to your committee the following reasons why there should be no increased war tax on liquor:

1. We believe that the time has come when the Government should release itself from further obligations to the liquor traffic rather than increase such obligations. Increased revenue from the liquor traffic puts the Government, as Dr. Cramer, ex-member of the board of health of Cincinnati, says, "in the position of the scarlet woman who refuses to reform because she needs the money."

2. The experience of this Nation at the close of the Civil War should be an adequate warning to those who are opposed to the liquor traffic. Because the National Government needed revenue President Lincoln was finally persuaded to agree to a Federal liquor tax, but with the understanding it would be repealed at the close of the war. Having once gained this foothold, the liquor interests aided in having it retained. Through the years it has acted as a subtle bribe to the conscience of a part of our citizenship and has hindered the progress of prohibition.

3. The increased tax may furnish an excuse for some to vote against the pending measures to prohibit the use of grain for making liquor during the war. The present food situation demands such legislation, and a taxation measure which would tend to hinder its passage should not be adopted by the Government.

4. If any tax is to be placed on the liquor traffic, we respectfully recommend that it be a prohibitive tax. To raise revenue in a war for humanity from the victims of a traffic which destroys humanity is inconsistent in principle and practice. If this prohibitive tax or a more direct plan to conserve the food supply or to adopt war prohibition is accepted, it will naturally require that the revenue produced from the traffic shall be raised from some other source.

5. There are other means for raising revenue. If your committee do not readily find them, we respectfully submit that an increase in the bond issue would meet this situation. The coming generations will be equal beneficiaries of this policy which dissolves the relationship between the Government and a traffic which is our greatest source of waste, crime, and poverty. The increased per capita wealth of the people caused by the elimination of the liquor traffic will make it comparatively easy for them to provide for the payment of these obligations. The liquor traffickers have never paid the tax. The victims of the traffic, who are least able to pay, are the ones who ultimately pay it. The liquor dealers simply collect the tax from the consumer and pay it over to the Government, and the Nation loses in this process many dollars for every dollar turned into the Treasury.

We submit for your consideration the wise words of the minister of finance in Russia. When he was asked how they secured the revenue to run the Government when the vodka shops were closed, he said: "We have lost our thousand million rubles by the prohibition of vodka but we have gotten it back and more in the vital energies of our people. How can a nation be poorer when its people are richer?"

These words are sufficient answer to this proposition. Russia's experience shows that although millions of her men were in the trenches and no longer wealth producers, the remainder at home have been able to produce more than all did formerly because of increased efficiency and wealth-producing power. The United States surely has as much reserve physical and man power as Russia.

Respectfully submitted.

JAMES CANNON, Jr.,
A. J. BARTON,
WAYNE B. WHEELER.
Legislative Committee.

E. C. DINWIDDIE.
Legislative Superintendent.

The CHAIRMAN. We will hear from you, Mr. Clawson: you may have five minutes.

Sec. 300. EXTRACTS.

STATEMENT OF MR. JOHN L. CLAWSON, OF PHILADELPHIA, PA., REPRESENTING THE FLAVORING EXTRACT MANUFACTURERS' ASSOCIATION OF THE UNITED STATES.

Mr. CLAWSON. Mr. Chairman and gentlemen, I represent the Flavoring Extract Manufacturers' Association of the United States. The food and drugs act requires that our goods be made from alcohol and, as has been explained to you, we require alcohol in order to extract the flavoring from the vanilla bean. This new change will put the price of alcohol to over $5 a gallon for us, and we are putting up goods which sell at 10 cents a bottle. It is a question of life and death. We are asking for mercy. We have a good many orders on hand now that were taken some time ago to carry over a year or more for delivery. Those orders are based on the old price.

We desire to enter an earnest protest against any increase in the tax on alcohol to be used in the manufacture of flavoring extracts which are used exclusively for culinary purposes, and also any increase in the tax on alcohol required for making tinctures and extracts used for medicinal purposes.

While we are perfectly willing to bear our share handsomely in the increase of taxes required under present conditions, we object to the increase in the tax on alcohol for the following reasons:

Millions of dollars have been expended by various manufacturers in our line in advertising special brands of goods to retail at 10 cents per bottle, and it would be a physical impossibility for manufacturers to produce the goods to be sold on this basis under the proposed increase. Every article entering into this product has been so materially advanced already that it is now almost impossible to put up the goods so extensively advertised at the price stated. If the proposed increase of tax is put through, it will positively require many people in our line to go out of business. Besides this, it would be a great hardship on the part of many consumers to do without the goods, and it would also be the direct means of reducing the Federal income by depriving them of the duty now received on vanilla beans and essential oils which are used in the manufacture of our product. It would also deprive the Government of the income tax from manufacturers who are at present engaged in our line of business.

All the manufacturers, gentlemen, are paying an income tax to-day; and if this tax is increased, it will so depress them that you will not get the income which you now get from that source.

We do not object to the increased tax on alcohol for beverages, but we do sincerely trust you can see your way clear to exempt from any further taxation the alcohol required for use in our goods by reason of the hardship above stated, and which can be substantially proven beyond any question of a doubt.

I thank you, Mr. Chairman.

The CHAIRMAN. Is there any gentleman present who desires to be heard on the next subject, that of wines?

Sec. 304. WINES.

STATEMENT OF HON. CLARENCE F. LEA, A MEMBER OF CONGRESS FROM THE STATE OF CALIFORNIA.

Congressman LEA. Mr. Chairman, if it is agreeable to the committee, Senator Phelan and I, who are interested in the schedules as they affect California wines, will file a brief on the subject.

The CHAIRMAN. Very well. Mr. Lea; that may be done.

(The brief referred to by Mr. Lea is here printed in full, as follows:)

SUGGESTIONS AS TO WINE TAX.

1. *Proposed tax prohibitory, based on Treasury reports.*—The effect upon the revenue and upon the wine industry of adopting the schedules proposed by the Ways and Means Committee has been demonstrated during the last three years.

1914 tax:	
Dry wine, flat tax of	$0.08
Sweet wine, flat tax of	.08
Brandy used in fortification, at 55 cents a gallon	.15
Total sweet-wine tax	.23

$2,805,214.56 collected under this rate last 12 months of law.

1916 tax (instead of flat rate):	
Wines under 14 per cent	$0.04
Over 14 per cent	.10
At 10 cents per gallon of brandy	.03
Total sweet-wine tax	.13

Approximately $5,500,000 will be collected.

Proposed increase:	
Under 14 per cent	$0.06
Over 14 per cent	.20
At 20 cents per gallon of brandy (over)	.05
Total sweet-wine tax	.25

This is approximately 2½ cents increase tax on sweet wines over prohibitive tax of 1914.

Before the enactment of the 1914 law it was claimed that it would produce $7,000,000 of revenue. As shown above, less than half that amount was produced.

Instead of providing the revenue estimated, the 1914 tax during its operation was fast destroying the wine industry with cumulative effect, as shown by the continuing diminution of tax receipts. The following figures were taken from Treasury Department reports:

Revenue collected under emergency revenue law.

First 12 months of law (October, 1914, to September, 1915, inclusive):	
Brandy used in fortification	$448,566.80
8-cent stamp tax and assessments	2,996,031.23
Total collections	3,444,598.03
Last 12 months of law (April, 1915, to March, 1916, inclusive):	
Brandy used in fortification	307,861.39
8-cent stamp tax and assessments	2,497,353.27
Total collections	2,805,214.56

In spite of continuing decreased revenue during 1915-16, California reports show that the crop was normal and that the viticultural commissioners of California report that about 100,000 tons of grapes were left on the vines to rot, growers refusing to spend money to harvest a crop that had no market.

On page 7, bulletin No. 6 of this commission, appears the following:

"The production of sweet wine in the State fell off enormously, due to the prohibitive tax levied by the Federal Government in its emergency revenue act of October 22, 1914. The sweet-wine makers during the vintage of 1915 made little more than one-fifth of a normal production. Four-fifths of the usual amount made each year was sacrificed because of inability of the manufacturer to finance the excessive tax."

To be exact, the decreased production of sweet wine in California on account of the law of 1914 was 12,581,972.24 gallons. On page 9 of Bulletin No. 6 is the following:

"This is a dropping off in normal value of sweet-wine production of about $4,000,000, and, as stated heretofore, the shortage was occasioned by the operation of the Federal emergency act, taxing sweet wines in manufacture at an exorbitant figure."

On page 9 of the Report of the State Board of Viticultural Commissioners of December 1, 1916, appears:

"During the preceding season, during which operations were necessarily under the exorbitant Federal tax, the production of sweet wine in California fell off nearly 80 per cent, and it proved to be one of the worst seasons ever experienced by the wine-grape growers of California. Manufacturers could not afford to buy their grapes and the culls of the raisin and table grapes also went begging."

The damage done to California by the wine tax of 1914 was more than double the total wine production in the United States outside of California.

2. *Increased revenue produced by decreased tax.*—As soon as the lower tax rates of 1916 went into effect, an immediate increase in revenue was produced, in excess, even, of the conservative estimates officially submitted by California growers.

It is obvious, from figures at hand, that approximately $5,000,000 to $5,500,000 will be collected under present tax, as against $3,444,598.30 under double the rates. The following comparative statement was submitted by the Treasury Department, under date of April 20, 1917:

1915, act October 22, 1914:	
September	$178,086.48
October	108,655.77
November	245,870.06
December	397,392.24
1916:	
January	220,848.58
February	193,953.44
March	223,657.71
	1,658,474.18
1916, act September 8, 1916:	
September	562,552.22
October	541,128.20
November	549,923.09
December	597,033.78
1917:	
January	425,327.26
February	399,371.65
March	[1] 278,674.20
	3,354,010.48

Due to a late frost the 1916-17 crop was the lowest of record for 10 years. In spite of this shortage, the revenue collected was double that received the previous year, from a normal crop, under a prohibitive tax of 40 per cent of the gross value of the industry.

The question that confronts us is, What increase, if any, can the industry stand which will increase revenue?

[1] Not including receipts in first district of California.

3. *Grape grower bears tax.*—California produces nearly 90 per cent of the wine of the country. Probably $150,000,000 is invested in the industry of that State. Thousands of farmers are engaged in the business. Ordinarily the small grape grower sells his grapes to wineries.

When the tax of 1914 was imposed the loss fell directly upon the grape grower, and the price of his grapes fell accordingly. The wine industry is not one of great profit. California wines consist mostly of a cheap product, which is largely consumed by laborers with their meals as a substitute for tea, coffee, and milk. The grape farmer has no more to do with fixing the price of his crop than does the farmer who raises corn, wheat, or cattle.

We believe that the rate suggested by Mr. Kent would produce more revenue, to wit, a tax of 5 cents per gallon on wines containing less than 14 per cent of alcohol, and a tax of 12 cents a gallon on sweet wines containing a higher sugar and alcohol content, with an additional tax of 20 cents per gallon for brandy used in fortifying the same, which would make a tax of approximately 17½ cents per gallon for sweet wines. We do not believe that any higher tax would produce a greater revenue. This tax would leave conditions less burdensome for thousands of farmers growing grapes and preserve the subject of taxation, otherwise imperiled.

Ex-Congressman William Kent made an exhaustive study of this situation during recent years, and we herewith present a letter written by him, which concisely sets forth the situation now presented.

Respectfully submitted.

James D. Phelan.
Clarence F. Lea.

United States Tariff Commission,
Washington, April 28, 1917.

Hon. Clarence F. Lea,
House of Representatives.

Dear Mr. Lea: During the last Congress I made a detailed study of wine problems and wine taxation, and can claim a familiarity with the situation. I also believe I am in a position to know what can and can not be expected in the matter of taxation.

Over 90 per cent of the wine produced in the United States comes from California. The larger portion of the dry wines are produced on rocky hillsides; land oftentimes unfit to produce other crops. The sweet wines are often produced on richer valley lands, and are more or less linked up directly with the raisin industry.

A very large proportion of the dry wines are consumed in California by the Latin-American people, who use wine as part of their food ration, and who would be unable to purchase if the grades used by them were highly taxed. It has been the experience of the past that taxes levied on these ordinary dry wines have been deducted from the producer's narrow margin, and have rested so heavily on the grape grower and small wine maker as to destroy production and the ability to pay taxes. Thus the taxes resulting from the high rates of the act of 1914 showed a great reduction in Federal income and an unbearable hardship to grape growers and wine makers. On the other hand, the taxes, as adjusted in the revenue bill of 1916, even in the face of a short grape crop, resulted in the practical doubling of the Federal revenue and relative prosperity among the grape growers and wine makers.

The bill of 1916 was based on the correct principle of taxing the alcohol content. If there were anything to criticize in it, it is that there should have been one or two more classifications in the rates of taxes. Justification for cutting them down was in the difficulty of analysis and resultant differentiation.

Reverting for a moment to the former high tax on dry wines, we find that on the basis of tonnage yield of grapes on the unfertile hillside lands from which the best dry wines are produced, that the grape grower can anticipate about 3 tons to the acre of grapes, yielding a price under the tax of 1914 of $10 a ton, or a total gross yield of $30 an acre. The cost of raising these grapes is about $20 an acre, leaving a balance of about $10 an acre gross, from which must be deducted a number of items.

When we turn to the wine-making proposition, 3 tons of grapes make 450 gallons of wine, which is ordinarily sold at 18 cents to 20 cents a gallon. Under the low prices existing during the operation of the act of 1914, the

small winery received about 12 cents a gallon, a gross yield per acre of grapes in terms of wine being $54. With the cost of wine making $45 per acre, a net yield of $9 to the acre product of grapes resulted, from which was paid State and county taxes, interest, insurance, and depreciation.

Under the present rate of 4 cents a gallon on dry wines, which wines are now selling at from 18 cents to 20 cents a gallon, we find that the tax amounts to approximately 20 per cent of the value of the product.

It must be obvious to any one studying the conditions that the common dry wines can stand but little increase in taxation and that if there must be any considerable proportion of increase in the amount obtained from the production of wine it must be levied against sweet wines higher in alcoholic content.

The result of the wine law of 1916 was a doubling of Federal revenue in the face of a short grape crop, or an amount upward of $6,000,000, against a little more than $3,000,000 for the previous year.

If I were to suggest what could fairly and judiciously be done in the matter of Federal revenue, it is my opinion that dry wines might stand an increase of 1 cent per gallon or a raise from 4 cents to 5 cents; that the grapes to be made into sweet wine with a higher sugar and alcohol content could stand an increase in tax of 2 cents a gallon above the present 10-cent tax and that the tax on the brandy used to fortify sweet wines could be doubled or raised from 10 cents to 20 cents a gallon.

Owing to the fact that 1 gallon of brandy will fortify a little less than 4 gallons of wine, this would place upon sweet wines a tax of, first, 12 cents for the wine and about 5¼ cents for the brandy, or 17¼ cents for the gallon output of sweet wine.

An estimate made as closely as possible from figures at hand would show that this would result in increased revenue, derived, first, from dry wine, of about $300,000, and from sweet wine about $1,000,000 or $1,300,000, all told, to be added to the figures of the current fiscal year of about $5,000,000, or a total estimated revenue of about $6,500,000.

The results of injudicious taxation in the past have been so obvious that there should be no need of insisting further upon the danger of reversion to impossible rates. It would be much better to be conservative in the amount of taxes levied on this extremely sensitive industry and to vary them from year to year as the facts would warrant. It would certainly be folly to run a horizontal increase that will double the tax on dry wines when the correct theory is shown to be to put the heavier burden on the sweet wines with their higher alcohol content.

Yours, truly,

William Kent.

The Chairman. The committee will now hear Mr. Alphonse Wile.

STATEMENT OF MR. ALPHONSE WILE, OF JULIUS WILE SONS & CO., 64 NINTH AVENUE, NEW YORK CITY—Resumed.

Mr. Wile. Mr. Chairman and gentlemen, prior to 1914 imported wines and spirits were subject to only one form of taxation, and that was in the form of an import duty. They never came under the province of the Internal-Revenue Department, and it was never found necessary for them to be there. It was only an emergency measure that they were included in the emergency-revenue law which was enacted in the fall of 1914, and when that law was continued in 1916 provision was likewise made for imported wines and vermuths to be included under the internal-revenue tax.

It is now proposed under this new bill not alone to retain imported wines under the internal-revenue regulations, but to practically double those rates, and also to impose an increased duty on them of 10 per cent ad valorem. The remarks made this morning in regard to the duties and taxes on imported spirits applies likewise to imported wine and vermuth. As an example of how that would operate, I might mention vermuth, for instance, which is probably one of the cheapest articles that we import. Previous to the war

vermuth cost not over $3 a case of 12 bottles on the other side. We paid a duty of $1.85. Under the emergency-revenue law we were taxed on vermuth and are to-day being taxed about 30 cents a case for internal-revenue tax, besides the duties. It is now proposed to impose an additional duty of 10 per cent ad valorem and to double the internal-revenue tax. Doubling the internal-revenue tax means an additional 30 cents, and imposing an ad valorem duty in addition to the present duty of 10 per cent means an addition of 60 cents; in other words, 90 cents additional to goods that before the war were worth only $2.50 or $3 a case, which is disproportionate.

I mention that also to show that we are affected from two sides of this proposed legislation—under the customs duty and under the internal-revenue taxation, and that we would be called upon to assume a double burden because we are taxed in two different ways.

The domestic merchandise is taxed only through an increased internal-revenue tax, and there is no reason, and I do not think it can be the intention of Congress to have imported goods taxed both under the internal-revenue regulations and also under the increased import duty.

The same thing I explained with reference to vermuth applies to sparkling wines, distilled wines, liqueurs, and everything in the way of an imported vermuth.

Senator McCumber. Is vermuth made in this country to any considerable extent?

Mr. Wile. There is an article called vermuth that is made in this country. It is not as good precisely as that which is made on the other side, but it is called vermuth and sold under that name—not as largely as on the other side. The real vermuth contains certain ingredients which are not readily found in this country, and the particular point of difference is that vermuth abroad is made of wine; that is, wine is the basis, and it has nothing in it except some sugar and the herbs, which are steeped in the wine.

Senator McCumber. My question was for the purpose of eliciting whether there is any real competition in any home products with our imported French and Italian vermuths.

Mr. Wile. There is some competition through the production of an article called vermuth in this country, which is made on a different principle. It is made in this country usually of spirits, which are reduced and colored, and which have bitters and other herbs added to them, to give them the flavor and general character of vermuth, but it is not vino vermuth, such as is shipped from the other side, which means vermuth wine.

At risk of repetition, I would like to say again that if we are to stand an additional internal-revenue tax and an additional duty, you will be killing the goose that lays the golden egg, because it is inevitable that the price of our goods will be so high that they can not be used except by the wealthiest, and the importation will fall off, and the Government will not derive the additional revenue which it is hoping for, but will have a reduced revenue, which is not for our interests nor for the interests of the Government, and incidentally will be destructive of our branch of the business.

We respectfully suggest that in the proposed bill, in order to eliminate that feature of it, that we be assessed additional duty and exempted from additional internal-revenue tax. We are perfectly

satisfied to pay a higher duty as our contribution to the general revenue of the Government, but we would like to see the tax act enacted in such a way as to be productive of the revenue the Government desires, that the Government expects from us, and we feel that it can be reasonably obtained and practically obtained only if they are placed at such figures as will make our goods still marketable and merchantable, and that it will still come within the means of the present consumer.

We suggest, therefore, most respectfully, that section 304 on page 12, line 16, be amended by eliminating the words "or imported to," and that these words shall likewise be eliminated on page 13, line 4, and that a corresponding change to accord therewith be made on page 47, in regard to war customs and duties.

Senator THOMAS. What change do you suggest on page 47?

Mr. WILE. The wording will have to be changed to call for a duty of 10 per cent in addition to the present rate—10 per cent of the present rate of duty instead of 10 per cent ad valorem.

As I pointed out before, it is impossible for anyone to properly appraise all the foreign wines or spirits. A man who is a judge of sherries probably knows nothing of clarets. A man that is a judge of clarets probably would know nothing about ports and Rhine wines and many of the other articles of import. There are at least a dozen houses in New York who import from 20 to 50 different kinds of sherries. They are any number of Rhine wines and Burgundies and other grades of wines which are imported, and no man is competent to judge of all of them. It can not be expected that the Government can find any examiner or appraiser who could qualify as a judge upon these, because we have been in the business a great many years and can not do it ourselves.

As I mentioned before, to charge an ad valorem duty on imported wines and spirits can only be productive of undervaluation and other violations of the law. We respectfully ask, therefore, that the duty on our goods be increased on a specific basis, no matter what it may be—on a specific basis, and that we be exempted from additional internal-revenue tax, because we are already paying or expect to pay additional customs duties.

Senator McCUMBER. You do not want any internal-revenue tax levied upon them?

Mr. WILE. We want none at all, if we can be eliminated from that category. We would rather pay a higher duty than pay any internal-revenue tax.

ADDITIONAL BRIEFS RELATING TO THE WINE SCHEDULE FILED WITH THE COMMITTEE.

Petition Signed by the Legislative Committee of the Family Wine and Liquor Dealers' Protective Association.

To the honorable Finance Committee, United States Senate.

GENTLEMEN: On behalf of the Family Wine and Liquor Dealers' Protective Association of the State of New York we hereby protest against the enactment into law of sections 300 to 305, inclusive, in Title III "relative to war tax on beverages" in bill to provide revenue to defray war expenses, etc., for the following reasons:

There are about 2,500 family wine and liquor dealers in the State of New York, and under the excise law of that State are only permitted to sell their

goods for consumption off the premises—engaged in selling wines and liquors exclusively for the family trade—to be drunk off the premises—and are not classified as what is commonly known as the saloon—they are not permitted by law to have a bar on the premises. We do not wish to dodge anything and are willing to pay our share of the tax, willing to accept a just proportion of the burden of taxation but believe it should be imposed under a more just and equitable plan, as an attempt to exact from the public the prices necessary for the purchase of merchandise in order to be able to meet the tax as contemplated will make sales absolutely impossible, and we predict that in place of the bill being a revenue producer it will force us out of business and prove to be a great loss to the Government.

Section 300 imposes an additional tax of $1.10 on each gallon, which is equivalent to over 100 per cent increase on American products while imported distilled goods are only increased 40 per cent over the existing tax, thus making an unfair competition between foreign and American production.

Section 302. We believe that a tax of 15 cents per gallon, as provided, on rectified distilled spirits should be entirely eliminated because of the sale of distilled spirits, unless diluted to a lower proof, would result in there being a greater number of intoxicated persons, for the reason that the retail dealer, to avoid the payment of the increased tax, would sell straight or proof spirits.

We also object to the high increase of the tax on lager beer, ale, porter, etc., as set forth in section 303, as such a tax is discriminatory, as no provision is made in the bill for a tax levy on imported beer, etc.

We respectfully ask that all the stock on hand in the retail liquor stores be exempt from taxation, for the reason that 90 per cent of the stock on hand, or the equivalent thereof, has been carried on hand for upward of three years, and it would be unfair to levy a tax on such merchandise.

If, in the wisdom of the committee, it should be decided to levy a tax on such merchandise, it is respectfully suggested that such a tax be collected only upon the sale of this merchandise, as a demand for the payment of the tax, as provided in the bill, would bring ruin to the people in the family wine and liquor business and would result in the confiscation of the stock on account of inability to pay the tax, resulting in the throwing out of employment thousands of people, the vacation of thousands of stores, and thereby affecting real estate values throughout the State.

Respectfully submitted.

ADOLPH NEURAD, *1474 First Avenue, New York City;*
JACOB WACHTEL, *926 Prospect Avenue, Brooklyn;*
FREDERICK SCHWARZ, *1330 First Avenue, New York City,*
Legislative Committee of the Family Wine and Liquor Dealers' Protective Association.

The CHAIRMAN. Is there anyone else who desires to be heard on the subject of sirups, extracts, and soft drinks?

Mr. CANDLER. Mr. Chairman, I desire to be heard with reference to sirups and soft drinks.

The CHAIRMAN. You will be allowed 15 minutes, and other gentlemen interested in this same subject will be allowed 5 minutes each. We will first hear Mr. Candler.

Sec. 308. SIRUPS AND SOFT DRINKS.

STATEMENT OF MR. JOHN S. CANDLER, REPRESENTING THE COCA-COLA CO., OF GEORGIA, AND THE PEPSI-COLA CO., OF NORTH CAROLINA.

Mr. CANDLER. Mr. Chairman and gentlemen of the committee, I represent the Coca-Cola Co., a corporation of the State of Georgia, and the Pepsi-Cola Co., a corporation of the State of North Carolina, and a large manufacturer of sirup, and I represent the Virginias, North Carolina, South Carolina, Alabama, and Georgia Bottling Associations, and I wish to cover two sections of this bill—that is, sirups and soft drinks.

Mr. Chairman, I have heard many things to-day that I possibly could with justice repeat. Of course we all think we are going to be ruined. Some of us are. We all are told that no one wants to pay any tax. But, so far as my clients are concerned, they are willing to pay a tax, they expect to pay a tax, they have no desire to dodge a tax. They are willing to pay every dollar that they ought to pay. They are in this war and they know it takes money to run it, and whole lots of it. They expect that everybody in the country is going to have to pay for it. So far as I am personally concerned, I do not hear very patiently the proposition that some of us are not patriotic. I have given a year to the service of this Government already. I have but one son, and he is now in a military camp.

All that we ask is that we be not destroyed. All that we ask is that you only put such a tax upon this industry as it can stand and put all on it that you in your conscientious judgment believe it can stand when you know the facts, and we will abide by it—we will have to.

There is no subject upon which there is a greater ignorance than that of the soft-drink industry of the United States. It is a large one and practically enters into the business of every town, hamlet, and city of the United States.

This bill proposes to place a tax upon all prepared sirups or extracts intended for use in the manufacture or production of beverages, commonly known as soft drinks, by soda fountains, bottling establishments, and other places sold by the manufacturer, producer, or importer thereof equivalent to 10 per cent of the price for which so sold.

The provision is subject to the criticism of lack of clearness. There are certain, in fact many, large concerns who manufacture soft-drink sirups and extracts, but probably three-fourths of the sirups used in the United States are manufactured by the dispensers at the fountains. These fountain dealers buy concentrated sirups and extracts, add to them various quantities of simple sirup, and thus manufacture their own sirups for their daily use in their fountains.

How the machinery of the Government can ever with any sort of impartiality collect this tax is a question difficult of answer; but without reference to the phraseology of the section I wish to earnestly call attention to the fact that the tax places a burden upon every manufacturer of sirups, whether large or small, in excess of any possible profits that he can make on the sale of the goods manufactured.

We are already good taxpayers. There is not an ingredient, with possibly one exception, that enters into the manufacture of these sirups that has not been paying taxes to you all the time and that this bill does not increase at least 10 cents a gallon more if you do not touch us at all.

I have been furnished with an itemized and accurate statement of the cost of the ingredients entering into the two soft drinks made by the companies which I represent. This cost, taking the wholesale price of the ingredients entering into Coca-Cola, was on last Thursday approximately $1.02 per gallon. The average selling price of Coca-Cola is $1.11 per gallon.

This bill places a tax upon nearly every ingredient entering into the manufacture of soft-drink sirups. It is a very conservative statement to say that the ingredients entering into these sirups will be increased as a whole not less than 10 per cent in cost by the passage of

this bill. It will only be necessary to call attention to certain of the ingredients with the prices of which you are all familiar and which are increased in price necessarily by this bill.

Sugar, which is scarcely obtainable at this time, has an increased tax of 10 per cent placed upon it. Alcohol, which is necessarily used in the manufacture of flavoring extracts which enter into these soft-drink sirups, is increased in price. Tea, the alkaloid of which enters into them, furnishing the stimulating quality of the same, has a tax upon it of 2 cents per pound. By reason of the fact that all the countries at war are using tea as the sole stimulant for their armies at the front it has become very scarce and very high. While this fact is a commendation of the healthfulness and food value of our sirup, it is a very expensive item now entering into the manufacture. Phosphoric acid, lime juice, and other ingredients all carry increased difficulties of obtaining and consequent increase in cost.

This may be a moot case I am arguing. It may be that in less than 90 days we will not any of us be able to get any ingredients that enter into these sirups at all.

We can, with reasonable certainty, then say that the cost of manufacture of all of these sirups will be at least 10 per cent additional, and of course this 10 per cent increase is a tax as well as the specific tax of 10 per cent.

By the addition of this increased cost of ingredients and the 10 per cent tax these sirups can not be manufactured and put upon the market at less than $1.22 per gallon. So we find that without the tax we will be manufacturing at a price less than we are selling for, and when you add 10 per cent tax we will be selling our goods at a price of at least 11 cents less than we can possibly manufacture them at. The result will be that few of the companies will try to carry on their business, and instead of the Government obtaining reasonable revenue, which we all recognize it must have and which every good citizen of this country is willing to pay, it will actually receive far less income from the manufacture and sale of these sirups than it is now obtaining, and certainly much less than it would receive were the tax placed at such a figure as it can be paid without destruction of the business.

A tax of 10 per cent on the selling price of these sirups is out of all just proportion either to the cost of manufacture or the selling price. With the additional tax upon the ingredients entering into them this bill will place a gross income tax on the soft-drink business of at least 20 per cent, and without reference to the added cost of the materials a flat 10 per cent gross income tax. It would mean more than a 100 per cent net income tax.

To state the case, the facts being absolutely correct, is to my mind all the argument necessary to make against it.

It will be said, however, why not pass this tax along to the middleman and to the consumer? In the case of the Coca-Cola Co. and the Pepsi-Cola Co., by reason of their method of doing business, which method has been in operation for nearly 30 years, the tax can not be passed on either to the middleman or to the consumer.

The companies that I represent entered into contracts with their bottlers in the beginning of their careers, agreeing, in consideration of these bottlers building plants of certain character and conducting their business under certain rules and regulations, to furnish sirups

for putting up the carbonated drinks at a fixed price. Most of these contracts are for indefinite periods and they are absolutely binding, and good morals as well as the law will compel these companies to furnish these sirups if they stay in business at the price agreed upon.

It has long been the custom for the manufacturers of bottled soda water, flavoring extracts, and sirups to solicit orders and contract for future delivery of their products with the wholesaler or middleman. This method of doing business has been a necessity on account of the conditions surrounding this business for many years. In all such contracts definite terms and prices are specified. Such contracts are held valid and binding and in such cases delivery must be made in accordance with the terms of agreement. So but a small part of the business of the companies that I represent can be passed along, even if it were desirable to do so. At this time a manufacturer depending largely upon the good will of the trade for the proper handling of his goods would be greatly embarrassed to raise his prices on the small men, who already has more burdens than he can carry.

We feel that we are better able to carry this loss than these small men, and however unjust it may be, it is the purpose of the companies whom I represent to carry whatever burden this Congress thinks in justice and fairness they should carry. Doing business over the whole country, we know probably better than the members of this committee the heavy burdens that the people are carrying already. There is scarcely an article that the retail druggist handles that has not increased in price from 25 per cent to 1,000 per cent since this war started. There is not an ingredient entering into these soft-drink sirups that has not increased in price since the war began from 50 per cent to 1,000 per cent. It is time for all business to "stop, look, and listen" and begin to take greater pains to preserve the small man than has been customary in the past.

It is impracticable for the bottler or the retail druggist or soda-fountain dispenser to pass on to the consumer any part of this tax. These drinks, whether at the fountain in a glass or at the corner grocery store in a bottle, are universally sold for 5 cents. The people are accustomed to a character and quality of the goods and "the gruel can not be made thinner" to cheapen and damage the character, nor can the quantity be reduced without serious damage to the business.

As said before, if the purpose of this act—and we can not imagine any other purpose—is to obtain revenue to carry on a war in which the country is engaged, then fix these taxes at a figure that can be met. Don't kill the business if the object is revenue. To do that will bring a decreased revenue and in addition will put many men out of employment and will increase the number of those already seriously involved.

This bill deals in many rates of per cent on income with excess profits. I tell you that if other manufacturing interests are to be crippled as this bill now proposes to cripple the retail druggist, the patent-medicine manufacturer, and the soda-fountain bottler, there will be no excess profits. There will be but small net profits. As the little country boy said when asked for the core of his apple, "There ain't a-gwine to be no core."

The CHAIRMAN. Have you any suggested rates to make to the committee?

Mr. CANDLER. I have discussed that with my clients.

The CHAIRMAN. Suppose you consider that and put it in your brief.

Mr. CANDLER. Yes, sir; I will do so. I understood we were to file these briefs not later than next Thursday, and therefore I had not gone into actual figures. I propose to file with this committee an itemized statement showing every cent that goes into these soft-drink sirups, and you gentlemen can take them and verify them absolutely.

The CHAIRMAN. They will be printed.

(The brief of the Coca-Cola Co. referred to by Mr. Candler was subsequently submitted and is here printed in full, as follows:)

Representing the Coca-Cola Co., a corporation of the State of Georgia, and the Pepsi-Cola Co., a corporation of the State of North Carolina, I beg to file with the Finance Committee the following suggestions with reference to the tax proposed on soft-drink sirups in House bill 4280, entitled "A bill to provide revenue to defray war expenses, and for other purposes":

There is no subject upon which there is a greater ignorance than that of the soft-drink industry of the United States. It is a large one and practically enters into the business of every town, hamlet, and city of the United States.

This bill proposes to place a tax upon all prepared sirups or extracts intended for use in the manufacture or production of beverages, commonly known as soft drinks, by soda fountains, bottling establishments, and other places, sold by the manufacturer, producer, or importer thereof, equivalent to 10 per cent of the price for which so sold.

The provision is subject to the criticism of lack of clearness. There are certain—in fact, many—large concerns who manufacture soft-drink sirups and extracts, but probably three-fourths of the sirups used in the United States are manufactured by the dispensers at the fountains. These fountain dealers buy concentrated sirups and extracts, add to them various quantities of simple sirup, and thus manufacture their own sirups for their daily use in their fountains.

How the machinery of the Government can ever with any sort of impartiality collect this tax is a question difficult of answer, but without reference to the phraseology of the section I wish to earnestly call attention to the fact that the tax places a burden upon every manufacturer of sirups, whether large or small, in excess of any possible profits that he can make on the sale of the goods manufactured.

I have been furnished with an itemized and accurate statement of the cost of the ingredients entering into the two soft drinks made by the companies which I represent. This cost, taking the wholesale price of the ingredients entering into coca-cola, was on last Thursday approximately $1.02 per gallon. The average selling price of coca-cola is $1.11 per gallon.

This bill places a tax upon nearly every ingredient entering into the manufacture of soft-drink sirups. It is a very conservative statement to say that the ingredients entering into these sirups will be increased as a whole not less than 10 per cent in cost by the passage of this bill. It will only be necessary to call attention to certain of the ingredients, with the price of which you are all familiar, and which are increased in price necessarily by this bill.

Sugar, which is scarcely obtainable at this time, has an increased tax of 10 per cent placed upon it. Alcohol, which is necessarily used in the manufacture of flavoring extracts which enter into these soft-drink sirups, is increased in price. Tea, the alkaloid of which enters into them, furnishing the stimulating quality of the same, has a tax upon it of 2 cents per pound. By reason of the fact that all the countries at war are using tea as the sole stimulant for their armies at the front, it has become very scarce and very high. While this fact is a commendation of the healthfulness and food value of our sirup, it is a very expensive item now entering into the manufacture. Phosphoric acid, lime juice, and other ingredients all carry increased difficulties of obtaining and consequent increase in cost.

We can with reasonable certainty then say that the cost of manufacture of all of these sirups will be at least 10 per cent additional, and, of course, this 10 per cent increase is a tax as well as the specific tax of 10 per cent.

By the addition of this increased cost of ingredients and the 10 per cent tax these sirups can not be manufactured and put upon the market at less than $1.22 per gallon. So we find that without the tax we will be manufacturing at a price less than we are selling for, and when you add 10 per cent tax we will be selling our goods at a price of at least 11 cents less than we can possibly manufacture them. The result will be that few of the companies will try to carry on their business, and instead of the Government obtaining reasonable revenue, which we all recognize it must have and which every good citizen of this country is willing to pay, it will actually receive far less income from the manufacture and sale of these sirups than it is now obtaining, and certainly much less than it would receive were the tax placed at such a figure as it can be paid without destruction of the business.

A tax of 10 per cent on the selling price of these sirups is out of all just proportion, either to the cost of manufacture or the selling price. With the additional tax upon the ingredients entering into them this bill will place a gross income tax on the soft-drink business of at least 20 per cent, and without reference to the added cost of the materials a flat 10 per cent gross income tax. It would mean more than a 100 per cent net income tax.

To state the case, the facts being absolutely correct, is to my mind all the argument necessary to make against it.

It will be said, however, why not pass this tax along to the middleman and to the consumer. In the case of the Coca-Cola Co. and the Pepsi-Cola Co., by reason of their method of doing business, which method has been in operation for nearly 30 years, the tax can not be passed on either to the middlemen or to the consumer.

The companies that I represent entered into contracts with their bottlers in the beginning of their careers agreeing in consideration of these bottlers building plants of certain character and conducting their business under certain rules and regulations to furnish sirups for putting up the carbonated drinks at a fixed price. Most of these contracts are for indefinite periods, and they are absolutely binding, and good morals as well as the law will compel these companies to furnish these sirups, if they stay in business, at the price agreed upon.

It has long been the custom for the manufacturers of bottled soda water, flavoring extracts, and sirups to solicit orders and contract for future delivery of their products with the wholesaler or middle man. This method of doing business has been a necessity on account of the conditions surrounding this business for many years. In all such contracts definite terms and prices are specified. Such contracts are held valid and binding, and in such cases delivery must be made in accordance with the terms of agreement. So but a small part of the business of the companies that I represent can be passed along, even if it were desirable to do so. At this time a manufacturer depending largely upon the good will of the trade for the proper handling of his goods would be greatly embarrassed to raise his prices on the small man who already has more burdens than he can carry.

We feel that we are better able to carry this loss than these small men, and however unjust it may be, it is the purpose of the companies whom I represent to carry whatever burden this Congress thinks in justice and fairness they should carry. Doing business over the whole country, we know probably better than the members of this committee the heavy burdens that the people are carrying already. There is scarcely an article that the retail druggist handles that has not increased in price from 25 per cent to 1,000 per cent since this war started. There is not an ingredient entering into these soft drinks sirups that has not increased in price since the war began from 25 per cent to 1,000 per cent. It is time for all business to "stop, look, and listen," and begin to take greater pains to preserve the small man than has been customary in the past.

It is impracticable for the bottler or the retail druggist or soda fountain dispenser to pass on to the consumer any part of this tax. These drinks, whether at the fountain in a glass or at the corner grocery store in a bottle, are universally sold for 5 cents. The people are accustomed to a character and quality of the goods, and "the gruel can not be made thinner" to cheapen and damage the character, nor can the quantity be reduced without serious damage to the business.

As said before, if the purpose of this act—and we can not imagine any other purpose—is to obtain revenue to carry on a war in which the country is engaged, then fix these taxes at a figure that can be met. Don't kill the business if the object is revenue. To do that will bring a decreased revenue and in addition will put many men out of employment and will increase the number of those already seriously involved.

This bill deals in many rates of per cent on income with excess profits. I tell you that if other manufacturing interests are to be crippled as this bill now proposed to cripple the retail druggist, the patent medicine manufacturer, and the soda fountain sirup manufacturer, there will be no excess profits. There will be but small net profits. As the little country boy said, when asked for the core of his apple, "There ain't a-gwine to be no core."

Respectfully submitted.

JOHN S. CANDLER,
Attorney for the Coca-Cola Co., of Georgia,
and the Pepsi-Cola Co., of North Carolina.

Cost sheet for producing one gallon of Coca-Cola sirup, including overhead charges.

Materials and labor, cost per gallon	$0.73
Cooperage and containers, cost per gallon	.06
Freight and delivery costs, cost per gallon	.07
Advertising costs, cost per gallon	.09
Legal expense and taxes	.02
Salesmen and other overhead expense, per gallon (not readily obtainable), approximately	.05
	1.02
Average net selling price	1.11
Profit	.09

NOTE.—All materials are figured at present prices, which are advancing almost daily. Labor item is based on last year's pay roll. If proposed advance of 15 per cent in freight rates is granted it will add 1 cent per gallon to our costs, as under our selling plan we pay the freight. This rate advance would further increase cost of materials, notably sugar.

WASHINGTON, D. C., *May 12, 1917.*

Hon. F. M. SIMMONS,
Chairman Finance Committee, United States Senate.

MY DEAR SENATOR SIMMONS: At the conclusion of my argument yesterday before your committee you asked me what, in my opinion, was the amount of tax that this business could stand, and requested that I communicate the same to your committee in writing.

As I showed you, Coca-Cola sirup is now costing $1.02 per gallon to manufacture. Pepsi-Cola is costing slightly more. The average selling price that it is possible for us to get for our sirup is $1.11 per gallon.

Before we get to the specific tax against which we are now complaining in this bill we are met with the proposition that the increased tax upon sugar, tea, essential oils, alcohol, and other ingredients entering into the manufacture of these sirups in large or small degree will add to the cost of these ingredients at the very lowest 10 cents per gallon. This will make our cost of production $1.12 per gallon as a minimum, against a selling price of $1.11, which we can not increase because of the perpetual contracts with the bottlers which are binding upon both the Coca-Cola and Pepsi-Cola Co. for many years yet to come.

Both companies have contracts with jobbers at a fixed price which run through the year 1917, and so for this year every gallon of sirup which we manufacture must be sold at $1.11 per gallon. Without any tax at all we will be doing business at a loss. So whatever the tax is it will be but an additional loss.

I realize that every citizen must make a sacrifice for the country. We propose to stay in business even if we lose a great deal of money for the year 1917. I emphatically stated yesterday that I am not stating that we are going to be destroyed, because we can live on what we have saved in the past for one year even though we lose from 5 to 25 cents per gallon upon our product.

I had thought that a gross income tax of 2 per cent would be a very large and very onerous tax, and upon the business done by our companies last year a 2 per cent tax for the 7 months remaining from the 1st of June, 1917, to the 1st of January, 1918, would bring into the Government from our company alone approximately $110,000. By reason of the great difficulty, however, of obtaining ingredients, we will not be able to manufacture as much sirup from the 1st of June to the 1st of January as we did last year. Probably not more than two-fifths of what we sold for same months 1916. I doubt our capacity to obtain ingredients necessary to the making of exceeding 2,000,000 gallons of our sirup. At $1.11 per gallon, which is our limit, this would bring into the corporation $2,200,000. A 2 per cent tax upon this would be $44,000; a 4 per cent tax, $88,000; a 5 per cent tax, $110,000.

I therefore think that we should not be taxed more than 2 per cent. If the committee think this too low we earnestly beg that not exceeding 5 per cent be placed upon the soft-drink sirups. Five per cent is the maximum amount placed upon anything in the line of business in which we are engaged. Five per cent upon our selling price is really the largest tax assessed upon anything by this bill.

We shall not be slackers. We will do all the business that we can. We will manufacture every gallon of sirup and sell it that we can obtain ingredients with which to manufacture, and will pay to the Government the amount demanded, whether it be 2 per cent of our gross selling price or whether it be 5 per cent. All that we ask for is fairness and just consideration.

Very respectfully,

JOHN S. CANDLER,
Attorney for Coca-Cola Co. and Pepsi-Cola Co.

NEWBERN, CRAVEN COUNTY, N. C.

COST OF MANUFACTURING PEPSI-COLA SIRUP.

Figures are based upon present price of our material, which cost will be increased upon the passage of the House revenue bill at least 10 per cent. Without taking into account, however, this increase, the following statement is made upon cost of manufacturing Pepsi-Cola per gallon this day:

Material and labor	$0.74
Containers	.06
Freight and hauling	.07
Advertising	.13
Taxes, insurance, etc	.02
Salesmen and fixed overhead	.07
Total cost per gallon	1.09
Average selling price per gallon	1.18
Net profit per gallon	.09

A tax of 10 per cent ad valorem in return to the Government would be 11.8 cents per gallon. Deducting the present profit of 9 cents per gallon would leave a net loss of 2.8 cents per gallon.

The Pepsi-Cola Co. is under contract to furnish Pepsi-Cola sirup to all its bottlers and dealers at a price which averages $1.18 per gallon. This price can not be raised because of contracts made, which are binding upon the company. In my opinion a war tax of 2 per cent ad valorem would be fair and reasonable, and as much as any business should be called upon to contribute at this time, but the business could not possibly stand a tax of exceeding 5 per cent ad valorem.

Respectfully submitted.

THE PEPSI-COLA CO.
Per C. D. BRADHAM,
President.

(The brief of the Pepsi-Cola Co. referred to by Mr. Candler was subsequently submitted and is here printed in full, as follows:)

Representing the bottlers and carbonators of soft drinks represented by the bottlers' associations of the States of Virginia, North Carolina, South Carolina,

Georgia, Florida, and Alabama, I beg to call your attention to certain facts in connection with House revenue bill as they affect the same.

The bottlers in most instances have contracts with the larger manufacturers of certain sirups which are advertised extensively by these larger manufacturers and which are bottled and sold under various restrictions. In addition to the bottling of these several proprietary drinks most of these bottlers manufacture from fruit sirups their own sirups. This probably amounts to about one-half of the business as a whole.

Paragraph B of section 308 places upon all unfermented grape juices, artificial mineral waters not carbonated, and fermented liquors containing less than one-half of 1 per cent alcohol (known as near-beers) sold by the manufacturer, producer, or importer thereof in bottles or other closed containers, and upon all ginger ale, root beer, sarsaparilla, pop, and other carbonated waters or beverages manufactured or sold by the manufacturer, producer, or importer of the carbonic-acid gas used in carbonating the same, a tax of 2 cents per gallon.

Under this language it will require great study to determine whether the tax is upon the water used in carbonating these sirups or whether it is upon the completed article. The tax being stated as 2 cents per gallon, it would look as though it meant the finished product, but any number of articles mentioned in that paragraph are not carbonated in their dispensing. They are merely refrigerated as they are sold from the fountain, and therefore it is very hard to say just what is taxed and how taxed by this section. It is questionable whether the bottler or the soda fountain man who makes his own sirups pays a tax upon the sirup or pays a tax on the article as furnished to the dispenser. The committee in their report say that is upon the carbonated water. If that is right, then they will fail to collect any tax from a number of articles mentioned upon which a tax was intended to be put. This is but an illustration of the fact that few people really understand the soda fountain or bottling business.

Fermented liquors which contain less than one-half of 1 per cent of alcohol are not carbonated, but are merely refrigerated. Many of them are sold from kegs and barrels, as the parent lager beer is dispensed and sold. Much of it is sold from bottles, merely refrigerated and not carbonated.

I call attention to these matters that the law may be made clear and that everybody may know just what his obligations are under it and what duty is upon him.

The tax, if it is on the finished product, is excessive. The bottlers of these drinks over the country are not making now more than 10 per cent gross profit on their business. Most of these soft drinks when in bottles are sold at an average price of about 65 cents per case of 24 bottles, and it would seem that the fairer and more accurate way of taxing these bottled drinks would be to place a tax, not necessarily a stamp tax, but one which could be reported and returned the same as the tax proposed, of about 1 cent per case. That would get at least 10 per cent of the net profits of these, in the main, small manufacturers.

The bill does not stop, however, with placing a tax of 10 per cent on sirups which they manufacture—if it places any tax on them at all—and 2 per cent on their manufactured product per gallon, but in paragraph D of the same section it places a tax of 8 cents per pound upon all carbonic-acid gas used by them. This gas now sells at about 4 cents per pound.

This tax proposed would place upon a 6-cent article a 125 per cent gross tax. Such tax would mean that the bottlers of North Carolina would pay to the Government approximately $300,000 in taxes provided they did the same amount of business which they did in 1916.

Respectfully submitted.

John S. Candler,
Attorney for the Bottlers' Association of Virginia, North Carolina, South Carolina, Georgia, Florida, and Alabama.

COST SHEET FOR PRODUCING ONE CASE (2 DOZEN BOTTLES) OF BOTTLED COCA-COLA AS DELIVERED TO THE MERCHANTS.

	Per case.
Coca-Cola sirup at $1.20 per gallon makes 5 cases of goods at a cost of	$0.24
Crown stoppers at an average cost delivered of 33 cents per gross makes a cost of	.05¼
Carbonic acid gas at 6 cents per pound produces 6 cases to the pound, or a cost of	.01

	Per case.
Water power, etc., cost	$0.00½
Washing of bottles, bottling, and handling cost	.02
Selling and delivery of cases cost	.10
Overhead, including rent, taxes, management, etc., cost	.05
Depreciation, including wear and tear on equipment, loss of bottles, cases, accounts, and operation of trucks, figures	.07½
Making a total of	.55½
Average selling price taken from statement of numerous plants in various parts of the country is	.67
Average cost, as above	.55½
Net profit	.11½

COST SHEET FOR PRODUCING ONE GALLON OF COCA-COLA SIRUP, INCLUDING OVERHEAD CHARGES.

Materials and labor, cost per gallon	$0.73
Cooperage and containers, cost per gallon	.06
Freight and delivery, cost per gallon	.07
Advertising, cost per gallon	.09
Legal expense and taxes	.02
Salesmen and other overhead expense per gallon (not readily obtainable), approximately	.05
	1.02
Average net selling price	1.11
Profit	.09

NOTE.—All materials are figured at present prices, which are advancing almost daily. Labor item is based on last year's payroll. If proposed advance of 15 per cent in freight rates is granted it will add 1 cent per gallon to our costs, as under our selling plan we pay the freight. This rate advance would further increase cost of materials, notably sugar.

The CHAIRMAN. Anyone else desire to be heard on this paragraph relating to soft drinks and sirups?

Mr. WHITE. Yes, sir.

The CHAIRMAN. Go ahead, Mr. White.

STATEMENT OF MR. THOMAS R. WHITE, OF PHILADELPHIA, REPRESENTING THE CHARLES E. HIRES CO.

Mr. WHITE. Mr. Chairman and gentlemen, I represent the Charles E. Hires Co., of Philadelphia, which is the manufacturer of prepared sirups or extracts used as a foundation for the manufacture of root beer. I have nothing to say with regard to the amount of tax. Judge Candler has covered that very thoroughly. But I want to say a word as to the fact that the tax is discriminatory in the way it operates upon different manufacturers for reasons which doubtless were unknown to the framers of the bill.

The tax in section 308a is laid upon all prepared sirups or extracts. It may not be known to the members of the committee that some of these sirups or extracts are manufactured in what is called concentrated form and are shipped in that form to the dealer or dispenser or druggist. He then uses this concentrated extract with simple sirup, which he himself prepares, and forms a sirup which is used as the basis of the drink, and that he dispenses at the soda fountain. Other manufacturers prepare a sirup which is ready to serve. That is to say, it contains not only the various ingredients

which go into the proper extract which makes the flavor and contents of the drink, but also the sirup, and the law as it is phrased would tax one manufacturer upon the sugar and water which is contained in his product, whereas it would only tax the other upon the concentrated extract. Of course that would make it impossible for the one which happens to be competing with the other to compete successfully. We think that it should be phrased so that the tax should be based upon either the amount of extract used in making the sirup, which is probably the better way, or else upon the completed sirup which is ready to go into the drink; and with your permission we will file a short brief suggesting ways of correcting that.

In addition to that fact, it may not have also been known to the framers of the bill or the members of the committee that in very many cases a dealer makes up his own extract or sirup. By using what are called essential oils and flavors of various kinds, he can manufacture, for example, a root beer. It is usually an inferior quality of root beer, but nevertheless, it can be done, and is very extensively done. As the law is phrased there is no tax laid upon a flavor or extract so manufactured. It is only laid upon a prepared sirup or extract which is sold in that form by the manufacturer thereof. It seems to us that in order to prevent what is certain to happen—that is to say, every dealer turning to the other method of manufacturing the sirup himself—if this tax is laid and therefore the price is increased of the prepared sirups, some such change should be made.

We think that sirup also ought to be taxed just the same as the other and that words ought to be included in the section which in effect would make a prepared sirup or extract which is to be used as a basis for root beer or any of these other drinks subject to tax, whether it is manufactured and sold or whether it is manufactured and used by the manufacturer, because in either case the same result is reached.

Saying nothing as to the tax, because, of course, as I say, that has been covered, all that we ask is that it be made uniform so that neither ourselves nor any other manufacturer shall be discriminated against to such an extent that he would not be able to compete with those who are his competitors.

I will file a brief with the committee for printing in the record.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. White was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM ON BEHALF OF THE CHARLES E. HIRES CO., A MANUFACTURER OF SIRUP USED IN THE PRODUCTION OF HIRES ROOTBEER, PROPOSING AN AMENDMENT TO SECTION 308 OF A "BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, AND FOR OTHER PURPOSES."

It is the purpose of this memorandum to urge an amendment which will accomplish the following results:

1. Equalize the tax on prepared sirups or extracts so as to avoid discrimination, and incidentally increase the revenue derived from the tax.
2. Simplify the assessment and collection of the tax.

1. EQUALIZATION OF THE TAX AND INCREASE OF REVENUE.

Section 308(a) of the bill reads as follows:

"(a) Upon all prepared sirups or extracts (intended for use in the manufacture or production of beverages, commonly known as soft drinks, by soda foun-

tains, bottling establishments, and other similar places) sold by the manufacturer, producer, or importer thereof, a tax equivalent to ten per centum of the price for which so sold."

This tax would bear unequally upon those required to pay it. "Prepared sirups" and "extracts," evidently considered as equivalents, are in fact quite different, although intended for the same purpose.

A sirup, which is the form in which some manufacturers put up their product, consists of an "extract" to which is added simple sirup, i. e., sugar and water. This product is ready to serve by adding carbonated water.

Other manufacturers sell the product in the form of an extract, which consists of flavoring matter and other ingredients but to which the dispenser must add sugar and water, or simple sirup, before it is ready to serve.

Generally speaking, 1 gallon of concentrated extract will make 5 gallons of sirup.

It would be obviously unequal to impose upon the manufacturer of sirup a tax not only upon the extract which is the real basis of a soft drink, but also upon the sugar necessary to be added to make a sirup ready to serve, upon which a tax has already been paid, and to impose upon the manufacturer of extracts a tax upon the extract only. In the latter case the sugar added by the dispenser to make a sirup ready to serve would go untaxed.

The tax should be assessed upon the basis of the extract in all cases, but probably the best method of fixing its amount would be to levy a fixed price per gallon of finished sirup upon the manufacturer of extracts or sirups alike, the amount of the tax in the case of an extract being calculated upon the number of gallons of sirup the extract will make in accordance with its usual formula. It would be simpler and more certain to adopt this method than to attempt to resolve a sirup into terms of extract.

The tax is unequal for another reason. It is imposed only upon sirups or extracts which are "sold by the manufacturer, producer, or importer." The fact is that a very large proportion of sirups or extracts used in manufacturing soft drinks are made by the retail dealer himself. The dealer buys various products and flavors, which, when combined and added to simple sirup, form the basis of a drink which is sold as root beer, sarsaparilla, etc.

If a tax is imposed upon the products sold by the manufacturers, it will necessarily increase the expense of such products, and the local dealer, to escape this increased cost, will resort to the manufacture of his own product upon which no tax is imposed. It is not only unfair to tax the manufacturer who sells his product and allow the manufacturer who uses his product to go untaxed, but it will result in an injury to the public, for the product manufactured by the local dealer is invariably of an inferior quality.

We think the tax should be levied upon the manufacturer who uses his product as well as upon him who sells his product.

These suggestions would result in increasing the revenue from the tax because more manufacturers would be included.

We have another suggestion to make which would increase the revenue still more. A very large number of jobbers, dealers, and bottlers have purchased large quantities of extracts and sirups in anticipation of the passage of this bill. We think the tax could properly be extended to cover all such products which are in the hands of jobbers, retailers, bottlers, or others on the day this bill is passed.

2. A SIMPLER METHOD OF ASSESSMENT.

As the bill now stands, the tax is 10 per cent of the price for which the product is sold. Obviously the tax could not be assessed in this way against a manufacturer who does not sell but uses his product. It could not be assessed in this form so as to bear equally against the manufacturers of sirups and of extracts. Moreover, the selling price of sirups or extracts is very difficult to ascertain in advance as the price almost invariably depends upon the quantity taken by the purchaser during a given period, generally a year, and adjustments are made at the end of the year by which the price is finally fixed.

We suggest the avoidance of the difficulties above indicated by assessing the tax on the extract, but calculated at a fixed price per gallon upon sirup in its finished form; whether the extract and simple sirup are mixed by the manufacturer or by the local dealer is immaterial. Where the manufacturer sells a finished sirup there is no difficulty; where he sells an extract the tax would be fixed according to the amount of sirup such extract will make in accordance with its usual formula.

It was stated at the oral hearing that the average price of sirup was about 90 cents a gallon. We think it is a little more than this, but would suggest that a flat rate of 10 cents per gallon would be easy to assess and would almost certainly yield more revenue than the 10 per cent tax now in the bill.

If it should be suggested that a flat tax of 10 cents per gallon would be discriminative against those manufacturers who make a cheaper product, we reply that the price to the consumer of all drinks of this character is uniformly the same, to wit, 5 cents. The dispenser of drinks who purchases a cheap product, which he uses as the basis of such drinks, makes a larger profit but sells the drink at the same price. The average cost of a 5-cent drink dispensed at a soda fountain is a cent and a half. The profit in any case is large. The tax would ultimately be paid by the retail dealer, because the price of the drink can not be increased and the margin of profit is more than enough to cover it. Each manufacturer would add the tax to the price of the product. The relative cost would be the same as before and the profit of the retailer would still be ample.

In order to accomplish these results, we respectfully suggest that section 308(a) be amended so as to read as follows, the added words being italicized.

"(a) Upon all prepared sirups or extracts (intended for use in the manufacture or production of beverages, commonly known as soft drinks, by soda fountains, bottling establishments, and other similar places) sold by the manufacturer, producer, or importer thereof, *or used by the manufacturer or producer thereof in the manufacture of such beverages, or in the hands of jobbers, retailers, bottlers, or other persons at the date this act is passed, a tax of ten cents on each gallon of such sirup or extract in form ready to serve by the addition of carbonated water only, or, if sold in concentrated form, a tax equal to ten cents for each gallon of such sirup which will be produced from said concentrated extract according to its usual formula.*"

The CHAIRMAN. Mr. Mitchell, we will hear you with reference to soft drinks.

STATEMENT OF MR. F. EDWARD MITCHELL, OF WASHINGTON, D. C., REPRESENTING THE CHERO-COLA CO., OF COLUMBUS, GA.

Mr. MITCHELL. Mr. Chairman and gentlemen, I represent the Chero-Cola Co., of Columbus, Ga. I desire to say to you that the arguments why this tax should not be imposed upon the small soft-drink dealers have well been made before you by Mr. Candler, the first speaker this afternoon. I would say that a country can demand no more from a man than his life, and a patriot offers his life for his country at any time. The imposition of this tax upon these small bottlers means the life of the organization, and that life is given, too, without doing the country that good which is intended and which should flow from such a sacrifice.

For the information of the committee I will file a brief with the clerk for printing in the proceedings.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Mitchell was subsequently submitted and is here printed in full, as follows:)

BRIEF ON BEHALF OF CHERO-COLA CO., NATIONAL BEVERAGE CO., AND CHARLES J. SPRINGER, OPPOSING THREE SEPARATE WAR TAXES ON SOFT DRINKS.

The honorable the chairman and members of the Finance Committee of the United States Senate.

GENTLEMEN: The tax of 10 per cent of the selling price on soft-drink sirups and extracts provided for by section 308 of bill H. R. 4280 is opposed for the following reasons:

1. The ingredients used in making soft-drink sirups and extracts are sugar, burnt sugar, glycerine, alcohol, phosphoric acid, essential oils, and extracts or derivatives of tea, tropical seeds, beans, and nuts. These, excepting alcohol and

phosphoric acid, are imported products, and under section 1000 of the bill are all subject to an increased customs duty of 10 per cent ad valorem.

2. Under section 300, alcohol, which is largely used in making the flavoring extracts of soft-drink sirups, is subject to an increased tax of $2.13 per gallon ($1.10 per proof gallon).

3. The new taxes and customs duties on the materials from which soft-drink sirups are made will amount to practically exactly 10 per cent of the price at which such sirups are sold.

4. The proposed additional tax of 10 per cent on the finished sirup will make the total tax levied thereon 20 per cent of the selling price.

5. The profit on soft-drink sirups and extracts is now less than 10 per cent.

6. Paragraph *d* of section 308 provides for still a third tax on soft drinks, which to facilitate collection is in the form of a special tax of 8 cents per pound on the carbonic acid gas used in carbonating the beverages, and this is approximately equivalent to the tax on the sirup and extract.

7. Soft-drink sirups are sold to bottlers and other distributors at a price fixed by existing contracts, most of which are of years' standing, so that no part of the sirup tax can be passed along to the distributor. However, even if it could be, the increased cost of bottles, crowns, and labor has already reduced the bottler's profit to a minimum. He will have a sufficient tax burden to bear in the 8 cents per pound tax on carbonating gas.

8. Irrespective of existing contracts between sirup manufacturers and distributors no part of the sirup tax can be passed along to the consumer, for the reason that soft drinks have always been sold at the uniform price of 5 cents, and experience, since long prior to the Civil War, has shown that the public will not pay more for them. If salable at all at a higher price, they would be sold in too small quantities to yield any considerable amount of tax.

9. The cost of soft-drink sirups and extracts can not, as a practical matter, be lessened by changing their composition. Even slight alterations in composition destroy the taste identity of the beverage, and if the strength of the sirup is lessened the resulting beverage is insipid and unsalable.

10. Within the narrow limits between the present high cost of materials and the fixed selling price of 5 cents there is no room for a tax of 10 per cent on the selling price of sirups in addition to the 10 per cent increased customs duty on sirup ingredients, an additional tax of $2.13 per gallon on alcohol, and the 8 cents per pound tax on carbonating gas.

SOFT-DRINK BUSINESS IN GRAVE DANGER, IRRESPECTIVE OF WAR TAX.

The successful manufacture of soft-drink sirups, extracts, and beverages is, under normal conditions, a business involving a very large volume of sales at a very small percentage profit. Sugar, burnt sugar, glycerine, phosphoric acid, essential oils, and derivatives of tea, tropical seeds, beans, and nuts from which sirups are made have doubled in price, and the cost of some of these ingredients has more than quadrupled. The position of the soft-drink sirup manufacturer is already precarious, owing to such increased cost of materials.

The effect of the imposition of the sirup tax, as provided in bill H. R. 4280, is succinctly set forth in the following telegram from one of the large soft-drink sirup manufacturers:

MAY 11, 1917.

C. L. PARKER,
Washington, D. C.:

Yesterday's special delivery tells tale in exact figures of operating soft-drink business under present war market conditions. We presume revenue bill will be passed, but if confiscatory can be but little revenue from soft-drink source. In view of prospective alcohol tax, increased essential oil duty, quadrupled cost on glycerine, and double cost on sugar, constituting principal soft-drink ingredients, it would be unfair and unwise to add further direct tax on soft drinks or soft-drink sirups. Only equitable basis upon which soft-drink bottlers or manufacturers can participate is by tax on net income. Many are operating on even or loss basis under present war markets. Under proposed direct sirup or soft-drink tax few could continue business. We urgently favor tax on net income basis.

CHERO-COLA CO.,
C. A. HATCHER, *President.*

The soft-drink sirup and extract manufacturers will bear their full share of the war tax in the 100 per cent increased tax on alcohol, and the 10 per cent

increased customs duties on the other materials from which their sirups are made. To levy an additional tax on their products will be to multiply their burdens out of all proportions to those placed upon the backs of other manufacturers and to force them to do business not only at a loss, but at a very material loss, or force them out of business altogether.

Very respectfully,

C. L. PARKER.
F. E. MITCHELL,
Attorneys for Chero-Cola Co.,
National Beverage Co., and Charles J. Springer.

WASHINGTON, D. C., *May 15, 1917.*

Mr. MITCHELL. The burden of taxation should not be escaped by any man, and will not be escaped by these gentlemen because of the fact that the burden is well carried by the ingredients which go to make up the article of manufacture, which we will point out in a brief to be filed later with your committee. But the consumer pays the added price in most productions, while in the case of soft drinks that can not be so, because of the fact that necessities we must have, but beverages we can do without. You can not ask more than 5 cents for the soft drink, and as soon as you put the possibility of manufacture beyond 5 cents, the manufacturer must go out of business, and I know you do not desire that from any of our organizations. I urge that in considering the question of taxation, you also consider it from the standpoint of these companies who desire to live and desire to serve their country, and at the same time to carry such burdens as the people place upon their shoulders.

The CHAIRMAN. The next is "Soda-water flavors." First we will hear Mr. Hutchinson.

Sec. 308 (a). SODA-WATER FLAVORS.

STATEMENT OF MR. DOUGLAS W. HUTCHINSON, OF CHICAGO, REPRESENTING THE NATIONAL MANUFACTURERS OF SODA-WATER FLAVORS.

Mr. HUTCHINSON. Mr. Chairman and gentlemen, I represent the National Manufacturers of Soda-Water Flavors. Our line of business is but little understood. We have usually been called extract manufacturers. We manufacture one kind of extracts; that is to say, extracts and flavors for bottled soda waters. There are two branches of the soda-water business—one the soda-water dispenser will sell his goods at the soda fountain. He uses pure fruit sirups. He carbonates his water and is a manufacturer, but we do not sell extracts for flavoring his sirups. The dispenser, as you probably know, retails his goods at 5 and 10 and even 15 cents a glass, sometimes with ice cream and with crushed fruits, etc., and there is not necessarily a fixed limit to what he charges.

The soda-water bottler is an entirely separate and distinct industry. He can not use pure fruit sirups, because they will clog and form a sediment in his goods. In bottled soda waters the beverage must be crystal clear—lemon, sarsaparilla, root beer, strawberry, ginger ale. If these goods were cloudy in the bottle or showed the sediment, they could not be sold at all. They must be clear. Consequently a special form of extract must be made for flavoring these beverages, an extract which must be soluble in the finished beverage.

It is the production of that class of extracts in which we are interested.

Why should we be distinguished from other extract manufacturers? Why should we be charged a tax of 10 per cent on the selling price of our goods, when the manufacturer of extracts for confectionery, for ice cream, for bakery goods, and everything of that kind goes free of taxation? The largest, and most expensive, perhaps, ingredient in most of our goods is cologne spirits—alcohol of 190 proof—upon which we already pay a tax of about $2.10 per gallon. Our soda-water flavors contain, per gallon, 50 to 80 per cent of cologne spirits, so that you can readily see that we are at the present time taxed under the old law from $1.10 to $1.75 per gallon. Under the new law that tax is doubled. One of the gentlemen said a little while ago, speaking of extracts and speaking for the druggists, that alcohol should be exempt if used for any other purpose but beverages. Gentlemen, it should be exempt in our case if used for nonintoxicating beverages. Why should alcohol used in making a lemon flavor for lemon soda be double taxed?

Furthermore, gentlemen, I will say that we also have to pay the added tax on all importations of lemon oil, orange oil, and everything of that character.

Our goods are sold to the manufacturers of bottled soda waters, and the largest price that he can possibly get for his goods, as proven by experience, even during the Civil War, shortly before which the bottled-beverage business started, has been 5 cents per bottle. That is the limit. Those goods can not be sold in large quantities for more than 5 cents per bottle. That little bottle, of which Mr. Candler spoke, it limited absolutely to that price, and on a case of 24 bottles of half-pints the limit which you can reach in selling them to the retailer is 75 cents per case for the 24 bottles. That is 3 cents per bottle. We are in the position where we can not pass the tax along. Can we charge $2 or $3 more a gallon for our soda-water flavors and exact it from this little bottler who uses it in his goods which he sells for 3 cents a half pint and which in turn retails for 5 cents a bottle? This little bottler must absorb it all, and under the proposed tax which he is up against under this bill he simply can not exist, because he is taxed 10 per cent additional on his sirup, 10 per cent on all his importations, 8 cents per pound on his carbonic-acid gas, and 2 cents per gallon on soda water. If he has to pay more for his flavoring you can easily see it will be utterly impossible for him to continue in business successfully. I will file with the committee a brief with reference to this matter.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Hutchinson was subsequently submitted and is here printed in full, as follows:)

BRIEF SUBMITTED BY THE NATIONAL MANUFACTURERS OF SODA-WATER FLAVORS.

WASHINGTON, D. C., *May 11, 1917.*

HON. F. M. SIMMONS, CHAIRMAN, AND SENATORS OF THE FINANCE COMMITTEE OF THE UNITED STATES SENATE.

GENTLEMEN: In framing revenue bill, wish you would carefully consider the position of the manufacturers of soda-water flavors. The soft-drink industry has many angles to it, and we occupy a position very closely associated with the bottler of bottled soda water.

We are willing to pay our share of war taxes, but not excessively. We manufacture soda-water flavors exclusively for soda-water bottlers. We do not manufacture extracts for culinary purposes. There is a difference. About 75 firms are engaged in the manufacture of soda-water flavors, of which 35 belong to our association. The total business on soda-water flavors of all these firms does not exceed $750,000 a year. A great many manufacture other products also.

By taking present average selling price of one staple, lemon soda-water flavor, we can best illustrate our position on the present and proposed tax:

Present average selling price of lemon soda-water flavor......per gallon..	$4.50
Present tax on cologne spirits used in the manufacture of same....do....	1.05
Present import tax on lemon oil used for same in 1 gallon..............	.09
Total present tax now being paid on each gallon of lemon soda-water flavor..............	1.14
(This is about 26 per cent on present selling price of each gallon.)	
Proposed tax on cologne spirits used in each gallon of lemon soda-water flavor..............	2.10
Proposed tax on lemon oil used in 1 gallon..............	.18
10 per cent tax on new selling price of $7 per gallon soda-water flavor...	.70
Total proposed tax on each gallon of lemon soda-water flavor.....	2.98

This is a tax of 43 per cent on the selling price for each gallon of lemon soda-water flavor. Other flavors carrying as high as 80 per cent cologne spirits pay higher taxes. Lemon extract, upon which we gave you our example is composed of about 50 per cent cologne spirits.

A tax of 43 per cent for any manufacturer to pay on the selling price of his product is certainly excessive. There is no other industry taxed so heavily.

This heavily taxed soda-water flavor is used for making soda-water sirup, which is then used for making bottled soda water, and this sirup is then again taxed 10 per cent. This does not seem to be sufficient, so the finished soda water made from this heavily taxed sirup and extract is again taxed 2 cents per gallon. To make matters still worse, the gas used for making bottled soda water is taxed 8 cents per pound. This levies a tax on every stage in the manufacture of bottled soda water. You will put the soda-water bottler out of business. If he goes, we go.

As stated above, the entire yearly sales of soda-water flavors are approximately $750,000. The 10 per cent tax on selling price would only bring about $75,000. That is, if present business continues; but if taxes cut down this business, then the revenue suffers likewise. If you absolutely insist on levying a tax on the finished extract, then a tax of so much per gallon would be considered better than a 10 per cent tax. The $75,000 revenue does not amount to much to the Government, but it does to the few manufacturers. If all the proposed taxes on this industry are levied, instead of increasing it will decrease revenue derived from soda-water flavors.

It will force the bottler wherever possible and the soda-water dispenser to make his own sirups, thus depriving the Government of revenue and crippling our industry. The proposed law levies no tax on bottlers or soda water fountain dispensers making their own extracts and sirups, but only upon the sale of flavors and sirups. This consequently will reduce the revenue now being received, and as stated before, cripple our business if not kill it entirely. We would rather pay a heavy excess income tax during the war and have our business intact after the war than to now have the taxes so unjustly assessed as to cripple it forever.

Do not jump on the soft-drink industry too heavily to begin with. Tax it gradually. You are now taxing every item used in it, including sugar, and also every stage of operation.

Furthermore, it is the custom to sell future orders during the fall for delivery the following spring and summer. If all these taxes are levied, business of this kind must be delivered at great loss to the manufacturer, as they can not legally assess this against the purchaser.

You are proposing to tax automobiles 5 per cent, chewing gum 5 per cent, cosmetics 5 per cent. Our industry that is now paying 26 per cent tax you intend to tax 43 per cent. Is this justice?

Alcohol used for all manufacturing purposes, arts, etc., and not for intoxicating liquors, should not be doubled. It should remain the same. Then if you assess a tax on finished soda-water flavor it would not be so excessive, or if you must raise tax on cologne spirits, raise it 50 per cent instead of 100 per cent and cut out tax on finished product. We think, however, that the industry will pay enough tax without raising tax on cologne spirits and assessing 10 per cent on sale price. Every product, including sugar, that is now used in making soda-water flavors bears a heavy tax. This industry is not like the liquor industry whose taxes, on account of prohibition, you are levying against it, and we and the bottlers can not stand it. It will simply put us out of business. Again we state, do not confuse us with the culinary extract manufacturers, for we cater to soda-water trade exclusively.

Do the members of the committee know of many, or, for that matter, any bottlers in their district that have grown rich? Can they stand additional heavy taxes? It is not in the business.

Respectfully submitted.

NATIONAL MANUFACTURERS OF SODAWATER FLAVORS.
W. F. MEYER, *President.*

Address: Care of Warner Jenkinson Co., St. Louis, Mo.

WASHINGTON, D. C., *May 11, 1917.*

Hon. F. M. SIMMONS,
Chairman Finance Committee, United States Senate.

GENTLEMEN: Most taxes are ultimately paid by the consumer; these proposed taxes would have to be paid by the soda-water bottler, who of all men is least able to pay them, because the retail price of 5 cents per half-pint bottle of soda water is unalterably fixed.

Bottled soda water originated just prior to the War of the Rebellion. During the strenuous conditions of war time, and ever since, the retail price of over 95 per cent of bottled soda water has been 5 cents per half-pint bottle, and that is the limit of the retail price unless a new standard coin of 6 or 7½ cents is minted to replace the present nickle. The limit of wholesale price for a case of 24 one-half pint bottles of soda water is 75 cents, or a fraction over 3 cents per bottle. This yields the retailer a gross margin of 45 cents for making 24 individual sales, icing and serving the beverage; he can not be induced to handle it for less, in fact many dealers now selling bottled soda water will abandon it if they have to pay as much as 75 cents per case.

The bottler, for this maximum price of 75 cents per case, must equip his plant with a carbonator and bottling machinery; machinery for soaking, washing, and sterilizing his bottles; auto trucks or delivery wagons; bottles, cases, etc. He must collect the empty bottles, transport them to his plant, wash and sterilize them, manufacture his beverages, refill his bottles, and repack them in cases, and deliver the goods free of cartage, express, or freight charges to all customers within a radius of 50 miles.

In normal times his price per case averaged from 40 to 50 cents per case, and if his business showed an average net profit of 5 to 7½ cents per case, one year with another, he was indeed fortunate. Most small bottlers barely succeeded in making a living.

This was on the basis of 5 cents per pound for sugar, $4 to $5 per gallon for flavors, 55 cents per gallon for sugar coloring, 35 cents per pound for citric acid, 4 cents per pound for carbonic-acid gas, $3 per gross for bottles, 18 cents each for city delivery cases, and 20 cents per gross for bottle caps.

Since 1914 costs of the items above mentioned have advanced to 10 cents per pound for sugar, $4.50 to $7 per gallon for flavors, 85 cents per gallon for sugar coloring, 85 cents per pound for citric acid, $5 per gross for bottles, 27 cents each for city delivery cases, and 30 cents per gross for bottle caps.

Because of these advances in cost of materials the average price of bottled soda water has risen to from 60 cents to 70 cents per case of 24 one-half pint bottles, leaving a very small margin for taxation, even if his business could be conducted on the same basis of expense as formerly. But increased taxation on expense items, such as freight and express charges, postage, advertising, and countless other items which can not be accurately estimated, will reduce this margain for taxation on his materials and finished product still further.

The proposed new war revenue law proposes to tax the bottler either directly or indirectly 10 per cent on sugar (import duty), 10 per cent on citric acid

(import duty), 10 per cent on manufactured sirups, 50 per cent on flavors or extracts, 8 cents per pound on his gas, and 2 cents per gallon on his finished product, amounting in all to about 60 per cent advance in the cost of the materials used in his product.

His business will not stand this burden, and instead of producing revenue for the Government, he will be compelled to liquidate his business, or become bankrupt. This proposed taxation must be moderated to a point where the industry can bear it, or the object of the tax, producing revenue, will be defeated.

SODA-WATER FLAVORS.

Soda-water flavors or soluble extracts for flavoring soda water contain from 50 to 80 per cent of cologne spirits, which is already taxed about $2.10 per gallon, the imported essential oils and other flavoring material, pay an import duty of 10 per cent and upward, so that the soda-water flavors already bear taxation to the extent of from 25 per cent to 30 per cent of their selling price. It is proposed to double the tax on cologne spirits, double the duty on all imported ingredients, and add on top of that a direct tax of 10 per cent of the selling price, which will mean a total taxation on the selling price of over 50 per cent, compelling an advance in the prices of from $2 to $3 per gallon.

There can be only one result. The soda-water bottler, who is the only user of these goods, already overburdened, can not stand this increased price and the manufacture of soda-water flavors as a business will be eliminated. Again the law defeats itself, as under such circumstances it can not produce revenue.

Why should flavors for soda water be directly taxed and flavors for confectionery and ice cream be exempt?

Why should soda water, especially bottled soda water, which is least able to bear the burden, be taxed and confectionery and ice cream be exempt?

Speaking for my firm and associates, I respectfully petition:

1. That the proposed tax of 2 cents per gallon on 5-cent packages of bottled soda water be withdrawn, and other taxes bearing upon bottled soda water be modified.

2. That the proposed additional tax on cologne spirits (100 proof) of about $2.10 per gallon, be withdrawn on spirits used in the manufacture of flavoring extracts of all kinds (including soda-water flavors)—or that it at least be reduced one-half.

3. That if the tax on cologne spirits be not entirely withdrawn as applying to its use in soda-water flavors, that the direct tax of 10 per cent on soda-water flavors be withdrawn.

We are willing to pay our share of taxation. When our young men are asked to go to the front and offer their lives for their country, anyone not willing to support the country financially to the extent of his ability is not worthy to be called an American.

Tax us to the degree that will yield the most revenue, which in my opinion, based upon long practical experience in this business, is limited to the rates remaining if this petition is granted.

D. W. HUTCHINSON.

Since dictating above, I have been informed that a correct interpretation of the proposed law does not compel the soda-water manufacturer to pay both the 2 cents per gallon tax and the carbonic-acid gas tax, but that those two taxes are alternative. The bottler paying the 2 cents per gallon tax if he makes his own gas, but not paying that tax if he buys his gas. Otherwise I believe all my statements are correct.

ADDITIONAL BRIEFS RELATING TO SIRUPS AND EXTRACTS FILED WITH THE COMMITTEE.

Brief by Mr. S. H. Mutch, of Whittle & Mutch, Philadelphia.

Hon. F. M. SIMMONS,
Chairman Finance Committee of the United States Senate.

GENTLEMEN: We ask for momentary consideration of the schedule of proposed taxes as they affect the manufacture of soda-water flavors or extracts.

We believe that heavy taxation of luxuries is proper at this time, but as the measure referred to is designed to be a revenue producer, we think it most proper and patriotic to call your attention to the almost prohibitive character of the effect of the sum total of the proposed taxes affecting our industry.

Our flavors and extracts are used exclusively in the production of bottled soda water. This latter sells at a fixed popular price, and the size of its containers may not be changed.

It is then the bottlers of soda water to whom we must sell, and of whom we would be forced to ask advances covering increased duty on essential oils, vanilla beans, etc.; increase tax on cologne spirits; tax 10 per cent on our manufactured flavors and extracts. These, we estimate, would force a raise in price of a gallon of extract now selling at $6 to about $9 and would, in our judgment, reduce the number of sales one-half, as our product may not be classed as a necessity. Thus the amount of revenue collected under the proposed taxes would be appreciably lessened.

Respectfully submitted.

S. H. Mutch,
Of Whittle & Mutch, Philadelphia, Pa., and Vice President National Manufacturers of Soda Water Flavors.

The Chairman. The next we have is "Fruit sirups." Mr. Cumming, you may proceed.

Sec. 308 (a). FRUIT SIRUPS.

STATEMENT OF MR. H. T. CUMMING, OF ROCHESTER, N. Y.

Mr. Cumming. Mr. Chairman and gentlemen, I represent one of the large manufacturers of fruit sirups for use at the soda fountain. I had intended to speak some on the unfairness and the extent of the tax, which has already been covered, and so I will eliminate that. But it does seem to me there is one fundamental thing that ought to be taken into consideration that has been overlooked.

Obviously there is being a tremendous effort made to raise money, and it seems wise to take some of it from the soda fountain. A knowledge of the facts connected with the soda-fountain industry is found to prove that a large part of this anticipated income from this tax as proposed, is never going to be realized. That is true, because, by placing the tax on sirups, it is assumed that those sirups are made by manufacturers. It is true, as Judge Candler said, that possibly three-quarters of these sirups are made by the dispensers, and there is no agency of the Government that could possibly get at all of these 50,000 dispensers to collect the tax. Therefore, in the very beginning we must divide by two, at least, this anticipated tax.

In the second place, the tendency of this tax is going to be to drive more and more dispensers into making their own sirups and avoiding the manufacturer, and therefore reduce that tax which you anticipate getting from the manufacturer.

So it seems to me it is important to realize that while the fundamental object is to raise money, here it is bound to do just the opposite, because it is going to at least tend to drive the manufacturers, from whom you expect to get the tax, out of the business, and those people will make the sirups who can not now be reached.

The Chairman. Now we come to "Carbonic acid gas." First we will hear Mr. Brackett.

Sec. 308 (D). CARBONIC ACID GAS.

STATEMENT OF MR. EDGAR T. BRACKETT, OF SARATOGA SPRINGS, N. Y.

Mr. Brackett. Mr. Chairman, I have long recognized that the best and the most satisfactory place for a boil is on the other fellow's anatomy. I can not help but believe that we all have a little of that feeling as we come to present our various causes here.

I came down charged with patriotism and earnest intent to tell this committee that we proposed to do our full share in the support of the Government and the raising of taxes. As I have sat here this forenoon I made up my mind I can safely leave it to this committee to see to it that we do pay our full share, and I have no doubt that they can do it.

The carbonic acid gas business, if the committee please, is a business which perhaps the members of the committee do not fully understand. The average price of gas for the last three or four years has been 4 cents a pound. This gas is compressed into liquid form and sold by the pound in heavy steel tube containers, being sent all over the country, and taking the place of the old-fashioned machine in the druggist's cellar where, with sulphuric acid and marble dust, he manufactured it locally. The proposition here is to put a tax of 8 cents a pound upon each liquid pound of this gas. Bear in mind that this is not an increase of 200 per cent on any previous tax. There is no tax on it now. It is simply taking a product, not alcoholic, as to which no police regulation of any kind is needed, and, this being purely considered as a revenue measure, it is taking a product which is now selling at 4 cents a pound and saying, "You must pay 8 cents a pound tax, or 200 per cent more than the entire selling price of the product." Mr. Brunker, who is thoroughly familiar with all the technique of the manufacture, and vice president of the Compressed Gas Manufacturers' Association in America and president of one of the largest manufacturing companies in the country, will present the technical side of it. All that I wish to say in initiation of the argument that it must be pat, without any argument, it seems to me, that a product, a pound of which has sold for years for but 4 cents, can not be expected to quite bear a burden of an 8 cents per pound tax.

The CHAIRMAN. Now, Mr. Brunker, we will hear you.

STATEMENT OF MR. A. R. BRUNKER, VICE PRESIDENT OF THE COMPRESSED GAS MANUFACTURERS' ASSOCIATION.

Mr. BRUNKER. Mr. President, I am vice president of the Compressed Gas Manufacturers' Association of the United States. It is not necessary for me, I believe, to go into the technical side of this proposition. There are merely two points which I wish to present for the consideration of the committee.

This industry, which is made up of 40 or 50 different concerns, has been producing about 50,000,000 pounds of gas a year at the selling price—total gross selling price—of 4 cents a pound. The House committee has arbitrarily, I think, without a full understanding of the character of the business or of the product, put a tax of 8 cents a pound on an industry which, at the rate of 50,000,000 pounds a year and 4 cents a pound, has a total in gross sales of only $2,000,000 annually, to which we are now expected to add a $4,000,000 tax, which would presumably be passed on to the consumer, but which in this case, for two reasons, can not be passed on.

First, it can not be passed on for the reason and on account of the fact that we are dealing with people of extremely limited financial

resources, so that the business is largely curtailed, even on its present price basis, because of our inability to extend credit to any considerable extent to these people. If we are compelled to charge $6 for a 50-pound drum of gas which now sells for $2 that will, at a conservative estimate, reduce the consumption probably 80 per cent, or to about 20 per cent of the present output and consumption.

A second factor is that the business has for a number of years been contracted a long distance ahead, so that we will be compelled ourselves, having no saving clauses in the contract, to pay an 8-cent tax on a product for which we obtain 4 cents.

This is a product, further, gentlemen, that is not limited in any way to the bottling business. It has to do with things that are very pertinent to the present war situation, and for that reason, the industry producing it should not be crippled to the extent that is proposed here. This is used in the manufacture of aspirin and other drugs of that kind, which are vitally needed, and is used in the manufacture of explosives, rubber goods, refrigeration, and a number of other minor lines.

May I repeat, to sum the thing up, that a duty has arbitrarily been assessed on a business which represents only a six million dollar investment throughout the entire country and two million dollars gross business. It is proposed to assess this business with a four million dollar tax, and it is proposed to do it on an arbitrary 8 cents a pound basis, when on things like chewing gum and similar articles, which are pure luxuries, a 5 per cent ad valorem duty has been assessed, and on automobiles a 5 per cent ad valorem duty has been assessed, and on sirups and things of that kind a 10 per cent duty. I respectfully beg of you gentlemen that you will apply the ad valorem principle to this commodity exactly as you have done on the other things to which it is exactly similar to the extent that not more than a 5 per cent ad valorem duty instead of a tax of 8 cents a pound, as is now proposed.

The CHAIRMAN. Do I understand you to say this gas is sold for 4 cents a pound?

Mr. BRUNKER. Yes, sir; 4 cents a pound, and arbitrarily the House has departed from the ad valorem principle, and has assessed an 8 cents a pound duty. We do not need to do any more in this case than merely present a few of these essential figures, and rest our case on that.

I will submit briefs to the clerk of your committee in regard to this matter.

The CHAIRMAN. They will be printed.

(The briefs referred to by Mr. Brunker were subsequently submitted and are here printed in full, as follows:)

MEMORANDUM ON BEHALF OF THE CARBONIC-ACID GAS INDUSTRIES.

While not precisely accurate, the following figures are approximately a correct summary of the compressed carbonic-acid gas industry in the United States:

The entire capital employed in the United States is $6,000,000.

The annual gross sales are $2,000,000.

The number of pounds sold per annum, about 50,000,000.

The average selling price is, as near as can be ascertained, 4 cents per pound. This does not mean that a greater sum is not paid by many purchasers. The

small consumer, who takes but one tube and keeps it many months before returning, is required to pay a greater sum than the dealer who takes a large amount and turns his tubes back in a very short time, but the average is as stated.

The carbonic acid gas, having been manufactured and placed in holders, is put under great pressure until it is liquified and is then put in strong steel tubes and shipped to the trade over the entire country.

These tubes hold either 20 pounds of the compressed gas, or 50 pounds, making the price of the tube, at the average rate per pound, for a 20-pound tube, 80 cents; for a 50-pound tube, $2.

The House bill proposes to impose a flat tax of 8 cents a pound, which would add $1.60 cents to the cost of every 20-pound tube and $4 to the cost of every 50-pound tube.

It need hardly be said that the imposition of a tax of this magnitude—a tax amounting to 200 per cent, not of increase over any previous tax, but 200 per cent of the amount for which the entire product is now sold—would be ruinous. There is no other such extreme case in the bill.

Counsel sat last Friday and heard various protesting interests arguing that the tax imposed against them, severally, would be ruinous. A moment's consideration must demonstrate that here the claim is well founded.

It is urged in defense of the House bill that this tax can be "passed on" to the customer, and that the gas companies will be merely making collection for the Government. There are two answers to this:

1. The tax can not be "passed on." The great bulk of the purchasers are men of very small means and very poor credit risks. The gas companies, under the bill, will be required to report each month, and, of course, are guarantors to the Government of the tax. There will be a large proportion of the tax that can never be collected from their customers. The alternative would be not to sell, and thereby largely to reduce the business.

2. Using the gas companies as an instrument to collect the tax and compelling them to guarantee its payment is placing on them a burden beyond the point that they can bear.

The gas company which requires for use in its business, say, a $150,000 "bank roll," selling its product at 4 cents a pound, even if it could collect the 8 cents a pound additional imposed by the tax, is required to have approximately $300,000 more with which to conduct its business. The companies can neither secure such amounts, nor stand the strain of paying interest thereon, if they can borrow.

The bulk of the sales are made under yearly contracts and it is probable, although as to this no accurate estimate has been made, that the great bulk of the business for the coming year is already contracted.

The imposition of 8 cents a pound upon gas thus contracted to be sold for 4 cents, would mean immediately, receiverships for the companies.

As nearly as can be ascertained the proposition to thus burden the gas companies originated with the bottlers associations. The latter, fearing that the tax might strike them, entered a very earnest campaign to put the blister on the other fellow, and thus far have apparently succeeded. A card sent out by one of such associations will, it is hoped, be presented with this brief.

Protesting themselves just as loyal as did all of the other persons appearing before the committee in opposition to various provisions of the House bill, just as willing to bear their proper share of the burden of extraordinary taxation made necessary by the war, the gas companies protest against the tax suggested in the House bill, and instead and in lieu thereof suggest an ad valorem of such a per cent as the committee feels the industry ought to bear.

Under the bill automobiles are taxed 5 per cent (p. 25, line 25).

Chewing gum is taxed 5 per cent (p. 28, line 10).

Steam yachts are taxed 5 per cent (p. 27, line 4).

The gas industries can, we believe, stand a tax of 5 per cent on the selling price.

It is urgent pressed upon the committee that the ad valorem principle be adopted with respect to their product and that the sum adjusted be fixed.

If the committee shall go beyond the 5 per cent ad valorem, the industry will do just the best that it can to meet whatever tax is imposed, but it is certain that the ad valorem principle is the proper one to be applied in this case.

The following amendment is suggested to the House bill, to wit: On page 15, line 6, strike out the words "a tax of 8 cents per pound" and insert in place

thereof "a tax equivalent to 5 per cent of the purchase price for which so sold."

All of which is very respectfully submitted.

Saratoga Springs, N. Y., May 14, 1917.

COMPRESSED GAS MANUFACTURING ASSOCIATION,
By A. R. BRUNKER, *First Vice President.*

LIQUID CARBONIC CO.,
By CHARLES MINSHALL,
Chairman Executive Committee.

GENERAL CARBONIC CO.,
By HARRY C. PETTEE, *General Manager.*

HIRAM TODD,
EDGAR T. BRACKETT.
Of Counsel.

MEMORANDUM ON BEHALF OF THE CARBONIC ACID GAS INDUSTRIES.

To the SENATE FINANCE COMMITTEE:

H. R. 4280, page 15, beginning line 3, paragraph (d), proposing a tax of 8 cents per pound.

The facts are as follows:

Entire invested capital in United States, $6,000,000.
Annual gross sales, entire industry, $2,000,000.
Number pounds sold per annum, estimated, 50,000,000 pounds.
Average selling price, estimated, net, 4 cents per pound.
Proposed tax, 8 cents per pound.
Amount of tax that would have to be paid, $4,000,000.
Tax on industry would be 200 per cent.
Average customer for 50-pound drum pays $2.
Same customer would have to pay $6.
Majority customers have small capital and are poor credit risks.
Trade demands yearly contracts; usually dated April 1.
Estimated 75 per cent this year's sales already under contract. This means at least 35,000,000 pounds.
35,000,000 pounds at 8 cents, $2,800,000.
Gross sales prior to any tax, $2,000,000.
Inevitable result, practical obliteration of gas business or bankruptcy.

We have advocated as just to the industry an ad valorem tax in keeping with the same policy that placed such taxes on other semiluxuries, and also on the other component parts of soft drinks, which are now on an ad valorem basis, in no case exceeding 10 per cent, in the proposed bill.

Ad valorem principle in our judgment is the only just one to use. A tax per pound for trade reasons involves complications in collection and with the trade. Ad valorem principle simple, easy to verify, and involves the least trouble and expense all around.

Respectfully submitted:

COMPRESSED GAS MANUFACTURERS' ASSOCIATION,
By A. R. BRUNKER, *First Vice President.*

The CHAIRMAN. Now, Mr. Morris, you are next.

STATEMENT OF MR. ROBERT C. MORRIS, OF NEW YORK CITY, REPRESENTING THE NATURAL CARBONIC GAS CO.

Mr. MORRIS. Mr. Chairman and gentlemen, my name is Robert C. Morris, and my address is 27 Pine Street, New York.

The company which I represent sells between 3,000,000 and 4,000,000 pounds of these goods a year. The average upon which it sells is 5 cents. The average of the whole business has been said by Mr. Brunker to be 4 cents. We, as a matter of fact, receive 5

cents. Our business is all done on contracts—fully 80 per cent of it on contracts which we have made. We have contracted it for a year ahead on a 5-cent basis, and here comes this proposition of taxing us 8 cents a pound. We only receive 5 cents net under our contracts, and there is no clause in our contracts that would enable us to get away from fulfilling them even under these circumstances. We are taxed 8 cents on a product for which we get 5 cents. I just bring that to your attention.

Senator SMITH. We only tax you 3 cents a pound more than you get.

Mr. MORRIS. Yes, sir. It hardly needs much argument to present that fact, and that is an important fact.

I will, in due course, prepare and file a brief which I understand, Mr. Chairman, I shall file by next Tuesday.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Morris was subsequently submitted and is here printed in the record, as follows:)

HEARING BEFORE THE FINANCE COMMITTEE OF THE UNITED STATES SENATE ON THE PROTEST OF NATURAL CARBONIC GAS CO. AGAINST SECTION 308, SUBDIVISION D, OF BILL H. R. 4280, UNION CALENDAR NO. 19.

The Finance Committee of the United States Senate, Washington D. C.

GENTLEMEN: The bill H. R. 4280, Union Calendar No. 19, to provide revenue to defray war expenses, and for other purposes, as reported by the Ways and Means Committee of the House of Representatives, under section 308, subdivision *d*, makes the following provision:

"(*d*) Upon all carbonic-acid gas in drums or other containers (intended for use in the manufacture or production of carbonated water or other drinks) sold by the manufacturer, producer, or importer thereof, a tax of 8 cents per pound."

The undersigned hereby protests against said provision, quoted above, assessing a tax of 8 cents per pound upon manufactured carbonic-acid gas upon the grounds that said proposed tax is excessive, inequitable, and, if imposed, will be confiscatory of the business and property of the undersigned manufacturer, because of existing contracts for the sale of carbonic-acid gas which it is obligated to fulfill.

That the undesigned is a New York corporation, having a manufacturing plant at Newark, N. J., where it manufactures and sells carbonic-acid gas, shipping the same to its customers in drums or other containers for use in the manufacture or production of carbonated water or other drinks.

That it manufactures and sells annually between 3,000,000 and 4,000,000 pounds of such gas. That except as to 3 per cent or less of its product, which is sold in small lots to the dispensing trade, this company sells its entire product at a price of 5 cents per pound net, less freight charges one way on containers. That the difference in price to the dispensing trade is based upon the difference in cost of handling, deliveries, cost of transportation, and the like.

That over 80 per cent of this company's output for the months of June, July, August, and September, 1917, and over two-thirds of its output for the next eight months thereafter are covered by valid existing contracts heretofore made, under which this company is obligated to sell and deliver such gas to its customers at a price of 5 cents per pound. That the remainder of this company's output beyond the amount covered by contract has always been sold in the open market at the same price of 5 cents per pound, less freight one way on containers.

That said proposed tax upon this company of 8 cents per pound for each pound of gas to be manufactured and sold by it is in excess of the actual gross sum per pound which this company will receive for its said product. The imposition of a tax in such form would confiscate this company's property and ruin and destroy its business.

That no provision of any kind is contained in any of the company's contracts with its customers whereby an increase may be made in the price because of

said tax or whereby said tax or any part thereof may be added to the price or charged to the customers.

That while the proposed law is absolutely destructive to the business of the protestant in the form presented, the protestant is perfectly willing o bear any legitimate burden of taxation which the present emergency may demand and respectfully suggests that subdivision *d*, above quoted, be amended as follows:

(*d*) Upon all carbonic-acid gas in drums or other containers (intended for use in the monufacture or production of carbonated water or other drinks) sold by the manufacturer, producer, or importer thereof, a tax equivalent to five per centum of the price for which so sold: *Provided*, That wherever such sales are made under the terms of a contract in writing, entered into before the fifteenth day of May, nineteen hundred and seventeen, by the terms of which the sale price of the carbonic-acid gas is fixed, such tax shall be paid by and collected from the purchaser.

Should the Finance Committee, upon consideration, find it advisable to base the tax upon the number of pounds sold and grant a provision for a tax per pound consistent with the price at which the gas is sold, we respectfully suggest that in such case there should be an appropriate amendment to protect contracts already in existence. In any event, whether the Finance Committee bases the tax upon ad valorem or on pounds, we earnestly urge the following amendment in order to preserve the life of this company and all other companies similarly situated.

"*Provided*, That wherever such sales are made under the terms of a contract in writing, entered into before the fifteenth day of May, nineteen hundred and seventeen, by the terms of which the sale price of the carbonic-acid gas is fixed, such tax shall be paid by and collected from the purchaser.

Section 300, which immediately follows subdivision *d*, prescribes a monthly return from the manufacturer to the collector of internal revnue containing such information as may be necessary for the assessment of the tax, and therefore provides a method in keeping with either amendment suggested.

Dated New York, May 14, 1917.

Respectfully submitted.

NATURAL CARBONIC GAS CO.,
BY CLARENCE E. HEID,
Secretary-Treasurer and Manager.
JOHN C. MORRIS, *of Counsel.*

The CHAIRMAN. You are next, Mr. Melville.

STATEMENT OF MR. HENRY MELVILLE, OF NEW YORK CITY.

Mr. MELVILLE. Mr. Chairman, my name is Henry Melville, and my address is 45 Cedar Street, New York.

I wish to suggest that the imported carbonated beverages in many instances would not pay any tax under the provisions of this bill as now drawn. I think that was not understood by those who drafted the bill. It provides that the manufacturer of a carbonated beverage, if he also manufactures the carbonic gas with which it is carbonated, pays 2 cents a gallon on the product. But if the one who does the carbonating is not the manufacturer of the gas, he pays nothing on the beverage, but the tax is all assessed on the manufacturer of the gas.

In their report the Committee on Ways and Means recommends that the tax be levied upon the carbonic-acid gas used in carbonating beverages rather than upon the beverages, on account of the greater convenience in obtaining returns. They estimate that 1 pound of gas carbinates 4 gallons of water; so 8 cents a pound on the gas is equivalent to 2 cents a gallon on the carbonated beverage.

Assuming that the proportion is right—which is very doubtful—this plan might work well provided all parties are within the United States.

Suppose however a carbinator, outside the United States, should buy his gas of a manufacturer also outside the United States. The former would not pay the gallon rate because not also the manufacturer of gas. The latter would not pay the pound rate because, being outside the country, there would be no way to force him to make a return. No one would pay anything.

The CHAIRMAN. That concludes Title III. Now we come to Title IV, which includes cigars, cigarettes, and tobacco. You begin. Mr. Dushkind.

TITLE IV. WAR TAX ON CIGARS AND TOBACCO.[1]

Secs. 400–401. CIGARETTES AND TOBACCO.

STATEMENT OF MR. CHARLES DUSHKIND, SECRETARY AND COUNSEL OF THE TOBACCO MERCHANTS' ASSOCIATION OF THE UNITED STATES.

Mr. DUSHKIND. Mr. Chairman, I prefer to submit a brief, and I will yield our time to Mr. Junius Parker, who is going to talk on tobacco and cigarettes, with the reservation, however, that if at the end of Mr. Parker's remarks it should be necessary for us to say something on the cigar situation I hope you will grant me a few minutes.

The CHAIRMAN. The brief will be printed. You may proceed, Mr. Parker.

(The brief referred to by Mr. Dushkind is here printed in full, as follows:)

BRIEF FOR THE TOBACCO INDUSTRY SUBMITTED BY THE TOBACCO MERCHANTS ASSOCIATION OF THE UNITED STATES, CHARLES DUSHKIND, COUNSEL.

INTRODUCTION.

The Tobacco Merchants' Association of the United States, representing, as it does and as is indicated by our list of members, a printed copy of which is filed herewith, each and every branch of the tobacco industry, respectfully submits this brief in which we shall endeavor to discuss the various features of the House bill as affecting the different branches of our industry.

With the utmost respect for the wishes of this honorable committee that such briefs be indeed brief and condensed, we humbly apologize for the length of this presentation, which is due entirely to the numerous separate and distinct branches of the trade that we must necessarily discuss and the elaborate statistics and tables embodied herein for the purpose of clarifying the situation.

We must state at the outset that the tobacco business is in a peculiarly sensitive and difficult position, more difficult than any other line of business—difficult in the first place because of the frightful increase in the cost of labor and material; again, because tobacco men can not successfully shift the burden of the increased cost to the consumer, as it can be shifted, and as it is shifted in most other industries; and still again because the tobacco business does not come under the head of necessities, like the food we eat, the clothes we wear. The latter we must have; the former we can probably dispense with, and in times like these the ax of economy falls first, and properly so, on the things that are not absolute necessities.

Yet, while strictly speaking, tobacco is not a necessity, it is by no means a luxury. If it is a luxury, it is indeed quite a necessary luxury. The perfecto cigar may be a luxury to the gentleman smoking it, for he could perhaps get along as well with a stogie, but ask the longshoreman or the laborer whether the pipe or the chew is a luxury to him and you will receive a very emphatic answer to the contrary.

Speaking of the brave men on the battlefield, to them tobacco is indeed a necessity. It furnishes them solace and comfort and companionship under the most trying conditions, and it is known to act as a stimulant bringing courage and valor and invigorating both their mental as well as their physical condition.

---

[1] Further hearings will be found on page 594.

Things that have become a necessary part of one's existence, whether by force of habit or by actual necessity, are not luxuries and can not be classed as such. A young lady may easily dispense with her box of chocolates, but the workman can not so readily discard his pipe or his chew, nor can the millions of other consumers of tobacco omit that article from their daily wants to the very great majority of whom it probably constitutes the only luxury that they are able to indulge in.

The tobacco industry has suffered greatly as a result of the war. Although the cost of labor has been substantially increased, the prices for materials almost doubled, and a large percentage of its export trade cut off, the prices of manufactured tobacco products to consumers are virtually as low now as they were before the war in Europe began. And this, too, in spite of the fact that the prices of practically every other commodity used in this country have been greatly advanced.

The tobacco industry ever has been among the first to assume uncomplainingly the financial burdens imposed upon it by political and economic conditions, and it stands ready in the present crisis to contribute its share toward the cost of the war, but we ask for fairness and moderation. While we are ready to pay additional revenue we ask that our industry be saved from intolerable and unbearable burdens.

Our industry is now paying in the neighborhood of $100,000,000 a year in internal revenue taxes, besides duties on imported goods, which exceeds the aggregate earnings of the entire industry probably by $50,000,000, and we respectfully submit that an increase of revenue exceeding approximately 40 per cent of the present taxes will work an incalculable injury to the industry, including the 400,000 farmers that produce the leaf, and will net very little, if any, increased revenue to the Government, as a result of the decreased consumption of our products.

The respective committees of this association, representing all branches of the tobacco industry, have given the tax problem most serious thought and consideration, and we beg to assure your honorable committee that in all the deliberations of our respective committees no one has entertained for a moment the thought of making any attempt to evade the burdens that all good and patriotic citizens should assume in the present crisis of our country. They had but one thought in mind, that is to contribute a just and proper share of the additional revenue now required by the Government and to pay all that the tobacco industry can possibly stand, but at the same time to work out an adjustment of the additional tax rates in a manner that would be fair and equitable to the various branches of our industry without seriously curtailing the consumption of our products, which would necessarily mean a loss of revenue to the Government, a serious blow to our industry and quite a hardship upon the consumer. As a result of the deliberations of our respective committees, we respectfully submit for consideration by your honorable committee the following:

CIGARS.

The cigar branch of our industry is indeed in a most unfortunate situation. According to the tables in Appendix B hereto annexed, which are based upon official figures, the earnings on cigars prior to the European war did not exceed $4.57 per M on high-grade cigars and $2.83 per M on 5-cent cigars (see Table G). Since the European war began, labor on cigars has advanced at least 40 per cent, while material has advanced probably in the neighborhood of 100 per cent. Yet the cigar that sold for a nickel before the European war began is selling for the same price to-day, with the result that the profit to both manufacturer and retailer has been reduced to a minimum. Moreover, any increased or additional taxes on cigars would necessarily have to be borne by the industry, for the nickel cigar will remain a nickel article, and being sold in single units there can be no practical reduction of the quantity handed to the consumer for his nickel.

Some distinction must, however, be made between the cigar that is sold 10 in a package for 15 cents or the stogies that retail at 3 for 5 cents and the cigar that sells for 5 or 6 cents each and the cigar that retails at higher prices. For since, as we have already explained, the additional tax will necessarily have to be borne by the industry and not by the consumer, it is only fair that the manufacturer of nickel cigars should stand a higher increase than the concern that makes stogies or 10 or 15 cents or 2 for 5s, and that the manufacturer of the higher priced goods should carry a higher burden than the one that makes 5-cent goods.

Our respective committees on the various types of cigars have accordingly submitted to the Ways and Means Committee a schedule of proposed taxes graduated in accordance with the grade of cigars. The schedule adopted by the Ways and Means Committee is, however, materially different from the schedule submitted by us and fixes tax rates upon the higher grade cigars with apparent disregard for the law of reason or moderation. The following is the schedule provided for in the House bill, section 400:

	Per M.
Cigars weighing not more than 3 pounds	$0.25
Cigars weighing more than 3 pounds to retail at not more than 4 cents	.50
Cigars retailing at more than 4 cents and not more than 6 cents	1.00
Cigars retailing at more than 6 cents and not more than 10 cents	2.00
Cigars retailing at more than 10 cents and not more than 15 cents	4.00
Cigars retailing at more than 15 cents and not more than 20 cents	5.00
Cigars retailing at more than 20 cents and not more than 25 cents	7.00
Cigars retailing at more than 25 cents	10.00

We make no complaint against the rates fixed upon cigars retailing at 10 cents and below that price, although such taxes would indeed impose a severe strain upon both manufacturer and retailer. But we do protest against the imposition of the rates fixed upon cigars retailing at over 10 cents.

The framers of the bill have apparently overlooked the fact that these classes of cigars are made exclusively of imported tobacco, from which the Government derives duties amounting to much more than the internal-revenue receipts. These cigars are made of Habana fillers and are usually covered by Habana wrappers. Thus taking the average 2-for-25-cent cigar we have—

18 pounds Habana filler, at 35 cents duty less 20 per cent	$5.04
4 pounds of Habana wrappers, at $1.85 duty less 20 per cent	5.92
Internal-revenue tax	3.00
Total	13.96
Less allowance of 2 pounds cuttings of the wrappers which may be used for fillers	.56
Net amount of revenue per 1,000	13.40

We next come to imported cigars that are usually retailed at 20 or 25 cents and are commonly known as "Perfectos." The amount of revenue collected by the Government on that grade of cigars is as follows:

Specific duty at $4.50 a pound, 15 pounds per thousand	$67.50
25 per cent ad valorem duty on $90 per thousand, which is about the average value of that class of goods	22.50
Internal-revenue tax	3.00
Total amount of revenue	93.00
Less 20 per cent reciprocity rebate on $90	18.00
Net amount of revenue	75.00

On cigars retailing at over 25 cents the customs duties run up accordingly.

It may be contended that the high-priced cigars are smoked by wealthy people, and hence they can well afford to pay increased price. But, as we have already pointed out, the additional tax on cigars will necessarily have to be borne by the trade. It can not be shifted, and while the consumers of the high-priced cigar may be wealthy, the men who make them are not and the thousands of small retailers who sell them are not. An excessive tax even upon high-priced cigars in these days of sharp competition would mean a reduction of the wages of the cigar maker, a curtailment of the commissions of the salesman, an elimination of the profit of the middleman, and a serious impairment of the value of the capital stock of the companies that produce them.

We must urgently ask, therefore, for a modification of the schedule as follows:

	Per M.
Cigars retailing at over 6 cents and not over 12½ cents	$2.00
Cigars retailing at over 12½ cents and below 20 cents	3.00
Cigars retailing at 20 cents and not above 25 cents	4.00
Cigars retailing above 25 cents	5.00

The war taxes on cigars according to the House bill as thus modified will yield the Government about $10,500,000 of additional revenue, that is about $500,000 less than the amount estimated by the Ways and Means Committee.

MANUFACTURED TOBACCO.

Little need be said as regards the manufactured tobacco situation, which includes plug, smoking, and chewing tobacco, as well as snuff. Tobacco, like all other farm products, has almost doubled in cost within the last few years, while the cost of packing, material, and other articles used in connection with manufactured tobacco have advanced in some cases several hundred per cent. Yet while the prices of all other commodities have been correspondingly advanced, the package of tobacco sold for a nickel or a dime, as the case may be, before the beginning of the European war, is sold now for the same price, with the result that the profits of both manufacturer and dealer have been reduced to a minimum.

The profits on most of the types of manufactured tobacco even in the most prosperous times, did not average 6 cents per pound (see Table G). Owing to the situation created by the European war the profits have been reduced to a minimum, so that it would be impossible under present conditions to pay any substantial increase without seriously crippling the industry.

We respectfully recommend that the tax on manufactured tobacco be increased to an extent not exceeding 40 per cent of its present rate, which means about 3.2 cents per pound. Such increase based upon the production in 1916 would bring approximately $16,500,000 additional revenue.

CIGARETTES.

What we have said in regard to tobacco applies with equal force to cigarettes, excepting that there is quite a quantity of cigarettes produced of the higher grades which are retailed at the rate of 1 or 1½ cent each and a few of them at 2 cents each. But as regards the higher grade cigarettes, in the first place the proportion of that class of goods to the etnire output of cigarettes is indeed very small and, secondly, the higher grade goods are made exclusively of imported tobacco, which, as is well known, has gone up 200 or 300 per cent in cost, if it is at all possible to secure any.

Fully 90 per cent of the cigarettes are of the cheap grade and the prices that cigarettes are sold for now are precisely the same as the prices that prevailed prior to the outbreak of the war, in spite of the fact that the cost of material and labor has almost multiplied.

We respectfully submit, therefore, that the war tax to be imposed should be moderate. An increase of 50 cents per thousand based upon the present rate of production would yield the Government approximately $15,000,000 additional revenue.

Summary of proposed increased taxes.

Cigars and little cigars	$10,500,000
Manufactured tobacco, including snuff	16,500,000
Cigarettes	15,000,000
Total	41,750,000

The above schedule if adopted will accordingly provide an increase of about 42 per cent of the present revenue.

THE INCREASED TARIFF ON TOBACCO.

The additional ad valorem duty imposed by the Kitchin bill is certainly unjust and unfair, in so far as it applies to tobacco. We have already demonstrated that even the revenue tax that the House bill imposes on tobacco products is exorbitant and unbearable. Yet by indirection an additional tax is sought to be imposed upon tobacco products by adding 10 per cent ad valorem to the duties we are now paying on the raw material. Thus on a thousand cigarettes using 3 pounds of Turkish tobacco we would be required to pay from 30 to 50 cents additional duty on the tobacco, and on a thousand 5-cent cigars using about 2½ pounds of Sumatra wrapper, and some of them about 4 pounds Habana filler, we would have to pay about 75 cents of

additional duty on tobacco; and when we come to a cigar that sells at 10 cents, or two for 25 cents, using about 15 pounds of Habana filler and about 4 pounds of Habana wrapper, we would probably have to pay in the neighborhood of $3 of additional duty on the tobacco used therein, and so the added ad valorem duty would increase accordingly with the higher grades of cigars.

If customs duties must be increased in order to meet the requirements of the Government, a distinction should surely be drawn between finished commodities imported for ready consumption and raw material imported for use in the manufacture of commodities, and a further distinction should in all fairness be drawn between imported raw material used for the manufacture of commodities that are not taxable and material used for commodities that are already heavily taxed and upon which an additional war tax is about to be imposed.

We urgently ask, therefore, that imported tobacco be exempted from the additional ad valorem duty sought to be imposed by the Kitchin bill.

We also protest against the proposed tariff as applicable to imported cigars, because under the schedule contained in the House bill imported cigars—that is, cigars retailing at above 15 cents, which are usually imported—are already taxed as much and more than such cigars can possibly stand. Thus, according to the House bill, cigars retailing at more than 15 cents and not more than 25 cents, are taxed at $5 per thousand in addition to the $3 we are now paying, and cigars retailing at more than 20 cents and not more than 25 cents $7 is added to the tax we are now paying, and cigars retailing at more than 25 cents $10 is added to the $3 we are now paying. The additional ad valorem tax proposed by the House bill would add about $9 per 1,000 to the 25-cent cigars and about $15 per 1,000 to the higher-priced cigars.

We have already demonstrated that the entire war tax imposed upon cigars would necessarily have to be borne by the trade, for it can not possibly be shifted to the consumer. That being so, it is not sufficient that the manufacturer and the middleman and the man behind the counter will pay the additional tax imposed by the House bill as internal revenue without being called upon to pay the additional duty sought to be imposed by the new tariff clause?

Again, we must say that, while it may be entirely proper to increase the existing tariffs on imported goods in order to meet the requirements of the Government, surely there can be no justification for imposing a double war tax on imported articles, as would be the case if the House bill should finally become a law, in regard to imported cigars.

CIGARETTE PAPER AND CIGARETTE TUBES.

Apparently thinking that everything connected with the tobacco industry should be taxed, the Ways and Means Committee has inserted a provision taxing cigarette paper and cigarette tubes. For reasons that we shall presently explain, we are very much in favor of taxing cigarette tubes, even at a higher rate of taxes than that provided for in the present bill, but we are certainly opposed to the imposition of a tax on cigarette paper.

It has been the custom in the tobacco industry for a great many years to insert in each package of tobacco a little booklet of cigarette paper, which the consumer is getting free of charge for the purpose of rolling his own cigarette. Thus large quantities of booklets of cigarette paper are distributed by tobacco manufacturers as gifts, and purely as an accommodation to the consumer. In order to more clearly demonstrate the character of the article thus sought to be taxed, we take the liberty of submiting herewih an assortment of such cigarette paper booklets packed with various brands of tobacco.

We believe that what we have said in connection with the cigarette paper is sufficient to satisfy this honorable committee of the unjustness of the tax. We believe that a tax upon an article that is usually and customarily given away free of charge is unjustifiable and indefensible. We protest against such tax, not so much on behalf of the manufacturers giving away the cigarette paper as we do on behalf of the consumer. The tax upon such paper may perhaps be a benefit to the manufacturer, for it would necessarily result in the discontinuance of the free distribution of such paper and in charging appropriate prices therefor. But the consumer will have to pay for them. Thus, in order that the Government might collect a one-quarter cent on a package or booklet of cigarette paper the consumer would have to pay at least 1 cent for the package of paper that he is now getting free of charge.

It may be added that such cigarette paper is also done up in booklets or packages for sale, but owing to the free distribution of such paper the quantity

of paper actually sold is so insignificant that the amount of revenue that the Government may derive therefrom would hardly pay the collection expenses.

However, if we must have a tax on cigarette paper, such tax should apply only to the paper actually sold or made up for sale, and not to the paper packed with tobacco.

CIGARETTE TUBES.

The situation is, however, different in regard to cigarette tubes.

There has sprung up in recent years a most extensive industry in selling long-cut tobacco in pound packages, done up in plain paper bags without revenue stamps. Such tobacco is generally sold at 35 cents a pound, and with it the purchaser usually buys 3 boxes or 300 cigarette tubes for 15 cents, and with a little brass tube and a stick made especially for that purpose, which he gets for 5 cents or gratis, he makes his own cigarettes.

According to reliable information at least 2,000,000,000 of such cigarette tubes are sold every year. We venture to say that 90 per cent of these cigarette tubes are used in connection with tobacco produced in illicit factories and sold without revenue stamps.

The sale of tobacco without stamps will continue as long as the tube industry exists.

We would strongly suggest a revenue tax of 50 cents per thousand on such tubes. This will at least repay the Government to some extent for the loss of revenue on the sale of illicit tobacco.

The House bill provides for a tax on cigarette tubes of 2 cents per hundred. We respectfully suggest that the tax be fixed at the rate of 50 cents per thousand. Such tax will either produce $1,000,000 a year in revenue or it will mean an increase of 2,000,000,000 cigarettes on which the Government would collect a still greater amount of revenue.

We respectfully submit herewith a proposed draft of a provision in regard to the taxation of cigarette tubes. The provision contained in the House bill is entirely inadequate, inasmuch as it taxes all tubes, including those made by or for cigarette manufacturers for the cigarettes produced by them. Surely, cigarette manufacturers should not be required to pay a tax on the tubes used by them in connection with the manufacture of cigarettes. (For proposed draft see Appendix A.)

EXORBITANT TAXES ON TOBACCO PRODUCTS WILL EXTERMINATE SMALL CONCERNS.

A careful analysis of the figures contained in the tables appearing in the Appendix B hereto annexed, which are official and authoritative and the accuracy of which can not be questioned, must necessarily lead to the conclusion that any unreasonable increase in the taxes on the tobacco industry will not only reduce the income of the big concerns to an unfair and unhealthy basis but will practically drive the small fellow out of business altogether. The big cigar manufacturer, who makes several hundred million cigars a year, may, perhaps, be able to get along with a profit of $1 a thousand on 5-cent cigars or $2 on 10-cent cigars, although operating on such a small margin of profit in the tobacco business, where any change in atmospheric conditions or any slight mistake in the treatment of the tobacco may cause sufficient deterioration of the material to wipe out the entire profit and to produce a substantial loss, is like skating on thin ice, but can the little fellow, who makes 10,000 cigars a week or half a million cigars a year, exist on a profit of $1 or $2 a thousand? And there are over 10,000 of such little fellows manufacturing cigars. The increase of taxation on cigars would simply drive these 10,000 small manufacturers out of business, with the consequent injury to the leaf grower and leaf handler and all the other thousands of people furnishing them with supplies, etc.

What we have said in regard to cigars applies equally as well to the cigarette business and to the business of manufactured tobacco of all types.

PLEAS FOR HIGHER TOBACCO TAX BASED UPON ERRONEOUS CALCULATIONS.

It is painful to read some of the speeches delivered by those who seem to think that the tobacco industry should alone furnish all the revenue the Government needs, overlooking the fact that excessive taxation may tax the industry out of existence and deprive the Government even of the usual revenue. If the advocates of increased taxation on tobacco products would only confine their utterances to an expression of their own views there would be no cause for apprehension.

for the great majority of our legislators fully realize that the tobacco industry, contributing as it does almost $110,000,000 a year to the revenue required by the Government already carries its full measure of burdens; they can neither be influenced by eloquent oratory nor moved by appeals to passion or prejudice. But the difficulties arise when these speakers enter upon the realm of figures and statistics, presenting various schedules and tables secured especially for that purpose, and proceeding to analyze them with a view to demonstrating with mathematical certainty that the tobacco industry could be taxed and taxed and taxed, and still further taxed, and people would continue to use that commodity.

Figures and statistics are indeed helpful in the determining questions of taxation, but to be helpful they must be read and analyzed by men having a thorough knowledge of the particular industry that they deal with, for such figures and statistics, unless properly and correctly read, compared, associated, and analyzed, might lead to erroneous conclusions and serious blunders.

Thus, for example, in a speech delivered in the House of Representatives in 1011 in connection with the bill then pending for the reduction of duties on wool, etc., the Speaker endeavored to demonstrate by figures and statistics that the tobacco industry can stand at least $120,000,000 of additional taxation upon the basis of the revenue laws of 1875. Of course his figures were correct and his calculations were also accurate, but being unfamiliar with the history and conditions of the tobacco business he overlooked not only the material changes of conditions since 1875, but certain other sets of figures and statistics which should have been taken into consideration in making comparisons and which would have necessarily lead to entirely different conclusions.

It will be sufficient to refer only to a few of such incidents. Thus the Representatives in Congress asks, "What is more unequal and unjust; what is more of a pitiable parody on our taxing system than a law that taxes 25-cent cigars at 1.2 per cent of its retail price?" etc. Whereas the fact is that in addition to the 1.2 per cent of the retail price the 25-cent cigar that usually retails for 20 cents is paying $72 per M in customs duties so that the Government collects altogether 7¼ cents on every cigar that retails for 20 cents.

"If the internal-revenue law of 1875 had been in force on the tobacco consumed last year," said the Congressman, "the Government would have collected instead of $58,000,000 (revenue receipts of 1010, the amount for 1015 being $80,000,000) $178,000,000," overlooking the fact that the aggregate profits on all manufactured tobacco products in 1010 did not exceed $50,000,000—and that an increase of $120,000,000 in taxes would have wiped out all the profits and $70,000,000 besides.

According to the official report of the Commissioner of Corporations on the tobacco industry, Part III, page 20, the aggregate earnings of the trust in 1910, when it controlled from two-thirds to five-sixths of the entire tobacco industry except cigars, amounted to $30,905,069. We are liberal, indeed, in adding $19,000,000 to cover cigars and the earnings of all concerns other than the trust on tobaccos and cigarettes to call it $50,000,000 as the aggregate earnings during the most glorious year of trust existence, and still we are told that the Government should have imposed $120,000,000 additional taxation.

Another striking example of erroneous statements caused by unfamiliarity with the subject matter may be found in the statement of the same speaker where he said:

"If we would tax tobacco as England taxes the tobacco she imports from us, we would have $96,000,000 more than all the duties that we collect by reason of the tariff on everything except wines, liquors, cigars, and tobacco." According to the same statement England imposes a duty of 74 cents a pound on the tobacco it imports from us.

At the outset it must be stated that it seems to be perfectly apparent that by a comparison of internal-revenue taxes of one country with the tariff duties of another country no fair conclusion can be reached. Moreover, it must be remembered that while England is imposing a tariff duty of 74 cents on tobacco that it imports from the United States, we are paying tariff duties on tobaccos that we import at the rate of 35 cents for mere fillers and $1.85 for wrappers, in addition to our internal-revenue tax. Thus in 1014 the Government collected about $20,000,000 in duties on imported tobaccos, in addition to the $80,000,000 of internal revenue.

The very idea of suggesting that we go back to the 1875 revenue measure shows that the gentleman advocating it was entirely unfamiliar with the present conditions of the tobacco industry.

In 1875 the tax on tobacco was 24 cents per pound, while the present average price that tobacco is sold for to the retail trade is only 30 cents per pound. The cost including the present revenue tax is 29.9 cents per pound. (See p. 87 Reports on Tobacco Industry.)

In 1875 the average farmer's price for tobacco was about 7 cents per pound, while in 1913 the average price of tobacco has gone up to 12.8 cents per pound. Thus while leaf tobacco has almost doubled in value the price of the manufactured product is now but one-third of what it was sold for in 1875.

According to the earliest figures obtainable the total tobacco acreage in 1879 was 639,000, producing 472,661,000 pounds of tobacco, at a value of $30,395,000; in 1913 there were 1,216,000 acres, producing 953,734,000 pounds of tobacco, at a valuation of $122,481,000. Thus while the increase in acreage was not more than 90 per cent, and the increase in production not more than 100 per cent, the increase in value is over 200 per cent.

As to cigars, the revenue in 1875 was $6 per thousand, while the average profit on domestic cigars prior to the war, as already shown, was only $2.83 per thousand, and the average price of domestic cigars now is only $31.35 per thousand, which, like in the case of tobacco, is probably one-third of the price that cigars were sold for in 1879.

All of which is respectfully submitted.

TOBACCO MERCHANTS' ASSOCIATION OF THE UNITED STATES,
By CHARLES DUSHKIND, *Counsel.*

Dated, May 14, 1917.

APPENDIX A.—PROVISIONS COVERING CIGARETTE TUBES TO BE INSERTED IN LIEU OF SECTION 404.

That for the purpose of this act the word or words "cigarette tubes" shall be understood to mean wrappers of paper or any substitute thereof made up into tubes, cases, or containers suitable or intended for the purpose of being filled or stuffed with tobacco so as to make up or constitute what are commonly known as cigarettes.

That there shall be levied, collected, and paid upon all cigarette tubes manufactured or imported the sum of 20 cents per thousand to be paid by the manufacturer or importer thereof.

All cigarette tubes shall be packed in boxes not before used for that purpose containing 100 each and every manufacturer of cigarette tubes shall securely affix to each of said packages or boxes a suitable stamp prepared by the Commissioner of Internal Revenue denoting the tax thereon and shall properly cancel the same prior to such sale or removal for consumption or use under such regulations as the Commissioner of Internal Revenue shall prescribe and all cigarette tubes imported from a foreign country shall be packed, stamped, and the stamps canceled in like manner before they are withdrawn from the customhouse.

Provided, however, that cigarette tubes made for or sold to duly registered manufacturers of cigarettes may be packed and done up in packages or parcels other than those hereinabove described and may be sold and delivered to such manufacturers without the payment thereon of the tax hereinabove specified and without affixing thereto the stamps hereinabove prescribed, but in such cases each and every package or parcel of cigarette tubes sold or delivered to duly registered cigarette manufacturers shall have affixed thereon or attached thereto a label in such style, shape, or size as the Commissioner of Internal Revenue shall prescribe, reading as follows:

"Not for sale. The cigarette tubes contained in this package were manufactured for ——— (giving name of cigarette manufacturer), to be used for the purpose of manufacturing cigarettes. (Name and address of manufacturer of cigarette tubes.)"

And, furthermore, that all cigarette tubes sold or delivered to manufacturers without the payment of the tax thereon as aforesaid shall be entered from day to day in a book in such form as may be prescribed by the Commissioner of Internal Revenue, stating the name and address of the cigarette manufacturer and the quantity of tubes of each and every size sold and delivered to the cigarette manufacturer and the date of each sale or delivery.

That all statutes and laws relating to and governing the manufacture, sale, possession, removal, or disposition of cigars and all fines and penalties prescribed for the violation of such laws or statutes shall except as in this act otherwise expressly provided apply in each and every respect to the manufacture, sale, or disposition of cigarette tubes.

APPENDIX B.—TABLES AND STATISTICS—INTRODUCTION.

Considering the aggregate amount of taxes paid by the tobacco industry as compared with its gross income and its earnings, it must be perfectly clear that the tobacco industry as a whole and each and every branch of it is already taxed to the limit.

To demonstrate the correctness of the above assertion reference need only be made to the official report of the Corporation Bureau of the Department of of Commerce entitled "Report of the Commissioner of Corporations of the Tobacco Indutry, Part III," published in 1915. The Corporation Bureau, it appears, has made a thorough and exhaustive investigation into the tobacco industry after the disintegration of the former Tobacco Trust by the dissolution decree of the court, and the schedules or tables hereinafter set forth will show that the amount of revenue collected by the Government from manufactured tobacco products exceeds the amount of the net income earned by the manufacturers, and in this connection it must be stated that these figures are not based upon the earnings of the trust or of the disintegrated companies of the trust referred to in said report and in said schedules or tables as "successor companies," but of both the successors companies as well as of concerns in no wya connected with either and commonly referred to as independent companies.

TABLE A.—*Showing receipts, taxes, and earnings of the Tobacco Trust in 1910, the year prior to its dissolution.*

Products.	Page.[1]	Receipts.	Tax.	Cost of merchandise, less tax.	Profit.
Entire plug business	51	$55,724,344	$10,618,968	$37,802,390	$7,302,986
Navy plug	58	43,795,904	8,044,301	30,201,904	5,549,699
Flat plug	72	11,928,440	2,574,676	7,600,476	1,753,288
Entire smoking tobacco business	87	57,894,174	11,026,650	36,517,763	10,349,761
Plug cut	92	18,547,701	3,309,829	13,479,780	1,758,092
Long cut	102-3	13,487,365	2,968,730	8,530,514	1,988,121
Granulated	112	18,406,817	2,596,137	9,887,859	5,922,821
Scraps	117	7,452,300	2,151,954	4,619,610	680,736
Fine cut	129	3,745,720	697,065	2,654,666	393,989
Entire cigarette business	155	32,283,231	7,960,562	17,418,365	6,904,304
Domestic and blended cigarettes	161	18,543,985	5,956,399	8,610,015	3,977,571
Turkish cigarettes	174	13,739,245	[2] 2,004,163	8,808,349	2,926,733
Little cigars	182	4,517,919	677,448	2,755,361	1,085,110
Entire cigar business	195	21,923,820	[3] 2,816,863	17,851,959	1,254,998
Domestic cigars	197	13,745,742	[3] 1,499,478	11,529,606	716,658
Havana cigars	201	4,394,755	[4] 248,025	3,933,802	212,928

[1] References are to pages of the Report of the Commissioner of Corporations, Part III.

[2] To this item should be added $1,482,810 for custom duties paid on the Turkish tobacco used for the 1,695,052 thousand cigarettes sold figuring on the average 3.68 pounds of tobacco per thousand. So that the total revenue received by the Government is $3,486,973, while the net profits are $2,926,733.

[3] This item does not include the revenue received from customs duties on the Havana filler and Sumatra wrapper used in connection with some of the cigars.

[4] To this item should be added customs duties at the rate of at least $7.90 per thousand to wit: For 15 pounds of Havana filler at 35 cents per pound less 20 per cent and for 2 pounds Sumatra wrapper at $1.85 per pound, the total sales amounting to 82,675 thousand; the total additional revenue to be added is therefore $653,132.

TABLE B.—*Showing receipts, taxes, and earnings of the successor companies in 1913, three years after the dissolution of the trust.*

Products.	Page.[1]	Receipts.	Tax.	Cost of merchandise, less tax.	Profit.
Entire plug business	224	$55,489,447	$11,963,812	$35,338,647	$8,186,987
Navy plug	229	40,228,635	8,151,859	25,619,566	6,517,210
Flat plug	240	15,200,810	3,811,953	9,719,080	1,669,776
Entire smoking tobacco business	253	57,894,173	11,026,650	36,517,763	10,284,175
Plug cut	258	29,831,034	4,937,662	22,565,937	2,317,434
Long cut	269	12,990,671	3,226,524	7,752,407	2,011,740
Granulated	279	14,641,069	2,331,993	8,775,048	3,534,015
Scrap	287	7,945,540	2,441,544	4,669,243	834,753
Fine cut	297	3,334,407	678,760	2,170,648	484,998
Snuff	309	14,276,472	2,530,220	7,498,751	4,247,500
Entire cigarette business	324	66,020,752	17,847,857	40,558,614	7,614,280
Domestic and blended cigarettes	330	12,022,191	15,027,738	29,368,965	3,209,918
Turkish cigarettes	341	18,414,129	[2] 2,820,118	11,189,648	4,404,362
Little cigars	355	4,517,919	677,448	2,755,360	1,085,110

[1] References are to pages of the report of the Commissioner of Corporations, Part III.
[2] To this item must be added $2.906,857, as customs duties collected on the Turkish tobacco used, to wit: 2,256,095 thousand cigarettes at 2.68 pounds per thousand, at 35 cents duty. Thus the total revenue received from Turkish cigarettes is $5,725,975, whereas the total profit on same is but $4,404,362.

TABLE C.—*Showing receipts, taxes, and earnings of a number of companies other than the disintegrated companies of the combination.*

Products.	Page.[1]	Receipts.	Tax.	Cost of merchandise, less tax.	Profit.	Number of companies investigated.
Navy plug	393	$1,683,127	$379,190	$1,416,643	$112,706	6
Flat plug	401	2,312,122	541,586	1,629,565	140,971	7
Plug cut	410	2,541,681	442,983	1,947,843	150,855	5
Long cut	417	2,598,689	640,349	1,761,163	197,177	14
Granulated	423	842,362	143,490	618,561	80,311	([2])
Scrap	429	3,929,920	872,219	2,424,312	633,389	7
Mixed	436	8,581,854	2,277,963	5,506,140	797,751	4
Turkish cigarettes	442	6,182,822	[3] 920,416	4,072,821	1,189,585	7

[1] References are to pages of the Report of the Commissioner of Corporations, Part III.
[2] Not stated.
[3] To this item should be added $946,372 customs duties on 2,703,921 pounds Turkish tobacco used at 35 cents per pound. Hence, total revenue $1,866,788, while total profits is $1,189,585.

TABLE D.—*Showing receipts, tax, and earnings of several companies other than the disintegrated companies of the combination for the year 1913 on cigars.*

	Page.[1]	Quantity sold.	Receipts.	Tax.	Cost of merchandise.	Profit.
		Thousand.				
8 companies, 5-cent domestic	452	646,880	$20,279,215	$1,940,683	$16,509,772	[2] $1,828,760
6 companies, 10-cent domestic	458	42,101	2,289,546	[3] 124,550	1,972,716	[4] 192,280

[1] References are to pages of the Government report, Pt. III.
[2] Statistics of 8 companies other than the successor companies.
[3] Besides the custom duties on 631,515 pounds at 35 cents, less 20 per cent equals $176,830.
[4] Statistics of 6 companies other than the successor companies.

We have thus shown that the manufacturing industry with its investment of hundreds of millions of dollars in brands and trade-marks, which are purely of speculative value and the values of which vanish as quickly as the brands become unpopular, and such brands usually become unpopular with any increase in the retail price; and with all the skill and ability and business ingenuity that are required to carry on their businesses in a successful manner, operating as they do on a small margin of profit, have earned less than what the Government is collecting in revenues, including customs duties.

The following table will show that cigars are already paying about $20,000,000 in customs duties in addition to the $23,000,000 internal revenue and that cigarettes are paying about $7,000,000 in customs duties in additional to the $20,512,083 internal revenue. This will dispose of the mistaken notion that the higher priced goods do not carry any more taxes than the low price goods do.

TABLE E.—*Aggregate amount of revenue, both in customs duties and internal revenue, collected in 1914.*

Articles.	Internal revenue.	Customs duties.	Total revenue.
Cigars	$23,012,496		$42,708,776
Wrappers		$9,785,707	
Fillers		6,911,327	
Imported cigars		2,999,246	
Cigars weighing 3 pounds or less	777,594		
Cigarettes	20,512,083		27,532,292
Turkish tobacco		6,940,023	
Do		80,186	
Cigarettes of over 3 pounds	62,707		
Snuff	2,621,339		35,768,191
Tobacco manufactured	33,000,417	146,435	
Total	79,986,639	26,892,272	106,878,911

NOTE.—The totals include small items not hereinabove specified.

We are quoting the figures of 1914 because our importations were then unaffected by the war. Since then the internal revenue paid by our industry has increased to about $100,000,000.

To simplify the foregoing schedules and tables we submit herewith a table showing the average profit per thousand cigars or cigarettes or per pound of tobacco, as the case may be, earned both by the former combination and by the disintegrated companies as well as by concerns unconnected with either.

TABLE G.—*Showing aggregate profits and profits per unit. Profits of combination in 1910.*

	Page.	Quantity sold.	Profit.	Profit per unit.
Plug	51	154,625,744 pounds	$7,302,986	4.7 cents per pound.
Smoking tobacco	87	159,163,185 pounds	10,349,761	6.5 cents per pound.
Fine cut	129	9,980,844 pounds	393,989	3.9 cents per pound.
Scraps	117	30,990,560 pounds	680,736	2.2 cents per pound.
Cigarettes	155	6,930,986 M	6,904,304	$1 per M.
Little cigars	182	1,050,513 M	1,085,110	$1.03 per M.
Cigars:				
Domestic	197	499,826 M	716,658	$1.43 per M.
Havana	201	82,675 M	212,928	$2.58 per M.

Profits of successor companies in 1913.

	Page.	Quantity sold.	Profit.	Profit per unit.
Plug	224	149,547,657 pounds	$8,186,987	5.5 cents per pound.
Smoking tobacco	253	159,163,185 pounds	10,349,760	6.5 cents per pound.
Fine cut	297	8,484,511 pounds	484,998	5.7 cents per pound.
Scraps	287	30,519,300 pounds	834,753	2.7 cents per pound.
Cigarettes	324	14,278,286 M	7,614,280	$0.53 per M.
Little cigars	355	1,050,513 M	1,085,110	$1.03 per M.
Cigars [1]				

[1] Not reported.

Profits of concerns other than the successor companies in 1913.

	Page.	Quantity sold.	Profit.	Profit per unit.
Navy plug	393	4,730,222 pounds	$112,706	2.4 cents per pound.
Flat plug	401	6,726,126 pounds	140,971	2.1 cents per pound.
Plug cut	410	5,812,851 pounds	150,835	2.6 cents per pound.
Long cut	417	7,945,411 pounds	197,177	2.5 cents per pound.
Granulated	423	1,815,574 pounds	80,311	4.4 cents per pound.
Scrap	429	10,907,155 pounds	633,389	5.8 cents per pound.
Mixed	436	28,476,092 pounds	797,751	2.8 cents per pound.
Turkish cigarettes	442	734,764 M	1,189,583	$1.62 per M.
Cigars:				
5-cent cigars	452	646,880 M	1,828,760	$2.83 per M.
10-cent cigar	458	42,101 M	192,280	$4.[illegible]7 per M.

The CHAIRMAN. All right, then, you can proceed, Mr. Parker.

STATEMENT OF MR. JUNIUS PARKER, OF NEW YORK CITY, REPRESENTING THE AMERICAN TOBACCO CO. AND SUNDRY MANUFACTURING ASSOCIATIONS.

Mr. PARKER. Mr. Chairman and gentlemen of the committee, I have the privilege of representing, I think, 95 per cent of all the manufacturers of tobacco, snuff, and cigarettes in what I shall say to you. I do not think it desirable to differentiate those three products, because they follow in the same line and are subject to the same rules.

I think I may say also that in representing the manufacturers I am also speaking in behalf of thousands of the tobacco workers, of 600,000 tobacco dealers, and at least 1,000,000 leaf-tobacco growers.

Senator STONE. Whom do you represent?

Mr. PARKER. My direct representation is of the American Tobacco Co. I also, I think, speak for the Independent Tobacco Manufacturers' Association. I know I speak for the R. J. Reynolds Co., the Liggett & Myers Co., and P. Lorillard Co.

Senator STONE. Are not these companies a part of the American Tobacco Co.?

Mr. PARKER. No, indeed; distinct and competitive. I need not repeat what has been said already several times here. I do not come in an effort to get rid of taxes. Nor do I come in any conscious effort that is induced by selfishness or short-sighted self-interest. I commend to this committee the same considerate treatment of the tobacco and cigarette and snuff industries as the Ways and Means Committee gave to the cigar industry. We are not representing the cigar interest. We would be the furthest from suggesting any increased tax on cigars, because from what we know of the cigar business we do not think it can stand any increased tax over what was in the House bill without great jeopardy to the business.

We understand that the House Ways and Means Committee levied a tax on cigars, adjusting it with differentials in weight and price so as to make an average increase of about 40 per cent. When it came to the cigarette, tobacco, and snuff schedule, however, it did not give them the same conservative and considerate treatment, and there was a flat increase of 100 per cent. We believe in all seriousness that that brings a jeopardy and a danger to the cigarette and tobacco business far in excess of what is commensurate with the increased revenue that will be raised. Indeed, we believe that it is very doubt-

ful whether this higher rate will bring any more even present revenue than a more moderate rate of increase which would leave the business substantially safe against decline.

The Secretary of the Treasury, in a letter which he wrote to the Ways and Means Committee, suggesting all possible sources of revenue, mentioned the doubling of the tobacco tax as among the possibilities. This also gave his estimate of the increased revenue. His estimate took into account an estimated reduction in consumption because of these increased taxes, in some cases as high as 25 per cent. No one can foretell with any certainty what these decreases would be, but I should think 25 per cent is about as likely to be accurate as any other.

It is a simple calculation that an increase of 100 per cent in the rate of taxes, with $100,000,000 produced from the industry, would give only $10,000,000 in excess of what a 40 per cent increase would give without any decrease in consumption.

Senator SMOOT. With a 25 per cent decrease in consumption.

Mr. PARKER. I say 100 per cent increase with a 25 per cent reduction would give only $10,000,000 more than 40 per cent increase with the consumption retained.

Senator SMOOT. That is right.

Mr. PARKER. I should have said earlier that the tobacco industry at the present rate is paying to the United States Government in flat internal revenue almost precisely $100,000,000 a year, and that is in addition to all license taxes, and income and corporation taxes, and it is in addition to $29,000,000 a year that is paid in customs duties by that industry.

Our proposition is that for the safety of the business, for the insurance to the Government of continued revenue, this industry should pay a lump $40,000,000 increased revenue, and I submit that for one industry that is, in season and out of season, in peace and in war, a reliable revenue producer, $40,000,000 of increased revenue is not insignificant or unworthy.

But, gentlemen of the committee, there is another thing involved in this calculation. If there is a 25 per cent reduction in the tobacco industry by this increased tax, as the Secretary of the Treasury contemplates, there is a reduced consumption of leaf tobacco of 130,000,000 pounds a year. I need not argue to this committee that what stimulates the price of leaf tobacco is increasing consumption and increasing demand. I ask you what is to become of the price of leaf tobacco grown in Kentucky, North Carolina, Virginia, Pennsylvania, Ohio, West Virginia, Tennessee. Connecticut, and in New York—because the cigar tobaccos are grown there—what is to become of those prices if there is taken away from the demand 130,000,000 pounds? It is, therefore, that I say that it is on behalf of the million and more tobacco growers and their tenants that I speak.

Why do I say that an increased tax of 100 per cent would diminish consumption enormously? In the first place, it is perfectly obvious as an economic law that with an article that is consumed as tobacco is, anything that decreases the purchasing power decreases consumption. Tobacco must be handled under the present conditions of coinage by a reduction in packages. That is the only way to pass it on to the consumer. We have looked into this matter—the manu-

facturers have—and we say to you in all earnestness that an increased tax of 100 per cent so reduces those packages, so reduces the purchasing power of the nickel and of the dime, that we are afraid of a subconscious, psychological resentment on the part of the trade that would make the cut in consumption even vastly more than the ordinary considerations of economic law.

Moreover, the manufacturer can not absorb the tax. The manufacturers to-day are beset with the highest market for everything they consume, from labor to the smallest article, utterly unheard-of before. If they did absorb it, however, it would simply mean the elimination of advertising funds, and there is no business, known to me, where the stimulation of advertising is so enormous. It is hard to realize that the consumption of cigarettes in 1910 was 8,000,000,000 and the consumption of cigarettes at the present day is 28,000,000,000. What has produced that? It has been the enormous advertising expense of a half dozen large and rich concerns that have been working in competition against each other. Therefore the very worst thing that could happen to the tobacco industry is the elimination of the advertising funds, the withdrawal of the ability from the manufacturer to push his goods by every known advertising method.

Besides that I have said that there would be involved to the farmer a loss of a demand of 130,000,000 pounds, and I have asked what would be the effect of that on the price of leaf tobacco. It would not only affect the price of 130,000,000 pounds, it would affect disastrously the price of every pound that is sold. Not only so, but you would have a declining industry, with the indescribable but all-pervading atmosphere that characterizes a declining business. I do not mean manufacturers would get together and try to pass on the loss to the farmer. I do not mean that they would independently have any conscious desire to pass it on to the farmer; but I do mean that with a "bear" market, I do mean that with a declining consumption, the whole market is crushed.

Besides that ought the Government to jeopardize its own large internal-revenue payer? Because the war will be over some time, these advanced taxes will be taken away, and tobacco is a reliable stand-by, paying to the Government nearly $150,000,000 a year.

There have been some comparisons made, and in making these comparisons I do not want to say one word in favor of an increased tax on any commodity, nor one word against a decreased tax on any commodity. We are with respect to these other items as we are with respect to the cigar business, the furthest from suggesting or even arguing in favor of such increased tax. But the suggestion has been made that the excess-profits tax is being doubled, the income tax is being doubled, the corporation tax is being doubled, and why not double the tobacco tax? It seems to us the answer is obvious. The tobacco manufacturers and merchants will pay as cheerfully as they can the income tax and the excess-profits tax and corporation tax, and regard it as a personal burden, not to be passed on to the consumer except in the most indirect and infinitesimal way. It may be that the income tax on the flouring mill ultimately gets to the consumer, but it is not in any way that depresses or disorganizes or dislocates the business. But when you come to this tax levied on every unit that goes, this tax intended to be a consumer tax, then

you crash into the very business itself, to its complete upheaval and disorganization.

Then, speaking further and looking at this bill for comparisons, I find this: Tobacco is a luxury, of course. It is a part of the expense of almost every American family, though, just as coffee and tea are. But I do not think it is any more a luxury than yachts and golf balls.

Senator THOMAS. It is a necessity in the trenches.

Mr. PARKER. It is a necessity in the trenches. I do not think that it is any more a luxury than cosmetics and proprietary medicines, golf balls, and yachts. And yet we find that those luxuries pay 5 per cent ad valorem. A 5 per cent ad valorem tax on tobacco and cigarettes, based upon the consumers price, would bring about a tax on cigarettes of 25 cents a thousand and a 3 cents tax on tobacco per pound. And yet we already have $1.25 on cigarettes and 8 cents on tobacco, and it is advances from these that we are now considering. Tobacco is no more a luxury than the articles I have mentioned and much more democratic in its consumption than are golf balls and yachts, and yet we have it paying a tax that is simply enormous as compared with these now, and it is to be burdened with more taxes because it has gotten in the habit of carrying taxes. In other words, the draft horse that carries a large part of the load in time of peace and war is to be more heavily burdened in a time of emergency.

I do not believe the gentlemen of the committee, unless you familiarize yourselves practically with the tobacco-tax business, realize the amount of tax that tobacco is already paying and is constantly paying. Take a thousand cigarettes—and I mention that only for simplification, because it applies to the tobacco and snuff business as well—a thousand cigarettes go to the consumer for $5. Who participates in that $5? The farmer who grows the tobacco gets 60 cents of the $5. There is not a manufacturer in the United States who makes over 50 cents. The jobber gets 40 cents; the retailer gets $1 as gross profits, but after his expenses are paid he only gets 50 cents; and the Government takes $1.25. It is not of that we are complaining—and, indeed, we are expecting to pay more than that. But we ask only that it should be reasonable.

Take it another way: There is no more than $1.75 available profits in the manufacture of cigarettes—and all I say applies to tobacco, and I mention cigarettes only because it is more simply stated in figures—there is not more than $1.75 excluding the tax. The Government takes $1.25 of that $1.75, or five-sevenths, and 100 per cent increase would bring about a condition where they would take ten-sevenths of the present available profits.

This is not selfish and this is not directly self-seeking. It is a mistake to assume that a high rate of tax necessarily brings less profit to the manufacturer. You might, by putting on a high rate of tax, enable the manufacturer to so adjust his price and packages as to pass on more than the tax to the consumer, and some manufacturers have felt that that would be quite worth while, that it would be quite desirable in these days of high prices to enable them to make more money out of the business by having a high tax and then passing on more of the tax to the consumer. There is a great deal to be said in justification of that. But those of us who believe we might thus make additional money for the manufacturer believe

it is the part of wisdom to sacrifice that for the good of the industry. We believe it is best for the Government, which is to secure substantial revenue from the tobacco industry, now, and when these days are past and these increased taxes are no longer in force, that the tobacco business be not crippled. We believe it is best for the leaf-tobacco growers that their prices be not jeopardized by jeopardy to the continuing increasing consumption of what is really their product. We believe it is to our own best interests—we, who are in the business and have our livelihood from it, not for the period of the war, but for our lives—that the business be assured. On these accounts, we are willing to forego the better temporary profits that might come with higher taxes—and that would involve danger.

Senator McCumber. Will you put in the record, if you know it, the approximate number of acres in the United States that is planted to tobacco?

Mr. Parker. I do not know it, but I was going to ask permission to file a brief, anyway, and I will be very glad to furnish that information. I think it is readily obtainable.

The Chairman. When it is received, it will be printed.

(The brief referred to by Mr. Parker was subsequently submitted and is here printed in full, as follows:)

THE AMERICAN TOBACCO CO.,
New York, May 9, 1917.

Hon. F. W. Simmons,
United States Senate, Washington, D. C.

Dear Senator Simmons: On behalf of the American Tobacco Co. I desire to protest against the tax proposed by the House bill now pending to be levied on cigarette paper. The House bill levies a tax of one-fourth of a cent on each booklet containing 25 sheets or less and 2 cents on each booklet containing more than 100 sheets.

This tax on booklets of cigarette paper is part of a bill which, in other parts, increases heavily the tax on tobacco. The purpose of the bill is not understood to be to diminish smoking, whether in pipes or cigarettes; it is not by any means a police law in the guise of a revenue statute; it is in fact a revenue bill, with the rates and details presumably arranged so as to raise a maximum of revenue to the Government and diminish the businesses affected only to a minimum extent.

Cigarette-paper booklets, in respect to their distribution to the trade, are divided into two classes that are as distinctly different from each other as if the products were physically dissimilar. The booklet that is sold is an imported product, each booklet containing from 125 to 175 sheets of cigarette paper; these booklets go to the consumer at 5 cents apiece, and they pay an import duty of 50 per cent ad valorem. There are some 60,000,000 of these booklets imported each year, and they paid an aggregate duty in 1916 of $555,527.10. The second class consists of booklets of 25 sheets each, made of domestic paper, and cheaply bound; these are given away with popular brands of smoking tobacco that are capable of being rolled into cigarettes, at the same time advertising the brands and, which is of infinitely more importance, furnishing facilities for the consumption of the tobacco in cigarettes. It is estimated that there are some 200,000,000 or 250,000,000 of these booklets used and distributed free by tobacco manufacturers.

It is obvious that, as applied to this last class, the effect of the tax on cigarette paper would amount to a substantial increase in the tax on the kind of tobacco that is used in rolling cigarettes, or it would simply prohibit that method of stimulating the consumption of tobacco. "Bull Durham" is the leading brand of smoking tobacco that has its vastly larger use in cigarettes rather than in pipes; "Bull Durham" is now put into bags of 1 ounce each, or 16 packages to the pound (of course, with an increased tax on tobacco these packages will be diminished in size, and the number of packages to the pound correspondingly increased); based on the present tax and packages of "Bull Durham," therefore, the proposed tax of one-fourth of a cent on each cigarette paper booklet

would amount to an increased tax on "Bull Durham" of 4 cents per pound. Of course the tax would not be paid, and the booklets would not be distributed; so from the point of view of revenue there would be on this class of cigarette booklets to the credit side of the ledger precisely nothing on account of the imposition of this tax. It is impossible to state with certainty or accuracy what would be on the debit side of the Government's ledger involved in the diminished consumption of smoking tobacco. Manufacturers have thought that the free distribution of cigarette papers stimulated their business, or they would not have spent the very considerable sums involved in the wholesale distribution gratis of this cigarette paper. With the reduced packages that the increased tax will require, the tobacco trade will need all the stimulation that is practicable in order that its volume may be maintained. And yet this cigarette-paper tax would, at the very time when the trade needs stimulation, require manufacturers to cease the use of their favorite stimulating device, to wit, the free and generous and constant distribution of paper without direct profit to them, but indirectly profitable because it increases the consumption of their brand of tobacco.

With respect to the booklets of cigarette paper that are sold, the facts are not precisely the same, but the principle involved is not dissimilar. All the cigarette-paper booklets that are imported and sold at present are sold at 5 cents apiece. All of them have more than 100 sheets. It would be impossible for any of them to be sold at 5 cents apiece with a tax of 2 cents apiece on them. It is quite impossible to say what would become of this business under the proposed tax. It may be, and is likely true, that raised to a 10-cent basis there would still be some sale for these booklets, but it would be enormously reduced. It may be that most of the business would go to a domestic paper not nearly so good as the foreign paper, as evidenced by the fact that smokers are willing to pay for the foreign paper and use it, although they can get the domestic paper for nothing. If the tendency of this tax is to introduce a domestic paper, the Government would lose all the import duty now collected, amounting to some $500,000 per year, without any assurance that the demand for domestic paper would be sufficiently great to bring in internal-revenue tax compensation for the lost customs duty. Finally, however, and principally, the effect of this diminished consumption of paper, or substitution of an inferior for a superior paper, might well be to diminish the consumption of tobacco, and therefore reduce the revenue from tobacco, as well as disorganize the business to the injury of manufacturers, workers, and tobacco growers.

It seems to us, in all earnestness and with all deference, that this proposed levy of a tax on cigarette paper at the very time of the increased tax on tobacco is grotesquely contrary to the principles that should be paramount, from the standpoint of the Government, in the enactment of a bill of this kind. The tobacco business—the consumption of tobacco—is bound to receive a shock from the largely increased taxes that are being put upon tobacco and its products. The Government is anxious to secure from the whole industry as large a revenue as is possible. Therefore every facility for the stimulation of the business ought to be accorded to manufacturers and merchants. The proposed tax on cigarette paper would be an infinitely small revenue producer at best. There would be involved, as applied to the cigarette-paper booklets that are given away, not a dollar of revenue at all, but a mere elimination of a favorite method of stimulating the business, and as applied to all other booklets of cigarette paper, an embarrassment hard to estimate in advance to facilities for consumption of tobacco.

It is proposed that tobacco shall pay a tax of 12 to 16 cents a pound. It would seem to us to be the part of wisdom for the Government to encourage the manufacturer and the merchant to get every facility to the consumer of tobacco for the consumption of tobacco to the end that the Government collect the 12 to 16 cents on every possible pound. This serves not only the interest of the Government but the interest of the entire trade. To illustrate: If matches had their only utility in the consumption of tobacco, it seems to us that it would be shortsighted to levy a small but prohibitive tax on the giving away of matches and a small, in aggregate results, but extremely burdensome tax on matches that are sold; it seems to us the part of wisdom to encourage, and not discourage, the supply of every article that itself tends to increase the consumption of an article on which substantial taxes are collected, and that any other course is not only "penny-wise and pound-foolish" but that there is involved, instead, the substantial risking of a pound for the uncertain chance of getting a penny.

I have the honor to remain, very truly, yours,

J. Parker.

Mr. PARKER. I assume that when the rate of tax is fixed tentatively or otherwise by this committee, there will be some opportunity to discuss, informally and with the proper ones, the matter of packages. Therefore I do not enter into that at this time.

(Mr. Parker also submitted an additional brief, which is here printed in full as follows:)

Memorandum on behalf of Independent Tobacco Manufacturers' Association, R. J. Reynolds Tobacco Co., Liggett & Myers Tobacco Co., P. Lorillard Co., The American Tobacco Co., Tobacco Products Corporation, and Tobacco Merchants' Association of the United States, on the matter of increased tobacco, snuff, and cigarette taxes.

This protest is filed on behalf and with the authority of the manufacturers of more than 95 per cent of the tobacco and more than 95 per cent of the cigarettes manufactured in the United States. In the judgment of these manufacturers, it is in behalf, too, of thousands of tobacco and cigarette workers, the 600,000 tobacco dealers, and the half-million tobacco farmers of the country.

We realize that these are times of overwhelming seriousness, in which all of us must bear unusual burdens of taxation, and we do not seek to avoid these burdens, nor, indeed, to lighten them in any consciously selfish or self-seeking way. We recognize, though, as an admittedly wise principle in the difficult problems that are to be worked out by this Congress, that the heavy burdens that are to be imposed should be so adjusted as to do a minimum of injury, and bring a minimum of jeopardy to the industry affected. We earnestly believe that to double the tax on tobacco, snuff, and cigarettes violates that principle and will likely injure and certainly jeopardize the industry far beyond what is commensurate with the increased revenue that comes from this very large increase in tax, as compared with the revenue that would come from a more moderate increase. We do not believe, indeed, that a very large increase in the rate of tax will bring an increased revenue at all over what would come from a moderate increase that would leave the industry substantially safe against disintegration or disorganization.

We commend to this committee the conservative action taken by the Ways and Means Committee of the House with respect to cigars. We do not represent cigar interests and have not the slightest disposition to seek to increase the tax on cigars. We assume that there is believed to be an increase in the average rate of tax on cigars of about 40 per cent; this has presumably been adjusted among various classes of cigars—differentiated by weight or price—according to the well-considered judgment of those familiar with the business. We believe that such an increase does not jeopardize the cigar business, and—unfamiliar with the cigar business except in a general way—we believe that a greater rate of increase would jeopardize it.

When it comes to tobacco, snuff, and cigarettes, though, the House bill does not follow this considerate and conservative course; the tax is increased not 40 per cent but 100 per cent. Our problem has not the complications of the cigar business, in that we are satisfied with a flat and simple increase of 40 per cent. With such increase it is certain, if consumption is maintained, that the Government will receive 40 per cent increased revenue; and we call the Internal-Revenue Department to bear witness that the tobacco and cigarette tax is collected more cheaply and easily and readily, dollar for dollar, than any other Federal tax. We appeal for like consideration and conservatism as has been shown cigars. We recognize that there are conditions surrounding the manufacture and marketing of cigars that would make a higher rate of increase difficult and dangerous for the industry to handle. We, too, have our conditions of manufacture and marketing which make it most difficult and dangerous for the industry to handle a larger increased rate than 40 per cent. We believe that with an increase thus limited—that is, an increase of 50 cents per thousand cigarettes and an increase of 3.20 cents per pound on tobacco—we can, as practical tobacco men, reasonably assure the Government against a decline in consumption, and therefore of a prospering industry returning a net increased revenue of 40 per cent on the business.

Let us see what that means: Based upon the last six months of 1916, the tobacco business, including cigars, is paying the Government in direct internal revenue, without counting license fees, corporate or individual income taxes, or

more than $29,000,000 in customs duties on imported tobacco products and raw material, the annual sum of almost precisely $100,000,000. A 40 per cent increase, if we are right in believing that the volume of business could be maintained, would mean $40,000,000 increased revenue. For one industry—and an industry that always, in peace and in war, does excellent service in bearing a part of the burden of Government expense—we submit that $40,000,000 is not a contribution to be deemed insignificant or unworthy.

The Secretary of the Treasury in his comprehensive statement of possible sources of revenue mentioned the doubling of all tobacco taxes as among the possibilities and gave estimates of increased revenue that would follow. His estimate properly and frankly took into account an estimated reduction in consumption because of these enormously increased taxes—in some cases as high as 25 per cent. No one can foretell with certainty what these decreases would be, but 25 per cent is as likely to be accurate as any other estimate, and on that basis we have made a calculation which shows that an advance of 100 per cent in the tax, with a 25 per cent reduction in output, would give the Government only $10,000,000 more revenue than a 40 per cent increase in the tax and an undiminished consumption. We and you have no assurance that 25 per cent loss in output is not too small an estimate. Is it wise to jeopardize a business which means so much to so many citizens, and means so much to the Government itself from the standpoint of constant and reliable revenue production, to secure a possible additional $10,000,000, when even from the standpoint of present revenue production that addition itself is not by any means sure?

Some other significant things were brought out in that calculation: A 25 per cent reduction in the tobacco, snuff, and cigarette business means a reduction of 130,000,000 pounds of leaf tobacco, besides a decrease proportionate that would come from the decrease in number of cigars (which we are unable to figure because of the wide variance in the weight of cigars). Now, it is beyond all question that the thing that above all others stimulates the price of leaf tobacco is the constant and increasing demand for it—that is, the constant and increasing consumption of tobacco, cigars, and cigarettes, of which leaf tobacco is almost the sole component. Those of you whose constituencies grow tobacco know that the course of prices has been upward, and we say to you that this has been so because the consumption of tobacco products has been constantly increasing. What will happen to the prices of the leaf tobacco of the kinds used in smoking and chewing tobacco and cigarettes if the demand during the coming year is cut 130,000,000 pounds? It will affect disastrously the price, not of 130,000,000 pounds, but of every pound that is sold.

According to the reports of the Department of Agriculture of the United States for the year 1915, the last year for which reports are available, the farming lands in tobacco in the United States amounted to 1,368,000 acres. It is safe to assume that this acreage has been increased and not diminished. It is not literally true that this acreage is in absolutely every State, but it is true that to many farmers in many States tobacco is the money crop.

Why do we say that a very high rate of increase in tax will seriously cut consumption? In the first place, the tobacco tax is, of course, a consumer's tax, and higher taxes mean that the consumer will pay more for the same package or get a smaller package for the same money. This inevitably means, in any article sold and consumed as are tobacco and cigarettes, a smaller consumption. We believe that this general and inevitable result would be emphasized in tobacco and cigarettes, because with a high rate of increase the trade would be shocked by the smallness of the package that would be necessary. We are seriously fearful of a psychological, subconscious resentment on the part of consumers that would carry the diminution of consumption clean beyond what cold-blooded economic consideration would lead us to believe. The manufacturer could not absorb the tax, because he is now and without reference to the tax beset by the highest market he has ever had for everything he buys—from labor to the smallest article he uses.

If the trade does diminish because the consumer will not continue purchasing at the higher prices, or, stated otherwise, because of the reduced size of his packages, it means a greater loss to the tobacco grower than is measured by the simple smaller demand, great as that loss would be. This does not mean that manufacturers will by concert of action, or even by conscious and voluntary independent determination, pay less for the leaf in order to "pass on" part of the loss to the farmer. It does mean, though, that the manufacturers under such conditions will diminish and not increase their stocks, and that the

leaf markets will be under the indescribable but all-pervading atmosphere of depression and decline that characterizes a "bear" market. One does not need to be cultured in psychology to feel and know what that means; it is a very real and a very practical matter.

We have stated in all frankness that in our judgment a 40 per cent increase is reasonable, and that so limited we can fairly assure safety to the industry and no substantial decrease of consumption. We realize that we can not dictate, and we realize that we are dealing with men who have a serious and patriotic duty to perform and who are not in the attitude and would not tolerate the attitude in others of 'trading" with the representatives of an industry. We therefore state, in an attempt to aid the committee, that while 40 per cent is to our minds reasonable, and is, in our judgment, the line of safety, we know the industry is secure or insecure in proportion as the increased tax is heavy or light. There is nothing magical about 40 per cent; we believe assurance would be more positive with a 35 per cent increase than with a 40 per cent; the situation would be safer with 50 per cent than with 60 per cent, with 60 per cent than with 70 per cent, and so on. We simply plead for the lowest tax compatible with a fair distribution of the burdens of war, considering the circumstances of the industry.

In this connection we desire to impress on the committee that, considering only the temporary financial welfare of the manufacturer, there are numerous conditions in the industry where a given manufacturer would be benefited and not injured by a higher rather than a lower tax. With a high tax he can make adjustments of his packages or prices that enable him to "pass on" to the consumer more than the tax. We forego these temporary benefits—those of us who believe we could have them under a high tax—for the good of the industry. We believe it is best for the Government, which is to secure substantial revenue from the tobacco industry now, and when these days are past and these increased taxes are no longer in force, that the tobacco business be not crippled; we believe it is best for the leaf tobacco growers that their prices be not jeopardized by jeopardy to the continuing increasing consumption of what is really their product; we believe it is to our own best interests—we, who are in the business and have our livelihood from it not for the period of the war, but for our lives—that the business be assured. On these accounts we are willing to forego the better temporary profits that might come with higher tax—and with danger.

In conclusion, we want to say a few words on comparisons that may be drawn between the tobacco tax levied or increased in the House bill and other taxes. We desire to be understood in these comparisons, as with respect to cigar taxes, as not suggesting, much less arguing, in favor of the increase or against the decrease of any tax: If the income tax and excess-profits tax and corporation-excise tax, it has been said, are to be doubled, why not the tobacco tax? The answer is obvious: All of these are really taxes on possession, accretion, and enjoyment, while the tobacco tax is a tax on consumption. Perhaps ultimately the income tax levied on the owner of a flouring mill, for instance, is to some extent "passed on" to the consumer of the flour, but it is indirect and far off and infinitesimal. The tobacco manufacturer or merchant pays his income tax, or corporation tax, or excess-profits tax (if he has any excess profits) and does not conceive that their payment jeopardizes the business, but recognizes them as personal burdens to be cheerfully or philosophically borne. The increased tobacco tax, though—a certain amount on each unit of his product—ceases to be a personal burden to be borne, but crashes into his business to its immediate and direct dislocation and disarrangement.

Looking through the House bill, other comparisons are inevitable: Tobacco is a luxury, though forming a part, just as coffee, of the supplies of almost every American family and, if what is seen in Europe is a test, of almost every American soldier. Cosmetics and proprietary medicines, chewing gum and golf balls, yachts and jewelry, moving pictures and perfumery are all luxuries; the House bill taxes them 5 per cent. A 5 per cent tax on the luxury, tobacco—and certainly tobacco is no more a luxury than these—based on the prices of the 10 for 5 cents cigarettes to the consumer, would be 25 cents per 1,000 on cigarettes, and on tobacco going to the consumer at 60 cents per pound—and most tobacco goes to the consumer at less than that—it would be 3 cents per pound on tobacco and snuff. Cigarettes now pay $1.25 per 1,000, and not 25 cents, and tobacco 8 cents per pound, and not 3 cents, and it is an advance over these rates that is now being considered.

When it is considered that so great a number of farmers have as their money crop leaf tobacco, and that the price of leaf tobacco is dependent upon the consumption, the taxes now levied upon that industry, as compared with the taxes levied on the consumption of other luxuries, are extremely high. For simplification cigarettes may be mentioned, with the understanding and statement, though, that the figures applicable to them are also applicable to manufactured tobacco and snuff. At the present selling and cost prices cigarettes would, if there were no Federal taxes, pay to the manufacturer substantially $1.75 per 1,000; under the present rate of tax the Government takes $1.25 of this $1.75, or five-sevenths of such available profits. If the tax should be raised to $2.50 per 1,000, there would be the taking by the Government of ten-sevenths of the present available profits. Of course, the manufacturer and merchant could never exist under this condition, and there would therefore be an increased price to the consumer, destructive of the maintenance of the business.

Stated otherwise: Out of an average $5 per thousand paid by consumers for cigarettes, and under the present high prices for leaf tobacco, the farmer perhaps receives 60 cents (cigarettes weigh 3 pounds per thousand, and this is giving 20 cents per pound for the tobacco), out of which he has to pay the expenses of raising the tobacco; the manufacturer, if he is fortunate and has well-established brands, makes 50 cents as his profit; the jobber receives 40 cents, out of which he has to pay the expenses of his business; the retailer makes $1, out of which he has to pay the expenses of his business; while the Government gets $1.25, with an expense of collection of less than one-tenth of 1 per cent.

The industry can not stand the doubling of these taxes. The law of the diminishing returns that accompany excessive prices is as old as John Stuart Mill. It is flying in the face of that law to assume that the diminishing returns would not be overwhelming with the increased charges that would necessarily flow from the doubling of the tobacco, snuff, and cigarette taxes. The estimate of 25 per cent reduction in the volume of business is conservative rather than extravagant.

MAY 14, 1917.

The CHAIRMAN. The committee will now hear Mr. Carrington.

STATEMENT OF MR. T. N. CARRINGTON, REPRESENTING THE TOBACCO ASSOCIATION OF THE UNITED STATES.

Mr. CARRINGTON. Mr. Chairman and gentlemen, I happen at the present time to be the head of an association composed of tobacco dealers and some independent manufacturers, and thought I might present a different side view on this question.

It has been touched on here that the high price of tobacco would reduce consumption. That fact has been borne out by the results of the Spanish War, and also by the amount of tobacco consumed in other places. For instance, in England, with a war tax of 88 cents a pound, the per capita consumption was under 2 pounds. The United States consumption per capita is about 6.6 pounds. I think that is a very concrete illustration to take.

On account of the shipping conditions, there being quite a large crop of tobacco planted, our farmers must depend on the home manufacturers to take care of the situation, and anything tending to disturb conditions will reflect back on the farmer, who is a very important element just now. Tobacco will commence to be put on the market in about six or eight weeks from now, and will be coming on continuously from that time on, and we must have the home manufacturers, as far as we see it now, take care of that tobacco, and anything that will upset that manufacture will certainly have a direct bearing upon the price of tobacco. If he is perplexed and perturbed about the change, he is going to pay less attention to

the accumulation of the leaf, and I would most urgently ask this committee to give due consideration to that, and give the manufacturer ample time to readjust himself to the changed conditions.

It seems to me he ought to have 60 or 90 days before any tax you put on becomes operative. I believe that that would be a most helpful situation to the manufacturer and mean a very small loss to the Government, just the difference between the tax he pays now and the tax you gentlemen will impose upon him to pay during that time.

And do not let it be applied except after that time. A back tax—a retroactive tax—is always very unfortunate, and nobody ever has to pay it who does not think he is treated unfairly. They always think somebody is putting up a job on them.

I believe those are about the only things that I can think of that I can say. I certainly do not want to say anything that will keep the tobacco trade from doing their whole duty. I thank you.

The CHAIRMAN. Now, we will hear Mr. Block.

STATEMENT OF MR. J. A. BLOCK, OF WHEELING, W. VA., REPRESENTING THE INDEPENDENT TOBACCO MANUFACTURERS' ASSOCIATION.

Mr. BLOCK. I want to indorse what Mr. Parker has said. I also want to call the attention of the committee to the effect the increased tax is going to have on the independent manufacturers, especially the small ones. In the past, whenever there has been an increase in the tax, there has always been a number of small manufacturers driven out of business, and I think that will especially apply at this time.

A smaller tax or a tax that would allow them to prepare, or even absorb, the tax would keep them from being driven out of business. In 1898 there was a large number of small manufacturers who were affected by the increased tax and had to go out of business, and in 1900, I think, there were quite a number; and all I ask of this committee is to give this phase of the tax increase consideration.

The CHAIRMAN. You are next, Mr. Crounse.

Sec. 400. CIGARS.

STATEMENT OF MR. WILLIAM L. CROUNSE, REPRESENTING THE NATIONAL CIGAR LEAF TOBACCO ASSOCIATION.

Mr. CROUNSE. Mr. Chairman. I simply wish to file a brief on behalf of Mr. Fox, the chairman of the legislative committee of our association, protesting against the enactment of a graduated tax. We are in favor of a flat tax on cigars.

The CHAIRMAN. Very well; it will be printed.

(The brief referred to by Mr. Crounse is here printed in full, as follows:)

THE NATIONAL CIGAR LEAF TOBACCO ASSOCIATION,
OFFICE OF WASHINGTON REPRESENTATIVE,
WASHINGTON, D. C., *May 10, 1917.*

To the Senate Finance Committee:

GENTLEMEN: The National Cigar Leaf Tobacco Association desires to enter an earnest protest against the graduated internal-revenue tax on cigars proposed in the House bill. This association represents, directly and indirectly, a large proportion of the cigar-manufacturing industry, which will certainly suffer serious injury if Congress decides to adopt the principle upon which this feature of the House bill is framed.

The proposition to impose a graduated internal-revenue tax on cigars is not a new one. In point of fact, it is a relic of the War of the Rebellion, and the experience of the Government and of the trade at that time completely discredited this method of collecting internal-revenue taxes on cigars.

The ad valorem or graduated system was first adopted in the act of July 1, 1862, but the revenues thus derived were not satisfactory and in 1864 an effort was made to augment them by heavy increases in rates. This schedule of taxes also proved unsatisfactory and by act of Congress, approved July 13, 1866, the rates were reduced, and on March 2, 1867, the whole graduated scheme of taxation was abandoned and Congress authorized a flat tax on "cigars, cigarettes, and cheroots of all descriptions made of tobacco or any substitute therefor." Thus for more than 50 years the system of imposing flat rates on cigars has remained in force and Congress has stoutly resisted all efforts made from time to time by special interests to secure the reimposition of graduated rates in order that certain branches of the trade might benefit thereby.

So far as taxes paid into the Treasury are concerned, there is now in effect a graduated system that results in the levying of an impost upon cigars retailing at more than 5 cents that is proportionately heavier than the internal revenue tax on goods retailing at 5 cents or less. If it is an imported cigar of Cuban manufacture, for example, it pays a customs duty of about $60 per thousand in addition to the internal revenue tax of $3 per thousand. If it is a clear Havana cigar made in this country the duty on the imported leaf, wrapper, and filler of which it is composed will amount to at least three times the internal revenue tax, which it also pays. Other cigars in which imported materials are used are also burdened with customs duties in proportion to their content of imported leaf. It is therefore apparent that the present customs duties operate automatically as a graduated tax on nearly all cigars selling at more than 5 cents and which constitute only about 10 per cent of the entire production of the industry.

It should not be assumed that all the cigars retailing at more than 5 cents are made by large concerns, for such is not the case; in fact, a large proportion of the very small cigar factories, in many of which the owners themselves take part in the actual work of cigar making, produce both 5 and 10 cent cigars. A graduated tax of the proportions suggested by the House bill would bear most heavily upon the small producer owning a few brands, whose cost of production even under normal conditions is greater than that of his powerful rivals, who, because of their larger capital and greater consumption of raw material, can make a profit at a price at which he could not afford to sell competing goods.

But the most serious objection to the graduated tax is the temptation it would hold out to unscrupulous manufacturers to place on their goods stamps indicating a value materially in excess of the actual value. Present trade conditions emphasize this point, for the position of the cigar manufacturer to-day is exceedingly precarious. The average well located manufacturer, utilizing all approved labor-saving equipment, is barely making $1 per thousand on his output, and this profit is based on a cost of filler tobacco of about 17 cents per pound. This tobacco was purchased several months ago and is now selling for from 35 to 45 cents. Under such conditions Congress should certainly refrain from any action that will open up to the manufacturer an opportunity for securing an illegitimate profit by stamping his goods to indicate a value which their real quality does not justify. Such action would make the Government a party to such frauds as were perpetrated during the War of the Rebellion, which induced the Internal Revenue Bureau to cooperate with the trade in bringing about the flat rate system of taxation which has since been in force.

The National Cigar Leaf Tobacco Association believes that the entire cigar trade is patriotically willing to bear its full share of taxation and will cheerfully accept an increase in the internal revenue impost, notwithstanding the fact that it must also be burdened by larger income and excess profits taxes. It therefore earnestly urges the adoption of a flat rate of increase of $1 per thousand, which, at the present rate of production, would net approximately $8,000,000 per annum. This amount we believe to be the maximum that can be secured, as we are confident that a higher rate, or any form of graduated tax, would limit consumption and result in the demoralization of the trade. We believe the increase of $1 per thousand can be absorbed by manufacturer, jobber, and retailer, and therefore will not result in an increase in the cost of the goods to the consumer. It is obviously to the interest of both the Government and the trade that there should be no reduction in consumption, especially

in view of the large quantities of imported leaf now used in cigars selling at 5 cents or more. Any substantial curtailment of production would mean not only reduced internal revenue taxes, but very substantial decreases in customs duties paid on foreign tobacco.

Respectfully submitted.

CHAS. FOX,
Chairman Legislative Committee.

(Subsequent to the close of the hearings Mr. Crounse presented a supplemental brief, which is here printed in full, as follows:)

THE NATIONAL CIGAR LEAF TOBACCO ASSOCIATION,
OFFICE OF WASHINGTON REPRESENTATIVE
Washington, D. C., May 16, 1917.

To the Finance Committee of the United States Senate:

On behalf of the National Cigar Leaf Tobacco Association we desire to bring to your attention most urgently the absolute disaster with which our industry is threatened as the result of the proposition contained in the war revenue bill, as framed by the Ways and Means Committee, imposing a war tax of 10 per centum ad valorem on all importations, whether of free or dutiable goods. The matter is one of great importance not only because of the danger which now threatens a great industry but also for the reason that it seriously menaces the revenue derived by the Government therefrom in the form of existing taxes and increases proposed therein aggregating nearly $50,000,000 per annum.

The projected additional ad valorem customs tax on dutiable merchandise would result in a heavy increase in the duties to be paid upon all kinds of imported leaf tobacco, including Sumatra wrappers and Havana wrappers and fillers, very large quantities of which are consumed in this country in the manufacture of cigars. A rough estimate of the increased duty on Sumatra wrappers would be 14 cents per pound, or about 28 cents per thousand cigars. In the case of Havana wrappers, the value of which fluctuates widely from $1.50 to $10 per pound, the increase in duty would be about 40 cents per pound, or about $1.20 per thousand in the quantity required for clear Havana cigars. The increase in the duty on Havana fillers would be about 5 cents per pound, or $1 on sufficient wrappers for a thousand cigars. The increase in the duty on the wrappers and fillers used in the manufacture of 1,000 clear Havana cigars would approximate $2.20.

The Ways and Means Committee, after conferences with various representatives of the trade, including the officers of this association, has fixed upon a schedule of additional internal-revenue taxes to be paid by cigar manufacturers. These increases involve a very heavy burden upon our industry, but one which will be borne as patiently and patriotically as possible. The proposition to impose additional customs duties on our raw material, however, presents a new and most alarming problem, threatening the absolute destruction of our industry.

A few figures will serve to illustrate the effect of the proposed increase in duties. The largest and most important single factor in the cigar industry is that branch engaged in producing the cigar which retails for 5 cents, embracing as it does more than one-half the entire output. No less than 3,000,000,000 cigars of the 8,000,000,000 total production of the industry are retailed for 5 cents wrapped with Sumatra tobacco, the increased cost of which, under the proposed tariff change, would be 28 cents per thousand. This branch of the inustry, now struggling for its existence, must absorb an increased internal-revenue tax of $1 per thousand imposed by the House bill, and, in addition, is confronted by steadily increasing cost of materials and labor. We are at liberty to state to your committee that the largest cigar-manufacturing concern in the United States made a profit of less than $1.50 per thousand on its output of 5-cent cigars during 1916, and we stand ready to furnish you with a sworn transcript from the books of another manufacturer who, though well located as to labor market and well protected as to supply of raw materials, made a profit of but 88 cents per thousand, notwithstanding the fact that his output approximated 70,000,000 cigars. It must be obvious to you that the cigar industry can not stand any burden in addition to the added internal-revenue taxes proposed by this bill, and that any increase in customs duties on leaf tobacco will so demoralize the entire trade and restrict its production that the Government will lose far more in combined internal-revenue and customs duties than it can possibly gain through the proposed increases.

The economic considerations here presented to you are of absolutely universal application, and we would especially direct your attention to the fact that in Canada, where a war customs tax of 7½ per cent is imposed on certain imported merchandise, tobacco has been expressly exempted because an additional internal-revenue tax upon cigars was imposed and the Government was unwilling either to double tax the industry or to imperil its own receipts from the increased internal-revenue tax by the imposition of a burdensome and impracticable customs duty on the raw material of the manufacturer.

Another important fact, bearing directly upon the proposal to increase the duties on leaf tobacco, is the impossibility of determining the foreign-market value of the merchandise. Habana tobacco is purchased by American buyers largely in vegas, or lots, at a round price for the vega, and is afterwards subdivided and a part sold in Habana, while the remainder is brought to the United States. A vega will include numerous grades, and it is therefore absolutely impossible to fix a hard and fast foreign market price on the portion shipped to this cou 'ry. With respect to Sumatra, which is purchased almost exclusively at the auction sales held in Amsterdam, American buyers frequently buy lots, all of which are not available for use in the manufacture of cigars in the United States and a part of which are resold to other buyers. It must be remembered that the individual requirements of the manufacturer have much to do with the price of leaf tobacco, that which is greatly desired by one factory being almost valueless to another. Under these conditions it will readily be seen that it is absolutely impossible to satisfactorily enforce the collection of an ad valorem duty on leaf tobacco. Such a duty would open the door to fraud and would thoroughly demoralize both the leaf trade and the cigar-manufacturing industry. If, in the wisdom of your committee, it is absolutely essential that an import duty shall be levied upon leaf tobacco, which we sincerely trust will not be done, we earnestly urge you to make the rate specific in order that honest importers and manufacturers may be guarded against the results of fraudulent invoicing. We would further draw attention to the fact that an increase of 10 per cent in the specific duty on leaf tobacco would produce considerably more revenue than an ad valorem increase.

We would especially impress upon your committee the importance, from the standpoint of the revenue to be derived by the Government, of enabling the cigar trade to contine to sell a nickel cigar for 5 cents. This can not be done if the trade is made to bear an additional burden, and it is believed that any attempt to make a substantial saving either by reducing the cost of labor or of raw material would result in failure. Obviously, the substitution of domestic for imported leaf would cost the Government millions in customs revenue and would doubtless prove so unsatisfactory to the consumer that the production of cigars would ultimately decline heavily, thereby causing additional loss in internal-revenue taxes. Any increase in retail price would, of course, reduce consumption and correspondingly curtail revenue.

We yield to no trade in patriotism or public spirit, and we will bear as philosophically as possible the increased internal-revenue taxes imposed by this bill, but we wish to assure you that we are absolutely sincere in the statement which we here solemnly make, that any increase in the customs duties on tobacco at this time will be fraught with the gravest consequences to our industry and to the revenue derived by the Government therefrom.

Respectfully submitted.

National Cigar Leaf Tobacco Association,
Joseph F. Cullman, Jr., *President.*
Joseph Mendelsohn, *Secretary.*
Chas. Fox, *Chairman Legislative Committee.*
W. L. Crounse, *Washington Representative*

The Chairman. Next we will hear Mr. Perkins.

STATEMENT OF MR. G. W. PERKINS, PRESIDENT OF THE CIGAR MAKERS' INTERNATIONAL UNION.

Mr. Perkins. Mr. Chairman, first, may I say that I do not know of anyone in the trade but what expects to carry his full share of the burden to enable our Government to successfully prosecute this war to a speedy and successful end. I do not represent the manufacturers in this hearing—I represent directly and speak in behalf of the

50,000 organized workmen in the cigar industry and indirectly all the workmen employed at the industry. There are about 110,000 people actually employed at cigar making, exclusive of the stripper, clerks, and unskilled workers, besides the manufacturers, superintendents, foremen, etc.

The cigar industry ranks about fifth or sixth among the great industries in our country, and the total annual value of cigars produced is about $400,000,000. The wages paid amount to about $75,000,000 a year.

Tariff duties and internal-revenue tax has been a part of and have affected our industry since 1862. Because of this it is slightly different from other industries which have not had to pay a direct tax. The action taken by this Congress at this time will have a far-reaching effect for good or evil to our industry. We naturally oppose any material increase in the internal-revenue tax, as it amounts to a direct tax upon the industry.

We hold that in the present crisis confronting our country caused by the war, and the necessity of raising sufficient revenue to successfully prosecute the war, that no legitimate industry such as ours should be singled out and made to carry more than its share of the burden. As loyal, patriotic citizens, willing and determined to support the Government in this or any other crisis, we expect to carry our full share of the burden and to discharge all of our obligations. This we will do uncomplainingly, but protest against being asked to carry, as an industry, more than any other industry.

The steadily increasing cost of living has precipitated a crisis in the cigar industry. The price of tobacco suitable for cigar purposes is constantly tending upward. Any material increase in the internal revenue tax would be an added burden which the trade could ill afford to carry. To find the means financially and otherwise to successfully carry on the war is of vital importance, and all good men and loyal citizens will bend their minds and energies to the utmost in that direction. However, I hold that the present and future economic well-being of the masses should not be sacrificed in this effort, and I hold it is not necessary. No one trade should be singled out and asked to carry more than its share of the burden. Some industries will be disarranged but none should be destroyed. The period of reconstruction after destructive catastrophes carries with it financial burdens almost as heavy as the ones carried during the actual conflict. To maintain our industries intact with a minimum amount of energy will be helpful and beneficial and have a far-reaching effect during the period of reconstruction.

Working men and working women employed in any industry should be made to feel that their economic and social well-being is being considered and safeguarded to the limit in the construction of our war policies and the means to carry forward the war. Such an attitude on the part of our representatives tends to develop the highest kind and type of patriotism. In this war we need hearty and cheerful cooperation of all men and women, both in and out of active service. The cost of living which has been steadily advancing for the last two years has brought about a feeling of unrest, not against our country but, rather, in the direction of an effort to secure more wages in order to meet the high cost of living. A great many of our manufacturers have had to advance the wage scale.

They are paying from 75 per cent to as high as 300 per cent more for good tobacco to-day than they have paid in former years. Many reputable manufacturers, who have been doing business for the last year or two with scarcely any margin of profit, unhesitatingly say that if the cost of production is enhanced to any appreciable extent by internal-revenue taxation they will reluctantly be forced out of business. The cigar industry has always carried a burden in the shape of taxation which other industries have not had to shoulder.

It should be remembered that to sustain life cigars, like many other things made, used, and consumed, are not absolutely necessary. Hence, in the face of the increased cost of living for what may be termed actual necessities, the smoker can dispense with his cigar and stifle the craving of appetite with tobacco from which the Government receives mighty little revenue.

I have personally visited many foreign countries and have especially studied the cigar industry in each. I find that in England, where the Government kept piling up the tax on cigars, that they finally practically taxed cigars out of existence, and thereby lost a source of considerable revenue.

I desire to submit a brief on this matter with the hope it will be printed.

The CHAIRMAN. It will be done.

(The brief referred to by Mr. Perkins was subsequently submitted and is here printed in full, as follows:)

CIGAR MAKERS' INTERNATIONAL UNION,
Chicago, Ill.

To the FINANCE COMMITTEE,
United States Senate:

In this hearing I represent directly and speak in behalf of the 50,000 organized workmen in the cigar industry, and indirectly all the workmen employed at the industry. There are about 110,000 people actually employed at cigar making, exclusive of the strippers, clerks, and unskilled workers, besides the manufacturers, superintendents, foremen, etc. The cigar industry ranks about fifth or sixth among the great industries of our country, and the total annual value of cigars produced is about $400,000,000. The wages paid amount to about $75,000,000 a year.

Tariff duties and internal-revenue tax have been a part of and have affected our industry since 1862. Because of this it is slightly different from other industries which have not had to pay a direct tax. The action taken by this Congress at this time will have a far-reaching effect for good or evil to our industry. We naturally oppose any material increase in the internal-revenue tax, as it amounts to a direct tax upon the industry.

We hold that in the present crisis confronting our country, caused by the war, and the necessity of raising sufficient revenue to successfully prosecute the war, that no legitimate industry such as ours should be singled out and made to carry more than its share of the burden. As loyal, patriotic citizens, willing and determined to support the Government in this or any other crisis, we expect to carry our full share of the burden and to discharge all of our obligations. This we will do uncomplainingly, but protest against being asked to carry as an industry more than any other industry.

The steadily increasing cost of living has precipitated a crisis in the cigar industry. The price of tobacco suitable for cigar purposes is constantly tending upward. Any material increase in the internal-revenue tax would be an added burden which the trade could ill afford to carry. To find the means, financially and otherwise, to successfully carry on the war is of vital importance, and all good men and loyal citizens will bend their minds and energies to the utmost in that direction. However, I hold that the present and future economic well being of the masses should not be sacrificed in this effort, and I hold it is not necessary. No one trade should be singled out and asked to carry more than its share of the burden. Some industries will be disarranged

but none should be destroyed. The period of reconstruction after destructive catastrophies carries with it financial burdens almost as heavy as the ones carried during the actual conflict. To maintain our industries intact with a minimum amount of energy will be helpful and beneficial and have a far-reaching effect during the period of reconstruction.

Working men and working women employed in any industry should be made to feel that their economic and social well being is being considered and safeguarded to the limit in the construction of our war policies and the means to carry forward the war. Such an attitude on the part of our representatives tends to develop the highest kind and type of patriotism. In this war we need hearty and cheerful cooperation of all men and women, both in and out of the active service. The cost of living, which has been steadily advancing for the last two years, has brought about a feeling of unrest, not against our country but rather in the direction of an effort to secure more wages in order to meet the high cost of living. A great many of our manufacturers have had to advance the wage scale. They are paying from 75 per cent to as high as 300 per cent more for good tobacco to-day than they have paid in former years. Many reputable manufacturers who have been doing business for the last year or two with scarcely any margin of profit, unhesitatingly say that if the cost of production is enhanced to any appreciable extent by internal-revenue taxation they will reluctantly be forced out of business. The cigar industry has always carried a burden in the shape of taxation which other industries have not had to shoulder.

It should be remembered that to sustain life cigars, like many other things made, used, and consumed, are not absolutely necessary. Hence, in the face of the increased cost of living for what may be termed actual necessities, the smoker can dispense with his cigar and stifle the craving of appetite with tobacco from which the Government receives mighty little revenue.

I have personally visited many foreign countries and have especially studied the cigar industry in each. I find that in England, where the Government kept piling up the tax on cigars, that they finally practically taxed cigars out of existence, and thereby lost a source of considerable revenue. This is true in all foreign countries where taxation has been crowded to a point where it meant confiscation.

The cigar industry now pays directly through the internal-revenue tax alone, about $25,000,000 annually. Aside from this it pays a considerable tax through import duties and licenses. To increase the already excessive tax on cigars to any appreciable extent will have a tendency, as it has had in other countries, to curtail the output of cigars, and with it a corresponding loss of revenue for our Government.

It seems to me that the part of wisdom would be to keep the cigar trade as a revenue-producing means rather than, through false economy, to cripple or tax it out of existence. The trade gives employment to thousands of people, who by training and age can not very well be crowded into other industries with any degree of efficiency.

This is everybody's war. The burden of taxation to maintain it should be distributed as nearly as possible equally upon all. All participate in the glories of our country during peace, in its achievements and its prosperity, and enjoy the priceless boon of democracy, and all should contribute equally, man for man, industry for industry, for the perpetuity and maintenance of our common country.

G. W. PERKINS,
President Cigar Makers' International Union.

Mr. PERKINS. The cigar industry now pays directly through the internal-revenue tax alone about $25,000,000 annually. Aside from this it pays a considerable tax through import duties and licenses. To increase the already excessive tax on cigars to any appreciable extent will have a tendency, as it has had in other countries, to curtail the output of cigars, and with it a corresponding loss of revenue for our Government.

It seems to me that the part of wisdom would be to keep the cigar trade as a revenue-producing means rather than to, through false economy, cripple or tax it out of existence. The trade gives employment to thousands of people, who by training and age can not

very well be crowded into other industries with any degree of efficiency.

This is everybody's war. The burden of taxation to maintain it should be distributed as nearly as possible equally upon all. All participate in the glories of our country during peace, in its achievements, and its prosperity, and enjoy the priceless boon of democracy, and all should conrtibute equally, man for man, industry for industry, for the perpetuity and maintenance of our common country.

ADDITIONAL BRIEFS RELATING TO CIGARS AND TOBACCO, FILED WITH THE COMMITTEE.

Letter from the Retail Druggists' Association of Chicago, Ill.

CHICAGO, ILL., *April 27, 19[illegible].*

Hon. F. M. SIMMONS,
Chairman Senate Finance Committee, Washington, D. C.:

Whereas it is understood that the United States Government is about to increase the internal-revenue tax on cigars; and

Whereas the advance in price of tobacco products due to the increased cost of production has been such that a large portion of the profit of the retailer has been destroyed; and

Whereas an increase in tax of $2 or $3 per pound would further reduce our profit approximately three or six per cent on our sales: Now therefore be it

Resolved, That the Association of Retail Druggists of the State of Illinois, selling tobacco products, respectfully request the finance Committee of the United States Senate and the Ways and Means Committee of the House of Representatives to limit the weight of cigars sold a 5 cents, 6 cents, 10 cents, and 12½ cents each, with the object in view that the sizes may be reduced, which will increase the per thousand consumption, decrease our cost sufficient to pay the increased tax, stop the waste now existing in the use of large cigars, and bring to the Government the additional income desired.

Resolved further, That as the weight of contents of smoking tobacco packages selling at a fixed price is regulated, and as the weight of cigarettes must not by law exceed 3 pounds per thousand; and as the all-tobacco cigarette if 3 pounds or less pays a cigarette tax and if over 3 pounds pays full cigar tax, and also as the import duty on imported cigars is based upon the pound weight of such cigars, that the Government should either limit the weight of cigars retailing at certain prices or spread the tax upon the pound weight of cigars, as they are manufactured tobacco.

Resolved further, That as the financial condition of many retailers is in a serious condition and needs immediate relief, we ask that our request be granted; and also that coupons of every kind be taxed 2 per cent on a dollar's purchase, as the coupon is one of the instruments by which the business of the retailer is being destroyed.

Respectfully submitted.

RETAIL DRUGGISTS' ASSOCIATION.

Petition signed by N. P. Anderson and W. M. Carter, of Wilson, N. C.

PROPOSED WAR TAX ON CIGARETTES.

WILSON, N. C., *May 14, 1917.*

To the honorable Finance Committee of the United States Senate:

It is respectfully urged upon your attention that the uniform tax of $1.25 per thousand on cigarettes made of tobacco, or any substitute made therefor, made in or imported into the United States and weighing not more than 3 pounds per thousand, as provided in lines 19, 20, 21, and 22, on page 16 of House bill 4280, reported by the Committee on Ways and Means on May 9, 1917, is unfair and is an unjust discrimination against cigarettes manufactured from the light tobacco grown in eastern North Carolina and South Carolina, as well as certain sections of Kentucky and Virginia.

Your attention is earnestly directed to the fact that the cigarettes manufactured from tobaccos grown in eastern North Carolina, South Carolina, and certain parts of Kentucky and Virginia are uniformly sold to the consumer at 5 cents per package, each package containing 10 cigarettes. The tax heretofore imposed on these cigarettes is $1.25 per thousand, and these cigarettes cost the retailer about $4 per thousand. With an added tax of $1.25 per thousand, they will necessarily cost the retailer around $5.25 per thousand, and can not be sold for 5 cents. This tax is an unjust discrimination against this particular grade of tobacco for the reason that cigarettes selling for 10, 15, 20, 25, and 50 cents per package of 10 cigarettes, of practically the same weight will bear the same rate of taxation, with the result that the cigarette now selling for 15 cents and upward per package of 10 cigarettes can still be sold at the former price with a margin of profit left to the manufacturer and dealer. The same is true of all other cigarettes selling for more than 5 cents a package. In other words, the cigarettes which are now sold for 10 cents and more per package, if they are to be taxed only as the 5-cent cigarette is taxed, will have such an advantage over the 5-cent cigarette that this cigarette will necessarily be forced out of business, leaving the field entirely open to the higher priced product.

We especially call your attention to the fact that the higher-priced cigarette—that is, cigarettes selling from 10 to 25 cents and upward per package of 10 cigarettes—are manufactured largely from a combination of imported tobaccos blended with some domestic tobacco, the amount of American-grown tobacco in these cigarettes being small. It is therefore apparent that a uniform tax of $1.25 per thousand on all cigarettes weighing not more than 3 pounds per thousand would destroy the business of the manufacturers and dealers whose cigarettes are manufactured from American-grown tobacco, and would monopolize the cigarette market for those manufacturers whose cigarettes are manufactured almost entirely from tobacco imported from other countries.

We direct your attention to the fact that the tax as proposed on cigars in section 400 of House resolution 4280 is based upon the retail price of the cigars, the tax increasing as the retail price of cigars increase; this notwithstanding the fact that a very large percentage of cigars selling for 10 cents each and upward are manufactured entirely from tobaccos grown in America, it being true, however, that a number of high-priced cigars are manufactured from tobacco imported from other countries.

A graduated tax on cigarettes along the same plan as that employed in the taxing of cigars would result (*a*) in a very large increase in revenue to the Government (*b*) in giving to the manufacturer of home-grown tobacco an opportunity to compete with the higher-priced cigarette, and (*c*) a more equal burden will be placed upon the consumer of tobacco, in that the consumer who chooses to buy a high-priced cigarette made of imported tobacco will be paying more of the taxes required than the more humble man who from necessity smokes a 5-cent cigarette.

This brief is filed not for the manufacturers of cigarettes but in behalf of the producers of the tobacco from which 5-cent cigarettes are manufactured, it being perfectly apparent that if the 5-cent cigarette is put out of business because of the tax which it has to share equally with the 25-cent cigarette that the demand for the tobacco from which the 5-cent cigarette is made will practically cease, with the result to the producers of this tobacco that if produced at all it will be without demand and at a very great loss. If the plan of taxation could be observed as suggested herein, the production of bright-leaf tobacco in North and South Carolina, Kentucky, and Virginia would still find practically the same demand for their product that now exists.

It is respectfully urged, however, that the adoption by the Congress of the flat tax of $1.25 per thousand on all cigarettes made in or imported into the United States and weighing not more than 3 pounds per thousand will result in the destruction of a business which has heretofore meant to the farmers of these States many millions of dollars.

It is suggested and insisted that the reason why the committee representing tobacco manufacturers, who appeared before your committee on May 11, 1917, did not make any point of this plan of taxing cigarettes somewhat in proportion to the retail price of the cigarettes is because these same manufacturers are largely engaged in the manufacture of cigarettes from an imported tobacco and a cigarette that sells on the market to the consumer at 15 cents and more per package. They were aware, of course, that a flat tax of $1.25 per thousand, while it would practically eliminate the 5-cent cigarette from the market would

be a saving of many million dollars in taxation on the higher-priced cigarette manufactured from imported tobacco, which cigarette is able to stand the tax without a change in price to the consumer.

It is respectfully urged that the cigarette retailing at 5 cents per package of 10 cigarettes, already carrying a tax of $1.25 per thousand, should not be taxed to the point where it can no longer be sold for 5 cents, and it is submitted that a tax in excess of 40 per cent of the present tax should not be imposed on the 5-cent cigarette.

Respectfully submitted.

W. P. ANDERSON.
W. M. CARTER.

Memorandum on Behalf of Independent Tobacco Manufacturers' Association, R. J. Reynolds Tobacco Co., Liget & Myers Tobacco Co., P. Lorillard Co., The American Tobacco Co., Tobacco Products Corporation, and Tobacco Merchants' Association of the United States.

This protest is filed on behalf and with the authority of the manufacturers of more than 95 per cent of the tobacco and more than 95 per cent of the cigarettes manufactured in the United States. In the judgment of these manufacturers it is in behalf, too, of the thousands of tobacco and cigarette workers, the 600,000 tobacco dealers, and the half million tobacco farmers of the country.

We realize that these are times of overwhelming seriousness, in which all of us must bear unusual burdens of taxation, and we do not seek to avoid these burdens, nor, indeed, to lighten them in any consciously selfish or self-seeking way. We recognize, though, as an admittedly wise principle in the difficult problems that are to be worked out by this Congress, that the heavy burdens that are to be imposed should be so adjusted as to do a minimum of injury and bring a minimum of jeopardy to the industry affected. We earnestly believe that to double the tax on tobacco, snuff, and cigarettes violates that principle and will likely injure and certainly jeopardizes the industry far beyond what is commensurate with the increased revenue that comes from this very large increase in tax as compared with the revenue that would come from a more moderate increase. We do not believe, indeed, that a very large increase in the rate of tax will bring an increased revenue at all over what would come from a moderate increase that would leave the industry substantially safe against disintegration or disorganization.

We commend to this committee the conservative action taken by the Ways and Means Committee of the House with respect to cigars. We do not represent cigar interests and have not the slightest disposition to seek to increase the tax on cigars. We assume that there is believed to be an increase in the average rate of tax on cigars of about 40 per cent; this has presumably been adjusted among various classes of cigars—differentiated by weight or price—according to the well-considered judgment of those familiar with the business. We believe that such an increase does not jeopardize the cigar business, and, unfamiliar with the cigar business except in a general way, we believe that a greater rate of increase would jeopardize it.

When it comes to tobacco, snuff, and cigarettes, though, the House bill does not follow this considerate and conservative course—the tax is increased not 40 per cent, but 100 per cent. Our problem has not the complications of the cigar business in that we are satisfied with a flat and simple increase of 40 per cent; with such increase it is certain, if consumption is maintained, that the Government will receive 40 per cent increased revenue—and we call the Internal-Revenue Department to bear witness that the tobacco and cigarette tax is collected more cheaply and easily and readily, dollar for dollar, than any other Federal tax. We appeal for like consideration and conservatism as has been shown cigars. We recognize that there are conditions surrounding the manufacture and marketing of cigars that would make a higher rate of increase difficult and dangerous for the industry to handle. We, too, have our conditions of manufacture and marketing which make it most difficult and dangerous for the industry to handle a larger increased rate than 40 per cent. We believe that with an increase thus limited—that is, an increase of 50 cents per thousand cigarettes and an increase of 3.20 cents per pound on tobacco—we can, as practical tobacco men, reasonably assure the Government against a decline in consumption, and therefore of a prospering industry returning a net increased revenue of 40 per cent on the business.

Let us see what that means: Based upon the last six months of 1916, the tobacco business, including cigars, is paying the Government in direct internal revenue, without counting license fees, corporate or individual income taxes, or more than $29,000,000 in customs duties on imported tobacco products and raw material the annual sum of almost precisely $100,000,000. A 40 per cent increase, if we are right in believing that the volume of business could be maintained, would mean $40,000,000 increased revenue. For one industry—and an industry that always, in peace and in war, does excellent service in bearing a part of the burden of governmental expense—we submit that $40,000,000 is not a contribution to be deemed insignificant or unworthy.

The Secretary of the Treasury in his comprehensive statement of possible sources of revenue, mentioned the doubling of all tobacco taxes as among the possibilities, and gave estimates of increased revenue that would follow. His estimate properly and frankly took into account an estimated reduction in consumption because of these enormously increased taxes—in some cases as high as 25 per cent. No one can foretell with certainty what these decreases would be, but 25 per cent is as likely to be accurate as any other estimate, and on that basis we have made a calculation which shows that an advance of 10 per cent in the tax, with a 25 per cent reduction in output would give the Government only $10,000,000 more revenue than a 40 per cent increase in the tax and an undiminished consumption. We and you have no assurance that 25 per cent loss in output is not too small an estimate. Is it wise to jeopardize a business which means so much to so many citizens—and means so much to the Government itself from the standpoint of constant and reliable revenue production—to secure a possible additional $10,000,000, when even from the standpoint of present revenue production that addition itself is not by any means sure?

Some other significant things were brought out in that calculation. A 25 per cent reduction in the tobacco, snuff, and cigarette business means a reduction of 130,000,000 pounds of leaf tobacco, besides a decrease proportionate that would come from the decrease in number of cigars (which we are unable to figure because of the wide variance in the weight of cigars). Now, it is beyond all question that the thing that above all others stimulates the price of leaf tobacco is the constant and increasing demand for it—that is, the constant and increasing consumption of tobacco, cigars, and cigarettes of which leaf tobacco is almost the sole component. Those of you whose constituencies grow tobacco know that the course of prices have been upward, and we say to you that this has been so because the consumption of tobacco products has been constantly increasing. What will happen to the prices of the leaf tobacco of the kinds used in smoking and chewing tobacco and cigarettes if the demand during the coming year is cut 130,000,000 pounds It will affect disastrously the price, not of 130,000,000 pounds, but of every pound that is sold.

According to the reports of the Department of Agriculture of the United States for the year 1915, the last year for which reports are available, the farming lands in tobacco in the United States amounted to 1,368,000 acres. It is safe to assume that this acreage has been increased and not diminished. It is not literally true that this acreage is in absolutely every State, but it is true that to many farmers in many States tobacco is the money crop.

Why do we say that a very high rate of increase in tax will seriously cut consumption? In the first place, the tobacco tax is, of course, a consumer's tax, and higher taxes mean that the consumer will pay more for the same package, or get a smaller package for the same money. This inevitably means, in any article sold and consumed as are tobacco and cigarettes, a smaller consumption. We believe that this general and inevitable result would be emphasized in tobacco and cigarettes, because with a high rate of increase the trade would be shocked by the smallness of the package that would be necessary. We are seriously fearful of a psychological, subconscious resentment on the part of consumers that would carry the diminution of consumption clean beyond what cold-blooded economic consideration would lead us to believe. The manufacturer could not absorb the tax, because he is now, and without reference to the tax, beset by the highest market he has ever had for everything he buys--from labor to the smallest article he uses.

If the trade does diminish, because the consumer will not continue purchasing at the higher prices, or stated otherwise, because of the reduced size of his packages, it means a greater loss to the tobacco grower than is measured by the simple smaller demand, great as that loss would be. This does not mean that manufacturers will by concert of action, or even by conscious and voluntary independent determination, pay less for the leaf in order to "pass on"

part of the loss to the farmer. It does mean, though, that the manufacturers under such conditions will diminish, and not increase, their stocks, and that the leaf markets will be under the indescribable but all-pervading atmosphere of depression and decline that characterizes a "bear" market. One does not need to be cultured in psychology to feel and know what that means—it is a very real and a very practical matter.

We have stated in all frankness that in our judgment a 40 per cent increase is reasonable, and that, so limited, we can fairly assure safety to the industry, and no substantial decrease of consumption. We realize that we can not dictate, and we realize that we are dealing with men who have a serious and patriotic duty to perform, and who are not in the attitude, and would not tolerate the attitude in others, of "trading" with the representatives of an industry. We therefore state, in an attempt to aid the committee, that while 40 per cent is to our minds reasonable, and is in our judgment the line of safety, we know the industry is secure or insecure in proportion as the increased tax is heavy or light. There is nothing magical about 40 per cent; we believe assurance would be more positive with a 35 per cent increase than with a 40 per cent; the situation would be safer with 50 per cent than with 60 per cent; with 60 per cent than with 70 per cent, and so on. We simply plead for the lowest tax compatible with a fair distribution of the burdens of war, considering the circumstances of the industry.

In this connection we desire to impress on the committee that, considering only the temporary financial welfare of the manufacturer, there are numerous conditions in the industry where a given manufacturer would be benefited and not injured by a higher, rather than a lower, tax. With a high tax he can make adjustments of his packages or prices that enable him to "pass on" to the consumer more than the tax. We forego these temporary benefits—those of us who believe we could have them under a high tax—for the good of the industry. We believe it is best for the Government, which is to secure substantial revenue from the tobacco industry, now, and when these days are past and these increased taxes are no longer in force, that the tobacco business be not crippled; we believe it is best for the leaf-tobacco growers that their prices be not jeopardized by jeopardy to the continuing increasing consumption of what is really their product; we believe it is to our own best interests—we, who are in the business and have our livelihood from it, not for the period of the war but for our lives—that the business be assured. On these accounts we are willing to forego the better temporary profits that might come with higher tax—and with danger.

In conclusion, we want to say a few words on comparisons that may be drawn between the tobacco tax levied or increased in the House bill, and other taxes. We desire to be understood in these comparisons, as with respect to cigar taxes, as not suggesting, much less arguing, in favor of the increase or against the decrease of the tax. If the income tax, and excess-profits tax, and corporation-excise tax, it has been said, are to be doubled, why not the tobacco tax? The answer is obvious: All of these are really taxes on possession, accretion, and enjoyment, while the tobacco tax is a tax on consumption. Perhaps ultimately the income tax levied on the owner of a flouring mill, for instance, is to some extent "passed on" to the consumer of the flour, but it is indirect and far off and infinitestimal. The tobacco manufacturer, or merchant, pays his income tax, or corporation tax, or excess-profits tax (if he has any excess profits) and does not conceive that their payment jeapordizes the business, but recognizes them as personal burdens to be cheerfully, or philosophically, borne. The increased tobacco tax though—a certain amount on each unit of his product—ceases to be a personal burden to be borne, but crashes into his business to its immediate and direct dislocation and disarrangement.

Looking through the House bill, other comparisons are inevitable: Tobacco is a luxury, though forming a part, just as coffee, of the supplies of almost every American family; and, if what is seen in Europe is a test, of almost every American soldier. Cosmetics and proprietary medicines, chewing gum, and golf balls, yachts and jewelry, moving pictures and perfumery, are all luxuries; the House bill taxes them 5 per cent. A 5 per cent tax on the luxury, tobacco—and certainly tobacco is no more a luxury than these—based on the prices of the 10 for 5 cigarettes to the consumer, would be 25 cents per thousand on cigarettes, and on tobacco going to the consumer at 60 cents per pound (and most tobacco goes to the consumer at less than that) it would be 3 cents per pound on tobacco and snuff! Cigarettes now pay $1.25 per thousand, and not 25 cents, and tobacco 8 cents per pound, and not 3 cents, and it is an advance over these rates that is now being considered!

When it is considered that so great a number of farmers have as their money crop of tobacco, and that the price of leaf tobacco is dependent upon the consumption, the taxes now levied upon that industry as compared with the taxes levied on the consumption of other luxuries, are extremely high. For simplification, cigarettes may be mentioned, with the understanding and statement, though, that the figures applicable to them are also applicable to manufactured tobacco and snuff: At the present selling and cost prices, cigarettes would, if there were no Federal taxes, pay to the manufacturer substantially $1.75 per thousand—under the present rate of tax the Government takes $1.25 of this $1.75, or five-sevenths of such available profits. If the tax should be raised to $2.50 per thousand, there would be the taking by the Government of ten-sevenths of the present available profits. Of course, the manufacturer and merchant could never exist under this condition, and there would therefore be an increased price to the consumer destructive of the maintenance of the business.

Stated otherwise, out of an average $5 per thousand paid by consumers for cigarettes, and under the present high prices for leaf tobacco, the farmer perhaps receives 60 cents (cigarettes weigh 3 pounds per thousand, and this is giving 20 cents per pound for the tobacco), out of which he has to pay the expenses of raising the tobacco; the manufacturer, if he is fortunate and has well-established brands, makes 50 cents as his profit; the jobber receives 40 cents out of which he has to pay the expenses of his business; the retailer makes $1 out of which he has to pay the expenses of his business; while the Government gets $1.25 with an expense of collection of less than one-tenth of 1 per cent.

The industry can not stand the doubling of these taxes. The law of the diminishing returns that accompany excessive prices is as old as John Stuart Mill. It is flying in the face of that law to assume that the diminishing returns would not be overwhelming with the increased charges that would necessarily flow from the doubling of the tobacco, snuff, and cigarette taxes. The estimate of 25 per cent reduction in the volume of business is conservative rather than extravagant.

MAY 14, 1917.

Letter from the Independent Tobacco Manufacturers' Association of the United States.

WASHINGTON, *April 24, 1917.*

Hon. F. M. SIMMONS,
Chairman Senate Finance Committee, Washington, D. C.

SIR: On behalf of the Independent Tobacco Manufacturers' Association of the United States, composed of independent tobacco manufacturers residing in Louisville, Covington, New Orleans, St. Louis, Dubuque, Milwaukee, Detroit, Rochester, Utica, Albany, Winston-Salem, Richmond, Lynchburg, and Wheeling, and other places, we beg to submit the following statement in regard to the proposed increase in taxes and change of statutory packages of tobacco:

As your committee is fully aware, owing to the increased cost of everything in connection with the manufacture of tobacco, some increases being as much as 300 per cent, the independent manufacturers can ill afford at this time any additional burdens; but realizing that we should bear our proportion of the expenses incident to the war in which we are now engaged, the association, after careful consideration, have unanimously resolved that we suggest to your honorable committee that the tax on manufactured tobacco and snuff be increased 50 per cent—that is, from 8 to 12 cents per pound—and that the tax on cigarettes weighing less than 3 pounds per thousand be increased 60 per cent, or from $1.25 to $2 per thousand. We further suggest that additional statutory packages of smoking tobacco and snuff be authorized—that is, of seven-eighths of an ounce, 1¼, 1⅜, 1⅝, and 1⅞—in addition to those now in use.

Our association also unanimously adopted a resolution petitioning that the provisions of the Dingley tariff law prohibiting the packing of coupons in statutory packages of tobacco be reenacted, and it further desires that the provision for the sale of free leaf tobacco be rescinded. It is obvious that any increase in the tax on manufactured tobacco increases the premium upon irregularities committed under the free-leaf law.

Respectfully submitted.

J. A. BLOCK, *President.*

WILLIAM T. REED,
Chairman Legislative Committee.

Letter from Mr. J. M. Light, Secretary of the Retail Druggist Association of Illinois.

PROPOSED INCREASED TAX ON CIGARS.

CHICAGO, ILL., *May 9, 1917.*

WAYS AND MEANS COMMITTEE,
House of Representatives, Washington, D. C.

GENTLEMEN: As conditions make necessary an increase in the internal-revenue tax on cigars, it is proper that a way for collecting the increase be adopted that will do the least harm to those engaged in the industry. In our judgment, this can best be accomplished by establishing a maximum weight for cigars retailing at certain prices, and beg leave to submit the following schedule:

Cigars to retail at more than 4 cents and not more than 6 cents each, maximum weight 13 pounds; additional tax $1 per thousand.

Cigars to retail at more than 6 cents and not more than 10 cents each, maximum weight 15 pounds; additional tax $2 per thousand.

Cigars to retail at more than 10 cents and not more than 15 cents each, maximum weight 17 pounds; additional tax $3 per thousand.

Cigars to retail at more than 15 cents and not more than 20 cents each, maximum weight 20 pounds; additional tax $5 per thousand.

Cigars to retail at more than 20 cents and not more than 25 cents each, maximum weight 23 pounds; additional tax $7 per thousand.

Cigars to retail at more than 25 cents each, additional tax $10 per thousand.

We further suggest that the weight of the cigar and the retail price be printed upon the box.

In support of this plan, we give six principal reasons:

First. It will place the tax upon the consumer by giving him about 2 pounds less tobacco per thousand cigars, which would be hardly noticeable.

Second. It will prevent the enormous waste of tobaccos. Cigars are now so large that at least 20 per cent of the cigar is thrown away. It will conserve the present short crop of tobacco, which brought the highest price ever realized.

Third. Cigars would be made and sold based upon quality rather than size, which would give all manufacturers an equal opportunity of success.

Fourth. Prices of cigars to retailers have within the last three months been greatly advanced, due to the advanced cost of production. A further advance of tax would destroy the small remaining profit. There are over 200,000 retailers who will be affected.

Fifth. The farmer and the tobacco dealer would not be affected. The reduction of size would reduce the cost of production; the manufacturer could afford to pay the additional tax and receive a livable profit; the per thousand consumption would be increased and the selling price to consumer maintained.

Sixth. If the import duty on Havana tobacco should also be increased 10 per cent, it would further increase the cost of production of Havana cigars. It takes 20 pounds of unstemmed tobacco to make 1,000 medium-sized cigars. The import duty is assessed per pound.

Seventh. As the 1,500 members of our Illinois association, and as the 12,000 members of our National Druggists' Association are now paying $3.50 per 1,000 on the 5-cent cigar, and $5 and upward on the 10-cent and two-for-a-quarter cigar, more than they were paying three months ago, they can not now afford to pay another advance. The units of our currency does not make it practical for us to advance our retail price to 6, 7, or 11 cents for a cigar. Regulating the maximum weight, thus reducing the size, would accomplish what is desired without destroying our business.

Respectfully submitted.

RETAIL DRUGGISTS' ASSOCIATION OF ILLINOIS,
By I. M. LIGHT, *Secretary.*

Letter by Berriman Bros., of Chicago, Ill., in Regard to the Proposed Tax Increase on Cigars.

CHICAGO, ILL., *May 9, 1917.*

SENATE FINANCE COMMITTEE,
Washington, D. C.

GENTLEMEN: As conditions make necessary an increase in the internal-revenue tax on cigars, it is proper that a way for collecting the increase be adopted that will do the least harm to those engaged in the industry. In our judgment this

can best be accomplished by establishing a maximum weight for cigars retailing at certain price, and leave to submit the following schedule:

Little cigars weighing not more than 3 pounds per thousand additional 25 cents per thousand.

Cigars to retail at more than 4 cents and not more than 6 cents each, maximum weight 13 pounds; additional tax, $1 per thousand.

Cigars to retail at more than 6 cents and not more than 10 cents each, maximum weight 15 pounds; additional tax, $2 per thousand.

Cigars to retail at more than 10 cents and not more than 15 cents each, maximum weight 17 pounds; additional tax, $3 per thousand.

Cigars to retail at more than 15 cents and not more than 20 cents each, maximum weight 20 pounds; additional tax, $5 per thousand.

Cigars to retail at more than 20 cents and not more than 25 cents each, maximum weight 23 pounds; additional tax, $7 per thousand.

Cigars to retail at more than 25 cents each, additional tax, $10 per thousand.

We further suggest that the weight of the cigar and the retail price be printed upon the box.

In support of this plan, we give nine principal reasons:

First. A flat advance in revenue tax would not bring the Government the additional income expected, for the reason that the advance in tax and the recent advance in cost of production the manufacturer could not afford to put any imported Habana tobacco in the 5-cent cigar and must leave out at least 8 pounds (unstemed). Habana tobacco in cigars retailing at 10 cents to 15 cents each, substituting domestic seed tobacco. Thus, while the Government would receive $3 per 1,000 cigars increase of internal revenue, it would lose at least $3 per 1,000 cigars import-duty tax. The duty on imported Habana tobacco is 35 cents per pound on filler leaves and $1.85 per pound on wrapper leaves, less 20 per cent.

Second. A great burden would be placed upon the retailer, whose prices of cigars has recently been advanced $3.50 on 5-cent cigars and from $3 to $5 per thousand on cigars selling at 10 cents to 15 cents each. The unit of our currency makes it impractical for the retailer to advance his prices to 7 cents, 8 cents, 9 cents, and 11 cents, and so far as the consumer is concerned, there is no difference between a medium cigar at 5 cents or one a trifle larger at 6 cents.

Third. A maximum weight according to retail price would slightly reduce the size of cigars, thus placing the tax upon the consumer. The smaller cigars would increase the consumption, thus bringing the Government the additional income expected. It would maintain quality and retail price.

Fourth. It will prevent the enormous waste of tobaccos. Cigars are now so large that at least 20 per cent of the cigar is thrown away. It will conserve the present short crop of tobacco, which brought the highest price ever realized.

Fifth. Cigars would be made and sold based upon quality rather than size, which would give all manufacturers an equal opportunity of success.

Sixth. The reduction of size would reduce the cost of production; the manufacturer could afford to pay the additional tax and receive a livable profit; the per thousand consumption would be increased.

Seventh. No manufacturer without ulterior motives could object to this plan, as it reduces his sizes to a fixed minimum weight, thus reducing his cost of production to the point where he can afford to pay the additional tax and sell his product to the retailer at a price that gives him a reasonable profit and the retailer a livable one. Over 200,000 retailers, jobbers, and manufacturers—and 145,000 workmen—will be benefited by such a plan, and greatly harmed should a flat or graduated advance in tax be imposed.

Eighth. As the manufacturers now must keep records of all tobaccos, boxes, stamps, etc., he can without trouble to himself or to the Government keep the records of the maximum weight of cigars.

Respectfully submitted.

BERRIMAN BROS.,
Cigar Manufacturers, Tampa, Fla.

The CHAIRMAN. That finishes up Title IV, so we will now close for the day.

(Thereupon, at 4.20 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m. tomorrow, Saturday, May 12, 1917.)

REVENUE TO DEFRAY WAR EXPENSES.

SATURDAY, MAY 12, 1917.

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

The committee met, pursuant to call, at 10 o'clock a. m. in the committee room, Capitol, Senator Furnifold McL. Simmons presiding.

Present: Senators Simmons (chairman), Stone, Williams, Thomas, Gore, Jones, Gerry, Penrose, McCumber, Smoot, Gallinger, La Follette, and Townsend.

The committee resumed the consideration of the bill (H. R. 4280) to provide revenue to defray war expenses.

The CHAIRMAN. If there is no objection on the part of the committee, while we are waiting here for more of the Senators to come in, we will hear Mr. Frank A. Seelye, who approached me yesterday about being heard on the subject of coffee. He wanted to be heard because he said it was absolutely necessary for him to leave the city to-day. He could not be here Monday. Senator Lewis came around and asked me if I would not give him 10 minutes to present his views, so he might attend to his business, and if there is no objection, we will hear him.[1]

The CHAIRMAN. The subject we will take up first this morning is the war tax on facilities furnished by public utilities, railroads, and steamship lines. Who will speak for those interests?

Mr. A. P. THOM. Mr. Chairman, may I say a word for the railroads?

The CHAIRMAN. Have you agreed upon the time—how you want to divide the time?

Mr. THOM. I do not know who will appear here. It is hard for me to find anybody to agree with. But I would not want more than three or four minutes.

The CHAIRMAN. Very well; go ahead.

---

[1] The statement of Mr. Seelye will be found printed in full on p. 569, under Title X.

TITLE V. PUBLIC UTILITIES, ADVERTISING, AND INSURANCE.

Sec. 500 (a). FREIGHT TRANSPORTATION.

STATEMENT OF MR. ALFRED P. THOM, OF WASHINGTON, D. C., REPRESENTING THE RAILWAY EXECUTIVES' ADVISORY COMMITTEE.

Mr. THOM. Mr. Chairman, I do not desire in any way to be in an obstructive attitude. I would like to express the hope that a policy should be adopted by the Government which would not be too much in the direction of pay-as-you-go for this war, but recognizing prosperity in what is being done.

In respect to the tax on express companies, the railroads will be interested, because their pay for the express service is a portion of the express receipts. The parcel post is in competition with the express business, and it seems to me that if a tax is to be put upon the users of express companies a similar tax should be put on parcel post, especially in view of the fact that there is a proposed increase charged to other postal service.

Senator GALLINGER. At that point, I notice in the newspapers of this morning that only two of the express companies in this country had made a profit last year. Have you any knowledge on that point?

Mr. THOM. I have not. The express companies are here, however, to speak for themselves.

The only other thing I desire to say is to call attention to section 501, pages 21 and 22. After the first clause on page 21 a tax is imposed upon a carrier transporting a commodity owned by it equivalent to what it would have been if the commodity belonged to someone else.

Of course, you gentlemen are all aware that there are practically no commodities owned by railroads which can be moved by them, except lumber, under the commodity clause, except that railroads do move a large amount of scrap and other material which they gather up and sell. This proviso on page 22, beginning on line 8, which prevents the imposition of that tax on any commodity "which is necessary for the use of the carrier in the conduct of its business as such and is intended to be so used," looks entirely to the use of commodities in the future: that is, after the commodity is purchased it is to be thereafter used. We think that the same principle should govern commodities which have been used already in the conduct of the carrier's business, such as scrap and other things that the carrier has exhausted in its use, in gathering up for some disposition useful to the carrier, which must be substituted by something else, and we ask, therefore, at the end of line 12, that there be added, "or which has been so used."

The CHAIRMAN. Will you put that in your brief, Mr. Thom?

Mr. THOM. I have a letter for you embodying that. That is all I desire to say, Mr. Chairman.

The CHAIRMAN. When the letter is received it will be printed in the proceedings.

(The letter referred to by Mr. Thom was subsequently submitted and is here printed in full, as follows:)

BRIEF ON BEHALF OF THE RAILROADS REPRESENTED BY THE RAILWAY EXECUTIVES' ADVISORY COMMITTEE.

[Alfred P. Thom, general counsel.]

To the honorable Committee on Finance of the Senate:

The following suggestions are respectfully made in regard to the war-revenue bill above mentioned:

1. It is respectfully suggested that this war is not for the benefit of the present generation alone. The benefits and advantages of our victory will be enjoyed more largely by future generations than by our own, because the large purpose of the war, so far as the United States is concerned, is, as expressed by the President, to "make the world safe for democracy." Democracy in America is already safe in our day, but would be seriously menaced in the next and succeeding generations by a German victory now over the European democracies. In such an event we would be confronted, and doubtless without allies, by Germany's military power as soon as the German people should have recovered from the exhaustion of the present war, which would be more likely in the next generation than in our own. It would therefore seem wise to distribute the war expense equitably between this and succeeding generations and not to adopt too much of a "pay-as-you-go" policy. The policy of not placing too great a financial burden upon the present generation would seem to be justified likewise by the consideration that this war must be armed, provisioned, generally supplied, and fought by this generation. Accordingly, the productive capacity of this generation should not be lessened or unduly hampered by apportioning to it an excessive part of the financial burden of the war.

The railroads for which I speak do not occupy an obstructive attitude in respect to any financial policy which may ultimately be adopted, and are entirely willing to bear their equitable share of the war burdens. With the foregoing suggestion, which they respectfully submit to the consideration of Congress, they, in addition, respectfully ask the following modifications of the proposed bill:

2. On page 6 of the printed bill, after line 8, insert the following:

"SEC. 6. That subdivision (a) of section twelve of Part II of the act entitled 'An act to increase the revenue, and for other purposes,' approved September eighth, nineteen hundred and sixteen, be, and the same hereby is, amended by adding at the end thereof the following:

"'Fifth. All amounts received within the year as dividends upon stock or as distributions of profits of other corporations, joint stock companies, or associations subject to the tax hereby imposed: *Provided*, That in the case of dividends or distributions of profits received from foreign corporations, joint stock companies, or associations when only part of the net income of such corporation, joint stock company, or association shall be subject to the tax hereby imposed, only a corresponding part of such dividends or distributions of profit shall be deducted.'

"SEC. 7. That subdivision (b) of section twelve of Part II of title one of the act entitled 'An act to increase the revenue, and for other purposes,' approved September eighth, nineteen hundred and sixteen, be, and the same hereby is, amended by adding at the end thereof the following:

"'Fifth. Amounts received within the year as dividends upon stock or as distributions of profits of other corporations, joint stock companies, or associations subject to the tax hereby imposed to the extent that such dividends or distributions are included in the gross amount of its income return as herein provided."

Strike out from section 10 of the above-mentioned act, approved September 8, 1916, the following after the word "otherwise," in line 13 of the section: "and including the income derived from dividends on capital stock or from net earnings of resident corporations, joint-stock companies or associations; or insur-

ance companies whose net income is taxable under this title: *Provided*, That the term "dividends" as used in this title shall be held to mean any distribution made or ordered to be made by a corporation, joint-stock company, association, or insurance company, out of its earnings or profits accrued since March 1, 1913, and payable to its shareholders, whether in cash or in stock of the corporation, joint-stock company, association, or insurance company, which stock dividend shall be considered income, to the amount of its cash value."

The object of these proposed amendments is to prevent the duplication or multiplication of taxes upon dividends when received by a corporate holder of securities, and thus to eliminate an extraordinary and indefensible discrimination against a single class of taxpayers which prevails at present.

It will be noted that, under the present law, dividends on stock held by individuals are not subject to the normal tax. There would seem to be no sufficient reason why the individual holder of a security is not taxed when a corporation is, or, to put it differently, there seems to be no sufficient reason to tax the dividend on a share of stock if held by a corporation when the dividend on the same share of stock, when held by an individual, would not be subject to the tax.

In the case of railroads such a tax seems to be especially unjust, for the reason that if an industrial corporation holds shares of stock in another company it may escape this double or multiplied taxation on such dividends by a merger or consolidation of all the properties; whereas such merger or consolidation in the case of railroads is in many cases prohibited by law. Thus under the laws of many of the States—as, for example, Texas—no foreign corporation can own a railroad in that State, and the only method of creating through lines and systems which the public interest demands is by forming a domestic corporation in the State, owned and financed by the parent company. As an illustration, the Southern Pacific is able to establish its through lines from the Pacific coast to Galveston in Texas and New Orleans in Louisiana by the creation of Texas corporations to own the Texas lines, of which it will hold the stock. Sometimes the stock in a company will be held by another company, the stock of the latter being in turn held by a third company, which is the main parent organization. If the dividends are taxed in the hands of each company which is thus interested in the stock, manifestly there is a duplication, and sometimes triplication or multiplication, of the taxation on this dividend. This, in the case of railroads situated as above described, can not be avoided by a merger or consolidation of the physical properties and results in a very serious and unjust burden.

It is therefore respectfully submitted that such dividends on stock held by corporations should stand exactly as dividends on the same class of stock held by individuals.

The first of the foregoing amendments is intended to cover the case of foreign corporations; the second the case of domestic corporations.

3. It is further suggested that immediately following the two sections above indicated, insert the following as section 8:

"SEC. 8. That subdivision (*g*) of section nine of part one of title one of the act entitled 'An act to increase the revenue, and for other purposes,' approved September eighth, nineteen hundred and sixteen, be, and the same hereby is, amended so as to read as follows:

"'(*g*) The tax herein imposed upon gains, profits, and income not falling under the foregoing and not returned and paid by virtue of the foregoing shall be assessed by personal return under rules and regulations to be prescribed by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury. The intent and purpose of this title is that all gains, profits, and income of a taxable class, as defined by this title, shall be charged and assessed with the corresponding tax, normal and additional, prescribed by this title, and said tax shall be paid by the owner of such income, or the proper representative having the receipt, custody, control, or disposal of the same. No taxable person shall be released from the payment of the income tax, and any contract hereafter entered into for the payment of any interest, rent, or other fixed or determinable annual or periodical payment without allowing any deduction authorized to be made in this title or for the reimbursement of any amount so deducted, shall be void. For the purpose of this title ownership or liability shall be determined as of the year for which a return is required to be rendered.'

"The provisions of this title relating to the deduction and payment of the tax at the source of income shall only apply to the normal tax hereinbefore imposed upon individuals."

The new matter contained in the above section is as follows:

"No taxable person shall be released from the payment of the income tax, and any contract hereafter entered into for the payment of any interest, rent, or other fixed or determinable annual or periodical payment without allowing any deduction authorized to be made by this title or for the reimbursement of any amount so deducted, shall be void."

The purpose of this suggestion is to prevent for the future contracts by a corporate debtor to assume the taxes of the individual. If such a contract is permitted there is no way to limit the interest obligations which a debtor may assume, because, in addition to the named rate of interest, there might be an assumption of an income tax which could grow to unknown dimensions and thereby an undefined interest obligation be assumed by the debtor corporation. While a corporation might, without any law, voluntarily refrain from assuming such an obligation, it would be difficult for a commercially managed corporation to float a bond without such a clause when other bonds of industrials or other companies contain such a provision. There can be nothing against public policy in requiring every individual to pay his own taxes. In fact, many of our very wisest citizens believe that it is in the public interest that every individual shall pay his own taxes and not be able to throw the burden of them upon somebody else. In this way each citizen is made to realize and to bear the obligations of citizenship. The provision referred to would have the effect of placing taxes of this character upon the individual taxpayer, and, being applicable only to the future, would not be subject to the objection that it disturbs the status of existing obligations.

4. It is respectfully suggested that at the end of line 12 on page 22. of the bill in question, there should be added after the word "used" a comma and the following words: "or which has been so used. or on the transportation of company material transported by one carrier which constitutes a part of a railroad system for another carrier which is also a part of the same system."

The object of this amendment is twofold.

First. to make it certain that company material, such as scrap, and other materials which have been used, may be transported by a carrier without the payment of a tax, just as it is provided by the act that materials intended for future use may be transported without such tax, it being our belief that the policy which would exempt from taxation the transportation of company material for future use would also exempt from similar tax the transportation of company material already used; and

Second, to exempt from taxation the transportation of company material when such transportation service is performed by one of the carriers in a system of transportation for the benefit of another carrier in the same system.

It is well known to the committee that the railroad systems of the United States are held together by different methods. Sometimes a company's lines are entirely owned by itself and thereby constitute a homogeneous system; sometimes a company's lines are made up of owned lines and leased lines and thereby a system is established; or sometimes both the foregoing methods are resorted to and in addition a company controls subsidiary lines and completes its system by stock ownership, this being frequently necessary under the laws of some of the States, as above explained. In the latter case the corporate entity of the company, the stock of which is owned by the parent company, is maintained. The parts of the system, however, are thrown together and operated as one system.

The above-mentioned tax, if paid by one of the system companies for transportation on another link in the system, would go to the Government, and no other part of the system would obtain the benefit. which is an entirely different situation from that in respect to rates charged by a company owning a link in a system to other carriers in the system, because, in the case of rates, the benefit goes with the stock ownership which, in the supposed case, is held by a member of the system.

It is therefore submitted that no tax should be imposed upon the transportation of company material when done by one member of a system for another member of the same system.

5. After the word "water," in line 3, and after the word "water," in line 9, on page 20 of the act, insert the following: "or by any form or mechanical motor power when in competition with carriers by rail or water."

The necessity for this will be indicated in the following telegram. which explains the situation existing on the Pacific coast and, doubtless, in many other parts of the country:

"Newspaper reports indicate proposed revenue measure provides 10 per cent tax on railroad tickets, except commutation tickets, 50 cents each; but note no provision for taxation of jitney tickets. In California a large proportion of the passenger business is handled by motor busses operating as public utilities. For year ending December 31, 1815, California State Board of Equalization estimated jitney revenue account operation on public highways, $4,300,000. These motor busses have runs extending 500 miles, such as between San Francisco and Los Angeles. There are many runs, such as between San Diego and Los Angeles, Bakerfield and Los Angeles, of over 100 miles. It is discriminatory against railroads and their patrons to tax railway tickets and not tax motor busses.

"Similar situation exists in cases of motor trucks acting as common carriers on public highways in performance of freight service.

"We therefore respectfully urge whatever taxation be imposed upon patrons of steam and electric railways, both freight and passenger traffic, be likewise imposed upon motor busses and motor trucks, which already have advantage of being furnished practically free roadbeds by the State, counties, and cities; they making use of such highways practically without payment therefor."

It would seem to be entirely just and proper that, if railroad transportation is to be taxed, the similar transportation of its competitors should also be subject to the same tax—otherwise the effect of the tax being paid by the user of transportation would be to transfer traffic from the railroad where it is taxed to its competitor where it is not taxed.

6. The railroads are interested in the express business done upon their lines. This arises out of the fact that the railroads are paid for their services to the express companies by a certain portion of the express companies' receipts. Inasmuch, therefore, as it is proposed to tax express companies in this bill, it is respectfully submitted that a similar tax should be imposed upon parcel post, which is a substantial competitor of the express companies. Otherwise, the result would be to transfer, as a commercial consequence of the law, the traffic, which might go either by express or by parcel post, to the parcel post, where it is not taxed, from the express company, where it is taxed. This tax on parcel post would likewise seem to be equitable, in view of the provisions in the bill increasing other kinds of postage.

7. It is respectfully suggested that after the word "rendered," in line 20, on page 21, there should be inserted a comma and that the following words be added:

"Under such rules and regulations as shall be established by the Commissioner of Internal Revenue and approved by the Secretary of the Treasury, and shall take effect —— days after the passage of this act."

The act requires the person, etc., paying for the transportation facilities to pay the tax. Sometimes the shipper makes the payment to the transportation company and sometimes the consignee does. In the case of a shipment over more than one line, a carrier receiving a shipment from another carrier is accustomed under the present practice to pay all back charges. These back charges are in many cases carried on the waybill in a lump sum, not showing merely the transportation charge but including with the transportation charge other back charges. Thus, when the shipment reaches the consignee the waybill and freight bill do not necessarily show the transportation charge separately, and there is no basis on the face of the papers for the payment of the tax. It will thus become necessary for the Treasury Department to make rules and regulations to establish uniform methods in this regard so as to insure the payment of the correct tax. It will require a reasonable time for the Treasury Department to make these regulations, and it is suggested that 60 days is not too long, but in the proposed amendment the length of time is left blank to be filled by the committee after conference with the revenue department.

An additional reason why there should be some postponement of the effective date of the tax in question is that it will certainly require some interval of time after the act is passed for the railroad companies to issue instructions to their collection agents and take the necessary steps to carry the law into effect. Many railroads have several thousand agencies, and to get these agencies properly informed and instructed is a matter that requires time and painstaking care.

The foregoing suggestions are respectfully submitted.

ALFRED P. THOM, *General Counsel.*

The CHAIRMAN. Now we will hear Mr. Harrison.

Sec. 500 (b). EXPRESS TRANSPORTATION.

STATEMENT OF MR. T. B. HARRISON, OF NEW YORK CITY, REPRESENTING THE ADAMS, AMERICAN, SOUTHERN, AND WELLS FARGO EXPRESS COS.

Mr. HARRISON. Mr. Chairman, I appear here representing the express companies of the country. The part of the bill that I desire to call your attention to is that part commencing at section 500, at the bottom of page 19, which provides that there shall be levied, assessed, and collected a tax equivalent to 3 per cent upon the amount paid for the transportation of property by freight, and a tax equivalent to 10 per cent of the amount paid for the transportation of property by express.

Section 501 provides that the tax imposed by section 500 shall be paid by the person or corporation using the facility.

It is assumed, of course, that the desire of Congress and of the committee is to spread this tax which is to be raised to raise the immense amount of money that is so necessary for the Government to have where it will bear the least heavily, and also to apportion it among the various individuals as well as corporations and business interests of the country. This results in an increase, so far as the express business is concerned. The practical result of it is an increase in the present rates of 10 per cent, a flat increase of 10 per cent which goes to the Government in taxes.

The suggestion that we have to make about that is that we are highly competitive with parcel post. The last statistics that were presented to the Interstate Commerce Commission in the early part of 1915 show that the average weight of the express package in the United States is approximately 35 pounds. The express business, while it handles a large amount of carload and heavy weight and large shipments, is essentially a package business. Over 50 per cent of the tonnage by express is food products. It is one of the largest, if not the largest, distributor of food products, and especially perishables, vegetables, and things of that kind, in the country. A large majority of the balance of the business was seasonable goods, such as ladies' goods and millinery, and things of that kind. So 90 per cent of the things handled by express are the necessities of life. When it was first started, it was principally money and jewelry and commercial paper and things of that kind, but it has been changed by the progress of business in the last few years.

As I said a while ago, it is essentially and directly competitive, to some extent, with freight, and particularly with the parcel post. Up to 20 pounds all over the country parcel post competes directly with it. Up to 50 pounds parcel post competes within a radius of 150 miles of any given point.

The rates now for parcel post are generally less than for express. Our experience has been that since the parcel post was inaugurated the principal users of parcel post was the mail-order houses and department stores of the larger sized packages that go by parcel post, who distribute their product free by parcel post or express paid. They sell them for so much, and pay the cost of transportation. In addition to that, the rural routes shipments that go over rural routes, where we can not reach, and then the household shipments of very small size and weight, which go by parcel post.

It is our feeling that this is a tax, not upon the agency but upon the service. It is a tax upon the user of the service; that a 10 per cent tax upon express service, to be paid by the consumer of that service, is unfair, both to the Government and to the carrier, and to the user of the service.

It is unfair to the Government, because we feel that the man who has to pay 10 per cent in addition to his express rate as a tax, where he can well go to parcel post where, as the law now stands, he has to pay nothing as a tax. It is unfair to the Government because of that fact.

It is unfair to the carrier because it reduces its business, and therefore reduces its ability to serve the public.

It is unfair to the user of the express service, because he pays a tax of 10 per cent, where the other man escapes any tax at all upon that particular part of his business.

A percentage tax was suggested in the revenue bill of 1914, although it was a smaller percentage both on freight and express. It was abandoned, because it was found at that time, I believe, that it would be very expensive to collect and would be inconvenient and complicated. Our suggestion is that the Government can more properly apportion this tax and raise approximately twice the amount of revenue that it is estimated this tax will raise—that is, $15,000,000, according to the reports in the newspapers—by making a flat tax of, say, 2 cents upon each express package, to be collected by the express company and turned over to the Government, or by a stamp tax, which should be attached to the express receipt; or if the man who actually pays the charge is expected to pay that tax it should be attached to the express receipt on prepaid business, and to the delivery book on collect business; and a like tax of 2 cents, say, on parcel post.

It is a very conservative estimate to say that there are 450,000,000 express packages handled in the United States in a year. The Post Office Department, in its last report, estimates that there are one billion and upward of packages handled by parcel post. A 2-cent tax on 450,000,000 express packages would be $9,000,000. A 2-cent tax upon 1,000,000,000 parcel-post packages would be $20,000,000, making $29,000,000 instead of $15,000,000 estimated; and it would be spread so that the 2 cents probably would not hurt any person who paid it; it would be easier to collect; it would be less expensive to collect.

I will deliver to the clerk of the committee a memorandum in regard to this matter.

The CHAIRMAN. We will print it as a part of your remarks.

(The memorandum referred to by Mr. Harrison was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM OF EXPRESS COMPANIES UPON THE WAR-REVENUE TAX BILL (H. R. 4280).

The express companies, in asking for a hearing on the war-revenue bill, come, not in a spirit of objection or obstruction, but of the heartiest cooperation with the objects of the Government.

With respect to the taxes laid upon us directly we make neither objection nor suggestion. We not only cheerfully but gladly make our contribution to the national defense.

With respect to the taxes laid upon the public who use our service, we wish to offer some suggestion, purely with the idea of promoting the collection of the taxes involved upon a basis of equality and of obtaining the maximum revenue with a minimum of expense and trouble to the Government and the public.

While the express business in its inception might have been classed as more or less of a luxury, consisting principally of the carriage of jewelry, money, and other valuables, its general character has radically changed in the development of American commerce, and it is to-day fully recognized by the merchants of this country as a commercial necessity, principally devoted to the carriage of articles of prime necessity, such as food and clothing.

It is estimated that of the 16,000,000,000 pounds of express matter carried in 1916, approximately 10,000,000,000 consisted of articles of food and drink, a considerable proportion of which could not be successfully carried by any other agency than the express. It may be fairly said that the express is one of the largest agencies of perishable food distribution in the United States.

FIRST SUGGESTION.

Any tax laid upon the transportation of goods should include all such transportation, and should not discriminate between the agencies of transportation.

The bill as drafted adds a tax to the charges of certain transportation agencies—railroad freight, 3 per cent of the charges paid, and the express, 10 per cent of the charges paid, but it does not add any tax to charges paid on parcel-post matter.

Since the transportation of goods by railroad freight, by express, or by parcel post is essentially the same thing and is now conducted upon the basis of rates proportioned according to the various facilities furnished by these three agencies, it is suggested that a tax imposed upon the public for the use of these services virtually amounts to an increase in the rates in each case, the increase in the rates being collected for the benefit of the Government. Clearly, therefore, increased rates should be proportioned to the existing rates, conditions, and competition between these three agencies for the transportation of goods. It must be borne in mind that these agencies are not used in equal proportion by all shippers; some are shippers by freight almost exclusively, some almost entirely of express, and some almost entirely of parcel post. It is manifestly a most unjust discrimination to impose upon the users of one service a greater relative burden than upon the users of another service, and a still greater one to impose upon one or two of the agencies such a burden when none is placed upon shippers of the third class.

The evident purpose of the act is to distribute the burden of taxation equally so that all persons who have goods transported may proportionately contribute to these extraordinary expenses of the Government. This, of course, can only be accomplished by imposing a relatively equal tax upon all users of transportation, whether it be freight, express, or parcel post. If the tax be laid in its present form, a 10 per cent tax being laid on express charges as against a 3 per cent tax on freight, it is clear that whenever there is a possibility of choice, the user of express transportation will divert his traffic to the freight service, and thereby lessen the revenue proposed to be raised under this bill. It is equally clear that with respect to shipments which are competitive between express and parcel post, if the Parcel Post Service be not taxed a large proportion of the business now transported by express will be diverted to parcel post and thereby escape any tax.

This would not only have the effect of lessening the revenue which the Government hopes to secure by this scheme of taxation, but will also have a tendency to break down the express service as a whole.

SECOND SUGGESTION.

A tax laid in the simplest form will yield a greater revenue to the Government and be less expensive to collect.

The charge on individual express packages is small, and in the majority of cases is expressed in odd cents. A tax imposed upon the basis of a percentage of such charges would involve a fraction of a cent in almost every instance, which fraction would be impossible of exact collection. The cost for collecting and accounting borne by the carrier will be relatively large upon any basis on which the tax would be levied. The cost upon a percentage of gross revenue, however, will be the most expensive to collect and account for. Several years

ago, upon the basis of a proposed 1 per cent tax on gross revenue, the cost of collecting and accounting was computed to be practically equal to the amount of the tax itself. It is therefore suggested that any tax to be placed upon the small-package business, such as that carried by parcel post and the express companies, should be upon a flat rate, expressed in cents per package, which could be collected either by stamp or direct collection from the public and a gross sume paid to the Government, according to the preference of your committee. It is suggested that if the collection be made without stamps the Government would be saved the cost of printing the stamps and shippers and consignees would be saved the additional work of applying and canceling them. It is estimated by the Postmaster General that the Post Office handles through parcel post upwards of 1,000,000,000 packages a year, which, at a tax of 1 cent per package, would bring a revenue of $10,000,000; at 2 cents per package, a revenue of $20,000,000. The express business is estimated to be of a volume of from 400,000,000 to 500,000,000 packages, upon which a tax at 2 cents would give a revenue between $8,000,000 and $10,000,000. If, therefore, a 2-cent tax is applied alike to express and parcel post packages, the Government would receive practically double what it is now estimated will be received from express charges, i. e., $15,000,000.

THIRD SUGGESTION.

The law should be clear as to exact date of application and sufficient time should be allowed to issue instructions in advance.

The law as now drafted does not make it clear as to charges paid after the effective date of the law, irrespective of when the shipments moved or upon shipments moving after the law becomes effective. In a number of cases the lack of specific application is likely to provoke a great deal of controversy.

It suggested that the tax should apply only to shipments moving on and after the effective date of the law. While the law in its inception apparently contemplated giving the carriers sufficient time to communicate with their agents, it seems doubtful if this will be accomplished in view of the fact that the hearings will not be over until May 15 and the law is made effective on June 1. There are something like 30,000 express offices in the United States, the agents at which must be fully instructed as to the effect of the law before it becomes operative, and therefore in order to secure accurate application, sufficient time should be allowed after the passage of the law to fully instruct all individual agents by circular.

Respectfully submitted.

CHAS. W. STOCKTON,
T. B. HARRISON,
Attorneys for Adams, American, Southern, and Wells Fargo Express Companies.

Mr. HARRISON. While we are not trying to get out of it, we have to keep an accurate record of these collections, and it may be that the Treasury Department will require us to keep a record for each separate transaction on which we collect this 10 per cent of a flat charge. Of course you can see with four hundred to four hundred and fifty million transactions how expensive and intricate it will be to keep the account.

There is one other suggestion, and that is merely practical. I notice that the bill provides in section 500 that from and after the 1st day of June there shall be levied, assessed, and collected and paid a tax equivalent to such a per centum for the transaction. Assume that the bill was effective on June 1, or the first of any month. While it is a simple matter, we think perhaps the committee will want to clear that up. We are afraid that as to business which starts on the last day of the month before the bill becomes effective there will be a complication as to whether that business should pay any tax or not. That is more important in freight than it is in express, because in ordinary times there are only four or five days, unless the packages is lost or delayed by carelessness, or some reason of that

kind, before any package delivered to express company is delivered at the other end of the line anywhere in the country. But in ordinary times freight going any distance will take from a week to 10 days or two weeks. So the transportation may start before the bill is effective and end after it is effective. So the suggestion I have to make is that that part of the bill be so changed as to provide that the tax is to be collected only upon the transportation that starts when the bill is effective.

I notice also that while the bill provides that part should be effective on June 1, the general provision as to the date when the bill shall be effective is, "that unless otherwise herein specifically provided, it shall take effect the day following its passage." We have approximately 30,000 express offices in the United States. Where a shipment is made and the shipper desires to pay in advance, the transportation is collected at the office where the shipment starts. When it is a collect shipment, it is collected at the office where the shipment is delivered. Each one of these 30,000 express agents has to be instructed as to this act, how to collect it, and how to account for it. Each agent has to make a separate account to his company of his collections in order that we may know whether the proper charges are assessed, and whether the company gets the money into its treasury. It will bring about a great deal of confusion if we do not have time to give the proper instructions. In other words, if the bill were finally passed to-day and became effective to-morrow or the next day, for the next two or three weeks there would be an awful lot of confusion, and if the Treasury Department should say—and I suppose they would have to say under the law—that we had to account for the 10 per cent, or whatever per cent it is, we would be out a great many thousands of dollars. And while we have no desire whatever to delay the Government in getting its money after it has decided to collect it, we feel that we ought to present that view of the matter to the committee, that it not only affects the express companies, but all the other public utilities, for whom I am not presuming to talk, of course. But if we could have 10 days or 2 weeks in order that we might issue the proper instructions, and have the thing start off properly, it would be very much more practicable. I thank you, gentlemen.

The Chairman. Now, we will hear Mr. Brady.

Sec. 500 (c). PASSENGER TRANSPORTATION.

STATEMENT OF ARTHUR M. BRADY, OF ANDERSON, IND., PRESIDENT OF THE UNION TRACTION CO. OF INDIANA, AND REPRESENTING THE AMERICAN ELECTRIC RAILWAY ASSOCIATION.

Mr. Brady. Mr. Chairman and gentlemen, I represent the Union Traction Co. of Indiana, and speak on behalf of the American Electric Railway Association, an association composed of practically all the electric street and interurban railroads of the United States, and also, with other gentlemen who are present, representing the New York Street Railway Association and the Pennsylvania Street Railway Association and the California Street Railway Association.

I wish to call attention to the tax imposed by section 500 of the bill, on page 20, the part which has been under discussion, and to

invite your attention to this phase of the matter. The bill by its terms is limited to carriers by rail and by water. In the case of the electric railroads another form of active competition has been created in the past few years, consisting of transportation by automobile. That form of competition is seen in the cities in the form of jitney competition, which would not be affected by this bill, except in so far as the income tax might apply; but is also in some portions of the country actually existing in the long-distance transportation of persons and property.

Senator JONES. Do you speak for the city street railways?

Mr. BRADY. I am representing all of them, but I am only speaking now especially on behalf of the interurban feature of the matter, because the tax imposed is limited to fares of more than 25 cents, and of course that has no application to the ordinary street railroad fare. But it does have an application to that very large and important class of electric railroad business known as the interurban business. With the advent of the automobile the transportation of persons and property by automobile has come into active competition with the electric railroads in certain parts of the country on an extensive scale and is coming more and more every day into competition with them.

Senator GORE. Where they establish and maintain regular lines?

Mr. BRADY. Where they establish and maintain regular lines, as, for instance, between San Francisco and Los Angeles, Cal., a distance of practically 500 miles, and between San Diego and Los Angeles. For several years property and persons have been carried by automobile between those points over the regularly established lines, and the same way between Los Angeles and Bakersfield. In Minnesota lines are in active operation for a distance of 30 or 40 miles, according to my understanding, out of St. Paul and Minneapolis. In Indiana and the central West—that portion of the West that I come from—there are lines of from 10 to 35 miles already in existence, and with the improvement of the roads in the progress of the good roads movement and the building of the hard-surface, bricked, or concreted roads that phase of competition is developing very rapidly.

The result of imposing the 10 per cent tax upon the electric interurban business and leaving the automobile business exempt would be simply to place the interurban railroads at a very great disadvantage in the conduct of that business. I suppose there is no one of the utility businesses of the present day that is conducted upon a closer margin than the electric railroad business, whether it be the street railroad business or the interurban business.

Therefore, as a matter of mere fairness, it is the belief of the electric railroads that this same tax which is imposed upon the electric railroads should be imposed also upon motor transportation between specified points. It is not meant that it should cover the taxicabs, the occasional trip, and all that sort of thing, but where a route is established between specified points, and automobiles are engaged in the common carriage of persons and property between those points, there would appear to be no reason why the electric railroads should have the tax imposed upon them and the automobiles not have it.

Senator GALLINGER. Running on schedule?

Mr. BRADY. Running on schedule, or an attempted schedule.

Senator SMOOT. Short or long?

Mr. BRADY. Short or long. Of course the 25-cent limitation takes care of all the shorter hauls. But in the case of the longer hauls they would be subject to the tax.

Senator McCUMBER. Is there competition in the charges that are made?

Mr. BRADY. Oh, yes; the charges are practically the same.

Senator McCUMBER. Do you know, then, about the comparative cost of operating your electric railways as compared with conducting the other?

Mr. BRADY. It was thought a few years ago by the electric railroad people that the automobile could not stay in the game. But it has proven it can stay in the game. It is staying in the game. You can not run a Packard automobile in competition with the ordinary electric railroad. But you can run a Ford, and a number of the other lighter and cheaper cars. It is being proven in the fact that in Indiana there are at least hundreds of them. I do not know that there are thousands, but there are at least hundreds of them that are running that way and have been running for a period of years.

Senator McCUMBER. Possibly the increasing cost of tires, as they have been going up lately, might make them not very strong as a competitor.

Mr. BRADY. Unfortunately the increase in the cost of electric railroad operation has gone up a great deal more than that. For instance, in Indiana the ordinary public utility has to pay anywhere from 100 to 150 per cent more for coal this year than it did a year ago, and that of itself means pretty nearly the product of an ordinary tire factory in the case of some of the larger utilities.

I was going to suggest that the points I make might be met by inserting, after the word "water," in line 3, on page 20, these words: "or by automobile operated in the common carriage of persons or property between specified points."

Senator THOMAS. "Operated as common carriers of" would be better.

Mr. BRADY. Yes; I think that would be an improvement. I meant to include the idea in the words "common carriage."

Senator STONE. How many passengers and what amount of freight can a Ford carry 25 or 30 miles?

Mr. BRADY. Of course the ordinary Ford that you see on the streets of Washington can only carry four or five passengers, but they use the Ford chassis and put a different body on many of the Fords that are used in competition.

Senator STONE. How many can a Ford of that description carry?

Mr. BRADY. I should say six or seven. There is a type of car that has been invented and been tested out to some extent, invented by the man who put on the cars that went about the grounds of the San Francisco Exposition, that it is claimed can carry about 11 or 12 people by the use of the cheapest sort of chassis. They build a trailer. They make a six-wheel car out of it. They build a two-wheel trailer and attach it to the chassis, and the theory is said to be that it is easier to pull the load in a trailer; you can carry more people with the same amount of gasoline and the same wear upon the

tires, than you can by putting the people on top of the wheels. Whether that is philosophical or not I do not know, but it is claimed by the inventor of that car and apparently has been borne out by a test in California.

Senator STONE. Do the interurban lines run freight cars?

Mr. BRADY. Yes.

Senator STONE. Can these Fords compete with your lines in carrying freight to any appreciable extent?

Mr. BRADY. With the concrete roads, the concrete highways, supplied by the public, with no expense except that of gasoline and tires and ordinary maintenance, we fear very much that they may. We know that they actually are trying to do it.

The CHAIRMAN. Is there anybody else who desires to speak for electric railroads? If you want a little bit more time, we can give it to you.

Mr. BRADY. There is only one other point I want to suggest. I want to say that the matter is one of a good deal of importance, immediate importance, to a number of electric railroads in the country, and it is a matter of growing importance to practically all of them which carry passengers and freight for any distance, and the interurban companies in the Central West do carry passengers for distances of from 10 to 150 miles: in some cases more than that.

With your permission I will later submit a memorandum with the committee.

The CHAIRMAN. It will be printed.

(The memorandum referred to by Mr. Brady was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM CONCERNING "A BILL TO PROVIDE REVENUE FOR WAR EXPENSES AND FOR OTHER PURPOSES" (H. R. 4280).

[On behalf of the electric street and interurban railways of the country, represented by the American Electric Railway Association, and also State associations of New York, Pennsylvania and California, and the Central Electric Railway Association, covering Indiana, Ohio, Michigan, and parts of Pennsylvania and Kentucky.]

SECTION 500.

Section 500, which imposes a tax of 3 per cent on freight traffic and 10 per cent on passenger traffic, is confined to such traffic when transported by rail or water. The electric railways ask that this section be so amended as to impose a like tax on similar traffic done by automobile, and in connection therewith present the following considerations:

1. In some parts of the country regular lines of automobile transportation of persons and property have been established and are being operated with apparent success in sharp competition with electric interurban railways. Notable examples of the long-distance operation of automobiles as common-carrier lines are found between San Francisco and Los Angeles (500 miles), Los Angeles and Bakersfield (100 miles), and Los Angeles and San Diego (100 miles). There are numerous examples over the country of shorter regular automobile lines of from 10 to 30 or more miles, and the tendency is, with the progress of good-roads movement, to multiply such instances. The growth of the jitney in competition with the street railway proper is well known, and the long-distance carriers of persons and property by automobile is only an additional development of the same kind of competition.

2. It is manifestly unfair and unjustly discriminatory to impose a tax on traffic over electric railways and not to impose a similar tax on like traffic done over competing automobile lines, which already are exempt in many cases because of nonincorporation of their owners, from other taxes imposed by the bill on electric railways.

3. The effect of imposing a tax on electric railway traffic but not on similar automobile traffic, thereby making the fare and the freight charge materially greater over the electric lines than over the competing automobile lines, would be to decrease the electric railway traffic and at the same time reduce the revenue derived by the United States Government therefrom.

4. The electric railway business is conducted on such a close margin between income and outgo, and electric railway expenses have in recent months risen at such an alarming rate as to create a most serious financial condition for many, if not most, electric railway companies of the country, if their revenues are to be reduced through taxation of their traffic, while the traffic of their competitors is left untaxed.

5. To meet the situation presented, the following amendments are suggested:

Insert, after the word "water." in line 3, on page 20, the following: "or by automobile operated by a common carrier between scheduled points."

Also insert the same words after the word "water," in line 9, on page 20.

(This wording of these suggested amendments is more concise than that suggested at the hearing.

SECTION 501.

The tax imposed by section 500 would often result in a fraction of a cent. In order to make it clear that a full cent may be added to the fare or other charge in such cases, the following amendment is proposed:

Insert, after the words "facilities rendered," at the end of line 20, on page 21, the following: "and whenever the addition thus made to any fare or other charge shall include a fractional part of a cent, 1 cent may be added by the carrier for and including such fraction."

The especial importance of this amendment to electric railways is found in the fact that their fares are in a very large number of cases—approximating probably one-half—paid upon the cars in cash to the conductors, who have many other duties to perform in connection with the proper operation of their cars. It is highly important that room for controversy with passengers be eliminated and that convenience of calculation be facilitated as far as possible. The slight addition to the charge thus provided for would not begin to compensate the carrier for the increased accounting expense which the imposition of the tax will cause.

Respectfully submitted.

ARTHUR M. BRADY.

WASHINGTON, D. C., *May 12, 1917.*

Mr. BRADY. There is only one other feature of the bill that I wish to advert to briefly, and that is to say that this allows the collection of the tax from the passenger or the shipper. There is nothing said about the way the computation is to be made of the odd cent. For instance, we have a fare between Anderson and Indianapolis of 73 cents, making the tax 7.3 cents. It strikes me it would be well to make it clear, in the interest of convenience, that the full cent may be collected in each of those cases, because the fares of the interurban railroads are very largely collected upon the cars, and the conductor has his hands full, without making any complicated calculation, and in case, say, two people got on and the tax was 7½ cents, or they present the 1 cent, while that may seem a simple matter, it is just that much additional work upon the conductor. It ought to be clear that the tax, it appears to me, is computed upon its own basis and the full cent included.

The CHAIRMAN. Now, Mr. Johnson, we will hear you.

STATEMENT OF MR. LIGON JOHNSON, REPRESENTING VARIOUS THEATERS OF THE UNITED STATES.

Mr. JOHNSON. Mr. Chairman, I am appearing in the interest of the various theaters of the United States in relation to the 10 per cent tax on transportation. The estimate under the bill, as I understand it, is about $60,000,000 expected from amusement enterprises under

an admission tax. A theatrical company and a theater are two widely separated things. A producing manager, the manager of the company that travels, produces its company, carries it on tour, and books it in theater after theater on a percentage basis. There is no way that he can increase his income or his cost. The only increase in theatrical admissions will come under the charge of the Government upon the admission tax. A 10 per cent tax in the cost of traveling theatrical companies will result in the cancellation of a number of traveling companies; the added cost will make it practically impossible to travel. Understand, we want to cooperate with the Government, and we are not seeking to avoid our fair share of the burden in any way. But it is a situation that the theatrical owner can not meet. Unless the theatrical companies play in the theaters, there will be nothing on which the admission tax can be collected.

The purpose of the bill, as I understand it, is to pass the transportation tax on to the user of the railroads or to parties handling it. The purpose of travel by a theatrical company is to play at the various theaters throughout the United States, and in playing those theaters the chief revenue under the amusement phase of the bill will come to the Government. If the cost of transportation for your theatrical producer is raised to a point that makes it impracticable for him to travel, we will be obliged to keep the theaters closed, because we will have no attractions in the theaters to play, and we are appealing in behalf of the theaters for an exception, if possible, from that provision, so far as those traveling are concerned, who will pay the tax under section 700 of the bill; that is, where the taxes will result from that travel under admissions paid to the attraction traveling.

The CHAIRMAN. The point is, you can not carry it on to the manager of the theater?

Mr. JOHNSON. No; nor to the public. We can not change the price. There is no possibility of changing the income or passing that tax on to the public.

Mr. JOHNSON. I will later file a brief with the committee in regard to this matter.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Johnson was subsequently submitted and is here printed in full, as follows:)

To the Finance Committee, United States Senate, Washington, D. C.

GENTLEMEN: The theatrical interests of the United States which I represent are not before your committee to protest against all taxation of amusement enterprises or to ask that they be permitted to escape their fair share of the burdens arising under existing conditions.

Their appearance before your committee is but to ask that the tax be equitably distributed among all enterprises in the amusement class, and that the rate be fixed at a figure which will at once give the Government adequate tax return and at the same time be in such form and amount as will not jeopardize amusement affairs. Prohibitive or unequal conditions would necessarily lessen the revenue expected from amusement sources.

The theaters and theatrical owners and producers are, of course, liable with all others under the income and excess profits tax and the general taxes upon business operations, such as those applying to the telephone, telegraph, documents, and the like.

In addition to this, the present bill especially reaches theatrical enterprises as follows:

Section 700: By a tax of 10 per cent on actual admission paid to places of amusement.

Section 500 (c): By the tax of 10 per cent on all sums paid for transportation by rail or water within the United States.

Section 504: By the tax upon all billboard and lithograph advertising, under the 5 per cent levy upon all sums paid for advertising and advertising space other than in newspapers and periodicals.

Section 500 (c): By the tax of 5 per cent upon all sums paid for electric light, power, and heat.

Section 1000: By the 10 per cent increase in custom duties, which apply especially to paper used for advertising and to costumes and theatrical paraphernalia.

With relation to the first provision, the tax upon admissions, it is respectfully suggested that a tax in the amount of 10 per cent will materially affect the attendance at theaters. It is also suggested that a tax which would reach all public performances given for profit, would permit reducing the admission tax at least one-half, and still afford the estimated amount sought from amusement enterprises, even should the 10 per cent tax upon admissions have no effect upon theatrical attendance.

In connection with the percentage charged on admission I beg to call your attention to Canadian regulations which have for their purpose the levy of the highest tax the traffic will bear and at the same time not seriously hamper the enterprise producing this tax. The Ontario statutes (6 George V, ch. 9) illustrate the point. The tax there provided is levied on admission in the same manner as under House bill 4280, but the amount of the tax is materially less. The tax is as follows: 1 cent on admissions not more than 15 cents; 2 cents on admissions over 15 and not over 50 cents; 5 cents on admissions over 50 cents and not more than $1; and 10 cents on admissions over $1.

It is respectfully suggested that the adoption of these provisions will go furthest toward the accomplishment of the object of the bill and raising the desired amount of revenue.

As to the failure of the bill to reach a large if not a major portion of public performances given for profit, I beg to call your attention to the fact that such public performances for profit are not reached because admissions thereto are not directly charged but indirectly levied, as declared by the United States Supreme Court last January in the case of Herbert *v.* Shanley (242 U. S., 591). I refer to the theater's chief competitor, to the one enterprise which has caused the heaviest loss of theatrical patronage, the cabaret. Often not only the music but the costumes and effects of plays are reproduced in cabaret, but performances are given at a cost which none but the most luxurious theater could afford. Seldom, if ever, are reservations or seat charges directly made. Only the indirect charge—that is, excessive price for refreshment—covers the price paid for the performance.

That cabaret performances are public performances for profit is no longer an open question. In the Shanley case, just referred to, the Supreme Court says:

"The defendant's performances are not eelemosynary; they are part of a total for which the public pays; and the fact that the price of the whole is attributed to a particular item which those present are expected to order is not important. * * * If the performance did not pay, it would be given up. If it pays, it pays out of the public's pockets. Whether it pays or not the purpose of employing it is profit." (Pp. 594–595.)

Practically without exception there is a uniform price increase where cabarets are given. A drink in the restaurant bar will be sold for 15 cents. Not infrequently the price for the same drink will advance to 50 or 60 cents, from three to four hundred per cent, when it is served in the cabaret dining room. It may be said that, without exception, there is an increase, the amount depending on the particular cabaret and restaurant. As to the food, as Justice Holmes in the Shanley case justly remarks, it "could probably be got cheaper elsewhere."

Often when there is but one theater in a town there will be five or six cabarets. While the theater is without attractions part of the time, is dark, the cabarets are good for seven nights and days a week, with twenty or fifty times the attendance. Should Congress reach this form of public performances for profit, it would reach approximately 50 per cent or more of all the performances the public pays to attend. An amendment to cover this is not difficult. I would suggest this could be done by striking out lines 16, 17, and 18 of section 700, page 30, and substituting instead:

"That from and after the first day of June, nineteen hundred and seventeen, there shall be levied, assessed, collected and paid a tax equivalent to three per centum upon all moneys paid for refreshment and merchandise at public performances for profit, to which admission fees as such are not directly charged; said tax to be paid by the person attending such public performances for profit and purchasing such refreshment or merchandise."

The House committee (report, p. 8) declares the intention to tax cabarets, but the bill does not reach them. Such a provision would serve to distribute the tax equally to all engaged in amusement enterprises, and even should the Canadian theory of smaller taxes be decided impracticable (which I respectfully urge is not the case), the reduction suggested could be permitted without lowering the returns to be expected from amusements. As a matter of fact, foreign countries tax hotel and restaurant checks, even though no cabaret is given.

With relation to the railroad provisions, it is urged that the intent under the transportation tax was that it should be passed on to the public. This is not the case with the transportation charges for traveling theatrical attractions. They must travel if the theaters throughout the country are to have shows. The theaters must have attractions, as otherwise there would be nothing to produce paid admissions or bring in the tax to be levied under section 700. The travel of a theatrical company between any two points is but an incident in supplying means for the tax assessment in chief on amusements. A 10 per cent rate increase will, in itself, vastly reduce the number of traveling companies, and produce many times the loss in admission taxes that it will return under the railroad-ticket tax. On most travel the transportation tax is all the Government gets—without theatrical travel the chief amusement tax must fail.

It is respectfully urged that paragraph (c), section 500, be amended by adding a proviso that all transportation by amusement organizations paying taxes under section 700 of the bill be excluded from the terms of such section.

The remaining sections referred to are specified not so much in the spirit of objection as for the purpose of demonstrating to the committee the outstanding burdens on the business necessities of theatrical enterprises which must be provided for if any admission tax is to be paid. The electric sign, the electric power and current used, is for the purpose of attracting people to the theater. The show prints, the lithographs, and the advertising is for the purpose of bringing people to the play. On commercial advertising, on commercial electric current, all the Government gets is the initial tax. It is not concerned with whether or not the electric signs bring in customers or the advertising sells goods. All it gets is the percentage of advertising charges.

With the theater the advertising is merely out to recruit the admissions which will give the Government its tax. It is to sell the goods in which the Government gets its chief return. The patronage produced by the advertising is the important thing. The amusement enterprises are the largest interest using bill boards.

I may frankly say, however, that the chief anxiety of the theater is not in connection with advertising, electricity, or tariff charges, but the amount of the tax on admission paid by the theater patrons and the tax on transportation. The former concerns attendance. The latter falls on the producing manager, who does not own the theater, but who builds and equips the attraction, playing it on a sharing basis in the different houses. The producing manager can not change his prices. Admission prices can not be increased beyond the automatic increase under the tax levy under the law, and therefore a 10 per cent levy on traveling expenses will force many companies from the road. Attendance at theaters has fallen off heavily since a state of war was declared by the United States. Amusement enterprises are the first to feel the effect of nation-wide economy, such as is now under way.

In conclusion I might suggest that there are far more passes issued to plays than the average person realizes. Many theaters "paper" their house for advertising purposes; that is, give away a sufficient amount of passes to fill the unsold seats and give the theater an air of prosperity. There is no reason why the person getting his admission for nothing should not in return pay instead of 5 cents, a tax of at least double the tax he would have paid had he purchased a ticket to the performance.

Respectfully submitted.

LIGON JOHNSON.

ADDITIONAL BRIEFS RELATING TO PASSENGER TRANSPORTATION FILED WITH THE COMMITTEE.

Letter from T. F. Whittelsey, Secretary of the Short Line Railroad Association of the South.

SHORT LINE RAILROAD ASSOCIATION OF THE SOUTH,
Washington, D. C., May 15, 1917.

COMMITTEE ON FINANCE,
UNITED STATES SENATE.

DEAR SIR: The following telegram just received:

"Your letter 5th: Proposed revenue measure providing 10 per cent tax on railway tickets makes no provision for taxation on jitney tickets. In California large proportion of passenger business is handled by motor bus operated as public utility. This tax should be made to apply on all motor-bus fares and all motor trucks acting as common carrier on public highways. Please act for this association along these lines. Wire at our expense what action you recommend.

"D. M. SWOBE."

Mr. D. M. Swobe is president of the Western Association of Short Line Railroads, embracing upward of 60 railroads acting as common carriers within the States of California, Oregon, Washington, Idaho, Nevada, Utah, Arizona, Montana, New Mexico, Colorado, and Wyoming.

There is a very large jitney service operating between the cities of San Diego and Los Angeles, Cal, radiating from Los Angeles, and also in numerous other parts of the far West.

Jitney lines are to all intents and purposes common carriers and should bear their just and equal proportion of the war tax, and as a further reason why this should be done jitney lines operate over roads built and maintained at public expense. It is a matter of common knowledge that in the territory referred to jitney lines as common carriers have largely interfered with the ordinary traffic which heretofore has been carried by the railroads. This appropriation of the business of the regular common carrier includes passenger, mail, express, and freight, and has become not only substantial but seems to be permanent.

We, therefore, in behalf of the members of the Western Association of Short Line Railroads respectfully and earnestly urge that the jitney lines be compelled to bear their equal proportion of the war tax.

Yours, very truly,

SHORT LINE RAILROAD ASSOCIATION OF THE SOUTH,
T. F. WHITTELSEY, *Secretary.*

The CHAIRMAN. Is there anybody else who desires to be heard upon that branch of the title? If not, we will take up water transportation. Is there anybody who desires to speak with reference to that subject? [A pause.] There does not seem to be anybody who desires to make any statement to the committee with reference to water transportation.

The next subject will be advertising. A gentleman spoke to me a few moments ago, gentlemen of the committee, with reference to that subject, and said that the representatives of the interests were gathered at one of the hotels preparing a brief, and he thought if we would pass that over temporarily they would have very little to say, and it would tend to conserve time.

Mr. FROST. The advertising interests, I believe, are here ready to present what matters they have.

The CHAIRMAN. I am glad to hear that.

Mr. FROST. At least certain branches of it; and if we may be permitted to proceed we would be very glad.

The CHAIRMAN. Of course, if you are ready to proceed we will hear you. I heard from some gentleman that they were in a hotel here preparing a brief. Maybe you, do you, represent that branch?

Mr. FROST. Perhaps not. I do not know. There are represented in the room at the present time poster advertising on the billboards, and sign painting, and outdoor advertising, and street car advertising. Each one of those mediums is very much affected by this bill, and I imagine each one of those mediums would like an opportunity of presenting a few remarks with reference to the effect of the tax upon the industry.

Mr. WAKELEY. Mr. Chairman, I did not hear the chairman call the electric light and power companies.

The CHAIRMAN. We have just been discussing those.

Mr. WAKELEY. Not section e. I only want 30 seconds, just to ask a question.

The CHAIRMAN. What is it you want to take up?

Mr. WAKELEY. Electric light and power. I did not hear any announcement of that section, which you will find at the bottom of page 20. [Reading:]

A tax equivalent to five per centum of the amount paid for electric power for domestic uses.

The CHAIRMAN. All right, proceed.

Sec. 500. ELECTRIC LIGHT AND POWER COMPANIES.

STATEMENT OF MR. EDMUND W. WAKELEY, OF THE PUBLIC SERVICE CORPORATION OF NEW JERSEY.

I simply want to ask the committee to clear up what they mean by that word "domestic." We do not know whether that means domestic as distinguished from foreign, domestic as distinguished from manufacturing, or domestic as distinguished from public or municipal. It would be in the interest of clearness if the word "domestic," at the top of page 21, should be made clear.

A memorandum will be sent you, Mr. Chairman, in regard to this matter.

The CHAIRMAN. We shall have it printed.

(The memorandum referred to by Mr. Wakeley was subsequently submitted and is here printed in full, as follows:)

MEMORANDA SUBMITTED TO THE HONORABLE FINANCE COMMITTEE OF THE SENATE OF THE UNITED STATES BY PUBLIC SERVICE CORPORATION AND AFFILIATED COMPANIES OF NEW JERSEY UPON THE PENDING BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, ETC.

It is respectfully submitted that the period at the end of section 4, title I, should be changed to a colon and the following clause added:

"*Provided*, That the income derived from dividends upon stock of other corporations which are subject to the tax imposed by that section and this section shall be exempt from the provisions of that section and this section."

This tax of 2 per cent, which it is now proposed to make 4 per cent, should be exacted from all corporations alike. In the case of these companies it is necessary to maintain separate company organizations to legally carry on the business of furnishing gas, electric, and railway service, and if this proposed act is not amended as herein suggested these companies would be obliged to pay a tax of 8 per cent (by paying the 4 per cent twice) upon the net income received, while other companies not so situated will be obliged to pay only 4 per cent. This is manifestly unfair and unjust. It is the net income received

from the business that it is intended shall be taxed and this tax should not be doubled in certain cases because of the necessary method of carrying on the business.

It is further respectfully submitted that the word "domestic," in subdivision (e), section 500, of Title V, on line 1, page 21, of printed bill, H. R. 4280, should be further defined. It is supposed that it is only intended to tax the amount paid for domestic electric power in the sense of household use, as other users of electric power are taxed in other ways. This should be made plain. In no event should power purchased by a street-railway company from an electric company with a common ownership be taxed.

It is further respectfully submitted that the last above mentioned section and title should be amended on line 16, page 21, of the printed bill, by adding after the word "such" the words "power, light or heat."

It is often the case that the lines of more than one company are used in furnishing electric power, light, or heat service the same as in furnishing telephone service.

If this suggestion is adopted, then the last proviso of said section 500 (page 21 of the printed bill) should be made a separate paragraph and would read as follows:

"*Provided*, That only one payment of such tax shall be required, notwithstanding the lines of one or more persons, corporations, partnerships, or associations shall be used for the transmission of such power, light, or heat, dispatch, message, or conversation."

Respectfully submitted.

PUBLIC SERVICE CORPORATION OF NEW JERSEY,
By EDMUND W. WAKELEY, *Vice President*.

NEWARK, N. J., *May 16, 1917*.

The CHAIRMAN. Proceed, Mr. Taylor.

STATEMENT OF MR. Z. V. TAYLOR, REPRESENTING THE SOUTHERN UTILITIES CO.

Mr. TAYLOR. Mr. Chairman, a gentleman addressed you a moment ago for 30 seconds on section "e." Did I understand that that closed the discussion as to that particular section?

The CHAIRMAN. No; it did not.

Mr. TAYLOR. I would like to have two minutes. It seems as if the purpose of this, as I read it, is to pass this tax on, as some one has said, to the consumer. About that we have nothing to say. It seems that the object of the draftsman of the bill was to exempt the companies furnishing this service from any further tax other than the taxes that have been imposed generally in the bill, and it appears to me that he had this in mind when he drew this provision [reading]:

> *Provided*, That no expense incurred by any person, corporation, partnership, or association in the furnishing of such power, light, heat, or telephone service, for its own use, shall not be subject to this tax.

I am not clear in my own mind what "for its own use" means. Is "for its own use" the purpose for which the corporation was organized in distributing it or is it for its own use as it is consumed?

Senator SMOOT. You are a man, perhaps, who has been interested in the generating of electricity?

Mr. TAYLOR. Yes, sir.

Senator SMOOT. You know what it means, and we all know what it means. It means for that amount of electric power that is used by the company for the purpose of their own private use.

Mr. TAYLOR. And not for the purpose of resale?

Senator SMOOT. Certainly not.

Mr. TAYLOR. Then, gentlemen, it seems that this is quite a burdensome tax, and I will ask you to give me just about a moment on that?

In addition to all the war taxes that are levied on these corporations, to say that they shall pay 5 per cent, practically, of their gross revenue is indeed quite a hardship, for the electric light and power business is different from almost any other in that it takes $5 expenditure in capital to get $1 in gross revenue. When you take from the gross revenue 5 per cent as a tax upon this particular industry it does seem to me that it is a hardship indeed.

Senator THOMAS. I wish you would point out some item of tax here that is not burdensome.

Mr. TAYLOR. That would be difficult for anyone.

Senator THOMAS. I think it would.

Mr. TAYLOR. But why should this particular industry be burdened more than any other corporation? I seem to have made myself clear at least.

The CHAIRMAN. We are much obliged to you. I think we catch your point.

Additional Brief Relating to Electric Light and Power Companies Filed with the Commission.

In the matter of H. R. 4280, entitled "A bill to provide revenue to defray war expenses," etc.

The undersigned, representing a large number of public-utility holding companies, including the United Gas & Electric Corporation, the holding company which, through its subsidiary corporations, serves 17 cities in 11 different States, and the Cities Service Co., which, through its subsidiaries, operates street railroads and other public utilities in a large number of cities scattered throughout the United States, and the American Cities Co., which operates public utilities, including street railways, through subsidiary corporations, in New Orleans, Birmingham, Knoxville, Little Rock, Houston, and Memphis, begs leave to call to the committee's attention the gross injustice of the corporation tax on subsidiary as well as holding corporations amounting to double, and in some cases treble, taxation on the same income, which is imposed by section 10 of the act of September 8, 1916, and increased by section 4 of the House bill now under consideration.

Public utility holding companies have now come generally to be recognized as public necessities. Through them the public enjoys more efficient and more extended service at a cheaper rate as a result of eliminating overhead charges in operating and providing for a common operating staff and a common purchasing agency for supplies and equipment. They are now recognized as necessary natural monopolies, to be regulated by State public-service commissions, and any injury to them through overtaxation will, in turn, result in great injury to the millions of people whom they serve. Unlike other agencies which are taxed by this bill, they will be unable to raise their rates, for they are almost always fixed by public-service commissions or by their franchises.

Where such holding companies operate a large number of public utilities in various cities through subsidiary corporations, double taxation results under the sections complained of by reason of the fact that the holding company usually has no other income than that received from its subsidiary companies, and they pay the tax on their income, then turn it over to the holding company, which, in turn, is again required to pay the same tax on the same income.

The House bill, Title II (war excess-profits tax), wisely provides "that income derived from dividends upon stock of other corporations or partnerships which are subject to the tax imposed by this title shall be exempt from the provisions of this title." A similar exception, in all fairness to the companies which I represent, should be made in section 4, and section 10 of the act of September 8, 1916, should likewise be amended.

The total capital employed in electric, gas, street, and interurban railways in this country to-day is about $9,000,000,000. Of this amount about $6,000,000,000 is controlled by holding companies and their subsidiary corporations. To cripple these companies by double taxation would work a great hardship on the millions of people they serve, drive many of the corporations into receiverships

and generally disorganize many public utilities; the tax which the Government seeks to impose could not be collected, and it would thus defeat its own object.

An example in point under the existing act is illuminating:

The New Orleans Railway & Light Co., which operates in the city of New Orleans, is a corporation which was incorporated in June, 1915, the stock of which is held by the American Cities Co., a holding company, which operates public utilities in a number of southern cities. The stock of the American Cities Co. is, in turn, held by the United Gas & Electric Corporation: All three of these corporations, under the act of September 8, 1916, are required to pay a tax on the same identical income which is turned over, first, by the New Orleans Railway & Light Co. to the American Cities Co., and then by the latter company to the United Gas & Electric Corporation. This results in treble taxation, and with the increase proposed by the present bill there would be a tax of 12 per cent imposed on the net income of the New Orleans company.

The same situation exists with regard to the Elmira (N. Y.) Water, Light & Railroad Co. The stock of this company, which operates the public utilities of Elmira, N. Y., is held by the United Gas & Electric Co., a New Jersey corporation, incorporated in December, 1901, and the stock of the latter company is held by the United Gas & Electric Corporation, a Connecticut corporation, incorporated in June, 1912. Under section 4, increasing the tax imposed by section 10 of the act of September 8, 1916, the Elmira Water, Light & Railroad Co. would first pay a tax of 4 per cent on its net income, the United Gas & Electric Co., the New Jersey corporation, would again pay an additional tax of 4 per cent on the same income, and, finally, the United Gas & Electric Corporation, the Connecticut corporation, would pay a tax of 4 per cent on this same income turned over to it by the New Jersey corporation, the result being a tax of 12 per cent on the net income of the Elmira corporation. There are hundreds of instances of the same kind which might be pointed out to the committee, but I believe it is unnecessary to further press the point, as the unfairness of duplicating and reduplicating the tax is plainly apparent.

Furthermore, the duplication of these companies grew to a large extent out of preexisting mortgage limitations and restrictions of peculiar State laws, which made such a course necessary, and consequently there can be no consolidation or severance of companies for the purpose of escaping duplication of the tax.

The companies which I represent have no desire whatever to escape the increased taxation which is made necessary by our entry into the war, but they feel that the payment of the tax once is sufficient and that this committee does not desire to duplicate it.

Therefore I beg to suggest that to section 4, Title I, of the bill there should be added a provision to the following effect:

"*Provided*, That the income derived from dividends upon stock of other corporations or partnerships which are subject to the tax imposed by section 10 of said act shall be exempt from the provisions of said section 10 and this title, and said section 10 of the act of September 8, 1916, is hereby amended accordingly."

Respectfully submitted.

STUART G. GIBBONEY,
Of Barber, Watson & Gibboney,
165 Broadway, New York City.

ADDITIONAL BRIEFS RELATING TO ELECTRIC LIGHT AND POWER COMPANIES FILED WITH THE COMMITTEE.

Letter from Mr. Edwin A. Barrows, President of the Narragansett Electric Lighting Co.

NARRAGANSETT ELECTRIC LIGHTING CO.,
Providence, R. I., May 11, 1917.

Hon. LEBARON B. COLT,
United States Senate.

DEAR SENATOR: In further explanation of my telegram to you this morning regarding the taxation bill as relating to electric light and power companies I wish to advise that this company and other companies supply smaller light and power companies with whatever electricity they need to sell to their customers, both light and power.

The Narragansett Co. at the present time is selling current to the Narragansett Pier Co., the Wickford Co., and preparing to sell the Westerly Co. whatever power they require.

It has been brought to my attention, and urged by representatives of the smaller companies as well as our people here, that a double taxation is liable to result unless the bill is so worded that, besides what I believe the intention is—that the consumer pay this 5 per cent suggested tax, the smaller company purchasing power or the company selling it may have to pay it in addition.

On the principle of the bill itself, if I understand it correctly, I do not believe we have any just cause to complain. We all recognize the need of raising very large sums of money at this time, which will undoubtedly increase if this war continues.

If you can yourself, or through your associates, take steps to protect us the Narragansett Co. and others in this vicinity will be deeply grateful.

Shall be glad to write letters to others, if you should suggest it.

With kind regards,

Very truly, yours,

EDWIN A. BARROWS, *President.*

The CHAIRMAN. Now, Mr. Frost, you can proceed on the advertising schedule.

Sec. 504. ADVERTISING.

STATEMENT OF MR. E. ALLEN FROST, OF CHICAGO, REPRESENTING THE POSTER ADVERTISING ASSOCIATION AND THE OUTDOOR ADVERTISING ASSOCIATION.

POSTER AND OUTDOOR ADVERTISING.

Mr. FROST. Mr. Chairman and gentlemen of the committee, I represent, as I stated, poster advertising and outdoor advertising, and my remarks are directed to section 504 of the bill, which appears on page 23 of the printed bill, and which imposes a tax on all advertising other than in newspapers and magazines.

Senator TOWNSEND. Where do you get those magazines?

Mr. FROST. The language of the bill is, "newspapers and periodicals," magazines being periodicals, in the ordinary advertising phrase; they are generally so referred to.

The first point that we call attention to is that section 504 establishes an arbitrary selling preferential in favor of our competitors, meaning by that, that a tax of 5 per cent is put upon a portion of the industry and not upon the entire industry. This is the sole instance which occurs in the whole bill in which a part *only* of an industry is taxed. Naturally, it will occur to you that if a part of an industry bears 5 per cent tax and the other parts do not, and the parts are in competition with each other, as advertising on billboards and signboards is in competition with advertising in newspapers and periodicals, there has been established by the Government an arbitrary selling preferential in their favor. This is manifestly unjust.

Secondly, the Government expects to raise revenue to the amount of $7,500,000 from the tax on advertising, as indicated in the House report at page 11. There is an annual expenditure of $800,000,000 for advertising in the United States. Of that $800,000,000, which is all in organized advertising, only thirty millions is taxed. That thirty millions is made up of eight millions in bill posting and an equal amount in sign painting, both of which industries I represent, and both of which industries are carried on at widely scattered points, each having plants in 6,000 places throughout the United States. The balance of the thirty millions is made up of street-car advertising, of novelty advertising, and of the various forms of advertising which are used—directories, tin signs hand dodgers, and

the like—some of which interests are very important and are rapidly growing.

Five per cent on $30,000,000 should raise a revenue of $1,500,000. But unfortunately a considerable portion of that amount can not be realized on account of the expense connected with the collection. So that if the Government anticipates from advertising a sum somewhere in the neighborhood of $7,500,000, it is absolutely necessary that the advertising tax be equalized and extended over all advertising at a lower rate, or else the Government will be greatly disappointed in its revenue. The industries now affected by the tax will be so discriminated against by their competitors that they will be practically out of business, because with the bill-posting business, carried on in these 6,000 towns, and the sign painting in the same condition, 5 per cent of the gross income is from 85 to 90 per cent of the net income. With the 5 per cent advantage in freedom from the tax which other forms of advertising will have under the bill it will be simply impossible for us to compete with them.

Advertising is classified in this bill with public utilities. It is quite evident, from an examination of the bill, that the purpose was to tax luxuries, non-necessaries, trade necessities, public utilities, and those commodities on which the tax could readily be passed on at once to the consumer; and that, perhaps, is true of trade necessities, such as express companies, telephones, and transportation. The only trade facility included in this bill is advertising. Advertising is not a trade necessity. Advertising consists of paper and ink plus ideas. Since advertising is the subject of private contract a man can use it or not use it as he pleases. He is not compelled to patronize a trade facility, as he is a trade necessity, as in the transportation of his goods. Being a subject of contract and consisting chiefly of ideas, it is out of character and out of keeping with the balance of the items taxed by the bill, and it would be just, therefore, to entirely eliminate it from the bill.

One per cent on $800,000,000 will produce $8,000,000 revenue; $500,000 more than the Government is asking for. But that amount should be distributed upon newspaper advertising and upon magazine and periodical advertising. If the claim be made that the Government is withdrawing gradually, and as far as conditions will permit, the special services rendered to newspapers and magazines in transportation facilities through the post office, and that in withdrawing that service formerly gratuitously furnished an indirect tax is being imposed, still it must be remembered that this course leaves untouched the great, big proposition that the newspapers and the magazines are engaged in the advertising business in competition with other mediums. That being so engaged in advertising in part of their business notwithstanding the Government may have withdrawn some of the special privileges extended to them before, nevertheless on the advertising part of their business they ought to be taxed, or all advertising should not be taxed.

For example, the evil in taxing only one part of an industry can be seen in the case of automobiles. You have had the Ford called to your attention by a preceding speaker. Suppose, in addition to the advantages which the Ford has, there was also on it a selling preferential of 5 per cent. In other words, suppose the Packard was taxed 5 per cent and the Ford not taxed 5 per cent. Then the high-

103242—17——14

priced car men might indeed have cause of complaint. Under this bill the Packard is taxed and the Ford is not exempt, though under the same bill billposting and outdoor advertising are taxed, and other forms of advertising to the amount of $770,000,000 are not taxed. The effort is made by the Government to raise on less than 4 per cent of an industry $7,500,000. I think there will be disappointment to the Government in revenue, and I know there will be ruin to our business.

We suggest as a remedy that a tax of 1 per cent be extended upon all advertising, irrespective of the medium. That will produce $8,000,000 of revenue. If it be answered that it is impracticable and is not to be thought of at this time that additions should be made to the burdens of newspapers and magazines, then we ask that billposting and outdoor advertising be exempt. In exempting us the Government will lose about $1,000,000 of revenue.

In 1862, when the same problem, in those desperate war times, was before Congress and before the Senate, your predecessors were confronted with the same questions, and they were solved at that time in the manner presently set out. We believe that the solution at that time is the proven and tried precedent which should be followed now. It was then provided that all advertising should be taxed, other than newspapers, whose circulation did not exceed 2,500—and we recommend that be increased to 5,000—and that all advertising to an amount not to exceed $1,000 be exempt. This will preserve to the local community the benefit and advantage of the local country newspaper, which, with all the burdens cast upon it to-day, has to struggle for its very existence. The local country newspaper is really an instrument and channel for the dissemination of information, which the Government should encourage. We engaged in the advertising business want the country newspaper protected, because it is carrying advertising to those communities to which, on account of the limited extent of our business at this time, we are unable to extend the facilities of the advertising mediums we represent.

So we ask you to exempt the small country newspapers; we ask you to exempt advertising to the amount of $1,000; and then we ask you either to equalize this tax, which every man sitting around this table and in this room knows upon the statement I have made to be unequal, or else to eliminate us as well as the newspapers and magazines carrying $770,000,000 of advertising from the baneful effect of the tax. We are perfectly willing to pay 5 per cent if the necessities of the Government require it, and also that the Government may take our entire plants, as did the Governments of England and of France, in using the billboards to recruit their armies in volunteer times. We are content that, if required, the Government shall take what we have, be it 5 per cent or be it 50. But we are not content that the Government should establish against us, in favor of our competitors, an arbitrary 5 per cent selling preferential. We feel, however, you ought to tax all advertising only 1 per cent or eliminate it altogether from taxation.

I desire at a later time to present to the committee a brief in support of my argument.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Frost was subsequently submitted and is here printed in full, as follows:)

POSTER AND OUTDOOR ADVERTISING.

REASONS WHY SECTION 504 OF HOUSE BILL 4280, WITH RESPECT TO ADVERTISING, SHOULD BE AMENDED.

1. The section establishes an insurmountable handicap in that it creates an arbitrary selling preferential of 5 per cent in favor of our competitors.

Illustration: An advertiser has an appropriation of $100,000. Untaxed competitive mediums have a $5,000 advantage over taxed mediums endeavoring to secure that business.

2. No other industry is taxed in part only.

Illustration: The Packard automobile is taxed. The Ford is not exempt.

3. $800,000,000 spent annually for advertising—$770,000,000 untaxed, $30,000,000 taxed.

4. The Government estimated that it would raise $7,500,000 from advertising.

5. Five per cent tax on $30,000,000 is $1,500,000 levied on 8,000 concerns, leaving shortage of $6,000,000.

In the matter of section 504 of war-revenue bill (H. R. 4280), having reference to the proposed tax on advertising.

To the Congress of the United States:

The undersigned, being representatives of over 90 per cent of the industry engaged in the business of advertising through billboards, electric signs, painted signs, and car cards, make the following statement in reference to the above section:

They are experts in the above lines of business. They know thoroughly the conditions and value of all mediums of advertising used in this country and are thoroughly familiar with the amount of money expended annually in the United States for all kinds and forms of advertising. They base this knowledge upon the books of account and statistics collected by them on this subject, upon the various authentic data collected by such national associations as the Poster Association and the Outdoor Advertising Association and upon their actual experience in matters of this kind extending through a period of many years of active effort and work in the advertising field.

It is a fact that the total amount of money expended by the American public for advertising is approximately the sum of $800,000,000 annually. Of this amount at least the sum of $770,000,000 is expended for advertising in newspapers, trade journals, farm papers, magazines, and periodicals. The balance of $30,000,000 is divided as follows: $8,000,000 for billboards; $8,500,000 for painted outdoor and electric signs; $6,000,000 for car advertising; and $7,500,000 for miscellaneous advertising, such as theater programs, handbills, tin signs, sporting-news announcements, etc.

Therefore, the tax proposed by the bill reachess less than 4 per cent of the total gross income of the entire advertising industry.

Poster Advertising Association, by John E. Shoemaker; Outdoor Advertising Association, by Geo. L. Johnson; Thomas Cusack Co., by Thomas Cusack, President; The O. J. Gude Co., New York, by Charles O. Maas; Street Railway Advertising Co., by Barron G. Collier, President; Poster Advertising Co., by K. H. Fulton, President; Van Beuren & New York Bill Posting Co., by P. R. Borland; Dixie Poster Advertising Co. of Virginia and North Carolina, by W. W. Workman; American Posting Service of Chicago, by John H. Logeman; Indiana Poster Advertising Association, by J. E. Morrison, Vice President; Northern States Poster Advertising Association, by L. N. Scott, President; Illinois Poster Advertising Association, by W. M. Sauvage; Barron G. Collier (Inc.) of Georgia, North Carolina, Mississippi, Kentucky, Colorado, and Utah, Barron G. Collier, President; Pennsylvania Railways Advertising Co., by Jas. B. Lackey, Vice President; Geo. Kissam & Co. of Wisconsin, by Jas. B. Lackey, Vice President; Western Advertising Co. of Missouri, by A. G. Collier; Eastern Advertising Co. of Massachusetts and New Hampshire, by Robert M. Burnett, President.

Subscribed and sworn to before me at the city of Washington this 15th day of May, 1917.

[SEAL.]

EDMUND W. WHITEHEAD,
Notary Public, District of Columbia.

Mr. CHAIRMAN. In connection with the discussion upon this schedule, I desire to have printed in the record a brief which has been filed with the committee on behalf of several advertising associations.

(The brief referred to by the chairman is here printed in full, as follows:)

POSTER ADVERTISING.

The purpose of this argument is to secure an equalization in the application to advertising of the provisions of section 504 of House bill 4280, which reads as follows:

"That from and after the 1st day of June, 1917, there shall be levied, assessed, collected, and paid a tax equivalent to 5 per cent of the amount paid by any person, corporation, partnership, or association to any other person, corporation, partnership, or association for advertising or advertising space other than in newspapers and periodicals."

The provision lacks equalization in that it establishes a 5 per cent arbitrary selling preferential in favor of some forms of advertising as against others, resulting in a destructive high rate of taxation upon certain forms of advertising, in order to raise the $7,500,000 which the Government believes essential to be raised from a tax on advertising. No preferential rate occurs elsewhere in the provisions of the bill.

The total amount expended for advertising in the United States annually is about $800,000,000, which, exclusive of the amount spent in advertising in newspapers published and circulated in small communities and rural districts (which we believe should be exempted from taxation, as hereinafter pointed out), amounts to about $750,000,000. Of this latter sum about $8,000,000 is spent for poster advertising.

About $8,000,000 is spent annually in painted and electric display advertising; about $6,000,000 in street cars. Direct and miscellaneous advertising amounts annually to about $8,000,000, and the great portion of the balance of the $800,000,000 is spent for advertising in newspapers, periodicals, etc.

The tax of 5 per cent on poster advertising would yield about $400,000, and would amount to the taking of from 80 to 90 per cent of the profits derived from the business, the business being carried on at different places throughout the United States by about 8,000 individual persons or firms. It is now apparent that unless the tax is extended to at least a portion of the exempted advertising, the Government will fall short about $6,000,000 of the expected income from the tax on advertising.

The solution we suggest is that the rate of taxation applied to all advertising be on the net income instead of on the gross income but if that is not possible that then the tax on the gross income be not to exceed 1 per cent, since that rate would yield more than the amount ($7,500,000) anticipated by the Government from this source. This course would apply a different rate of taxation to advertising from that borne by the other commodities covered by the House bill and set forth in detail on page 11 of House Report No. 45. This is justified because advertising is of a different character from the other sources of income covered by the bill, the items in the bill being in the nature of either luxuries or nonnecessaries, or of such a character that the tax can be readily added to the price and passed at once to the consumer. Advertising differs from the other items, such as transportation, freight, etc., covered under Title V and with which it is immediately classed in that it is not an absolute necessity and is the subject of private contract. So that the tax can not be added to the cost of the commodity and passed at once to the consumer.

In view of its character, which consists of paper and ink plus ideas, it would be justifiable to entirely exclude advertising as a special source of public revenue, but for ourselves we are willing that our business should contribute its fair share of the revenue required on account of the present troubled times, and we are quite confident that all others, including newspapers and magazines, engaged in the advertising business will approve of this sentiment. The final form that we suggest the legislation should take is substantially as follows:

That all advertising be taxed on the net income and otherwise at not to exceed 1 per cent of the amount of the gross business, provided that the receipts for advertisements to the amount of $1,000 by any person or persons, firm or company, shall be exempt from the tax; and provided further that all newspapers whose circulation does not exceed 5,000 copies shall be exempted from all taxes on advertisements. (Provisos taken substantially from 12 U. S. Stat., pp. 472-473, sec. 2, ch. 119, 1862, act of July 1, 1862, in force after Aug. 1, 1862.)

This plan was the form worked out and adopted by the Government in 1862, when neither public opinion nor the resources of our country were as adequate to meet desperate war problems as they now are. In our judgment this plan is commended both by sound public policy and the authority of tried and proven precedent.

The CHAIRMAN. Now the committee will hear Mr. Oliphant.

STATEMENT OF MR. A. DAYTON OLIPHANT, REPRESENTING THE R. C. MAXWELL CO., OF TRENTON, N. J.

SIGN PAINTERS.

Mr. OLIPHANT. Mr. Chairman and gentlemen, the R. C. Maxwell Co., of Trenton, N. J., whom I represent, do not object in any way to bearing their share of the burden necessary to be borne by the people of this country under the existing conditions. What they do object to is the absolute discrimination in this bill in regard to newspapers and periodicals.

I can probably save the committee time and keep myself closer to the facts if I read the following communication [reading]:

If Congress passes the proposed bill as it stands to-day this will include the following 55 words:

"That from and after the first day of June, 1917, there shall be levied, assessed, collected, and paid a tax equivalent to five per centum of the amount paid by any person, corporation, partnership, or association to any other person, corporation, partnership, or association for advertising or advertising space other than in newspapers and periodicals."

If the committee had removed the last six words—"other than in newspapers and periodicals"—the R. C. Maxwell Co. would have no protest to make.

Yes; the Government can have this 5 per cent on our gross sales, and when that is gone and they need more, come and get it, if it takes the other 95 per cent. More than that, we have properties—millions and millions of square feet of lumber and steel—distributed from Portland, Me., to Shreveport, La. That also is at your service, Uncle Sam. And last but not least, our personal services are at the disposal of the Government. On March 27 last Mr. R. C. Maxwell, president and founder of this company, filed his application with the War Department, offering his services, and now awaits the call. In the early part of April young men from the organization began enlisting and expressing their wish to enlist. We thereupon, on April 5, 1917, issued a statement through the superintendent's office to all employees, saying that this company was disposed to encourage and commend any of its men prompted by this patriotic spirit, and promised them faithfully that their positions would be held for them upon their return; and further, this company would do for them or their dependents in a financial way all that was possible.

As I have said, the country can have all that we have, if the needs in this present crisis require it. For the present, if this tax goes through, we will not only turn over all our earnings, but we will have to sell properties to make up the deficit, and pay to the Government the tax as proposed. We accept that burden; but why should the publishers of newspapers and periodicals be set aside and made preferred individuals and placed on a superior level?

We are fighting for democracy, liberty, and equality. Our commercial nation has prided itself on square dealing, and now, as a warring nation, every man, woman, and child, not excepting publishers, should do their part.

We admit there are a few newspapers and a good portion of periodicals who will pay a good round sum in excess postage, but do you know there are thousands and thousands of American newspapers whose circulation is almost entirely distributed from door to door? Do you know that the majority of these newspapers are earning net profits far in excess of the amount of the tax that you propose? Do you know that they sell advertising space that should, and must, come under this list that you call "advertising or advertising space," and that it is printed and circulated before the people purely and expressly for advertising purposes? This advertising is printed on paper to promote the sale

of commodities, exactly and identically the same as the advertising that is printed on posters, street car cards, window displays, and all other forms of publicity.

You will impose a tax on automobile manufacturers. Had you said, "We will tax 5 per cent on the gross business of all automobile manufacturers except the Packard Automobile Co." then surely the Mercer Automobile Co. would have no more just cause for protest than The R. C. Maxwell Co. have with this unjust discrimination in favor of newspapers and other publishers.

Is it because newspapers devote an influence and create a necessary patriotism and war enthusiasm among the people? Surely these people in performing their duty do not expect financial compensation in the shape of refunded taxes.

Mr. Barron G. Collier, the great street car advertising man, expected absolutely nothing in return when he offered the Government the use of street car advertising in thousands of American cities. The R. C. Maxwell Co. have not only offered their medium of publicity, but have given it, and are still giving it. Their illuminated space is painted now, and has been for weeks, with copy proclaiming the President's message. For weeks we have displayed in each of all the street cars that we control three spaces that we have designed, printed, and placed, as per the photographs and copy herewith submitted. Finally, when all the advertising, including the Boardwalk (Atlantic City) and other dominating locations, are finished, which plans are under way, it will represent thousands of dollars of this company's money, expended without expectation of reward but solely as a duty we owe our country in doing our utmost to awaken the public mind to the patriotic needs of the Nation and to the necessity of practical service in the program of self-defense.

The R. C. Maxwell Co. commends the Members of the Senate and House for the resolute and fearless manner in which they have taken up this question of the war tax, and believes that it is their purpose to place this burden where it belongs, and, wherever placed, to see that it is fairly and proportionately distributed.

We want it thoroughly understood that this company raises no objection to whatever tax the Government feels it must levy upon us, but we do maintain that it is a serious oversight to eliminate thousands of newspapers from any responsibility or burden, and we feel confident that a gross injustice of this kind to all other advertising interests will not be permitted by Congress.

(Signed) THE R. C. MAXWELL CO.,
By R. C. MAXWELL,
President.

Mr. OLIPHANT. I will later present to the committee a protest against section 504 of this bill.

The CHAIRMAN. The clerk will have it printed.

(The protest referred to by Mr. Oliphant was subsequently submitted and is here printed in full, as follows:)

PROTEST AGAINST SECTION 504 OF THE WAR REVENUE BILL.—BRIEF OF R. C. MAXWELL CO., OUTDOOR ADVERTISERS, ELECTRIC SIGNS, AND PAINTED SIGNS.

To the Finance Committee of the Senate of the United States:

Revenue must be raised. We are willing to bear our share of the burden.

Thousands of dollars have already been gratuitously given to the Government in advertising space, labor, and materials, and will continue to be given.

Specimens of some of the work done by our company since the President's proclamation are appended.

1. The tax is unsound. Your statistician has misled you. You thought you were taxing $800,000,000. You are only taxing $30,000,000. Five per cent on $30,000,000 is $1,500,000. $770,000,000 will be totally exempted. Your schedule called for $7,500,000. Eventually you will realize scarcely a $1,000,000, after shrinkage in gross takes place as a direct result of this tax.

2. The tax is unfair because it is discriminatory.

You tax us and not our most formidable competitor.

You tax only 4 per cent of the advertising interest, thus exempting 96 per cent of the legitimate dividend-paying advertising business.

You create a preferential selling advantage in favor of the 96 per cent as against the 4 per cent taxed.

You don't tax one automobile company and not another; you tax all.

This is the only section of the bill which is a clean-cut, unanswerable case of discrimination.

3. The tax is confiscatory, being 5 per cent on gross.

Our profit is 3.7 per cent on the gross business.

We will be compelled to pay the Government our entire profits of 3.7 per cent plus 1.3 per cent.

This balance can only be raised by the sacrifice of property.

That does not take into account the many other taxes affecting our business levied under this bill.

We respectfully ask that the tax contemplated under section 504 be eliminated or that a tax of 1 per cent be placed on the entire advertising business, which will mean a revenue of at least $7,500,000.

Respectfully submitted.

THE R. C. MAXWELL CO.,
By R. C. MAXWELL,
President.

MAY 15, 1917.

Mr. OLIPHANT. The Maxwell Co. claims that this section of the bill is unjust, is unfair, is confiscatory, and is discriminating, and we feel it is unjust to our business.

Senator THOMAS. That seems to be the claim as to every one of these provisions, and I am beginning to think it is a pretty fair bill.

The CHAIRMAN. Proceed, Mr. Maas.

STATEMENT OF MR. CHARLES O. MAAS, REPRESENTING THE O. J. GUDE CO.

SIGN PAINTERS.

Mr. MAAS. Mr. Chairman, I simply want to say that we agree thoroughly with what Mr. Johnson has said and with what Mr. Frost has said.

With the permission of the committee I will later submit a letter in the nature of a brief in regard to this subject.

The CHAIRMAN. The letter will be printed.

(The letter referred to by Mr. Maas was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM SUBMITTED BY THE O. J. GUDE CO., NEW YORK, IN RELATION TO SECTION 504 OF THE WAR-REVENUE BILL (H. R. 4280).

To the honorable SENATE FINANCE COMMITTEE,
United States Senate:

As is shown by the affidavit filed with this committee, verified on May 15, 1917, by representatives of over 90 per cent of the outdoor advertising and car-sign industry, out of a total annual expenditure of $800,000,000 for all kinds of advertising, $770,000,000 of this amount represent newsparer and periodical advertising, and only $30,000,000 represent the media taxed by section 504. In other words, less than 4 per cent of the entire business is taxed. The inequity of taxing only a part of an industry, thereby creating a 5 per cent selling preferential in favor of the remaining competitive part, is so manifest that no comment is required. It is erroneous to state that the newspapers, which are untaxed under this section, bear their share of the burden through the increased postal rate so that the competition becomes equalized. For example, The O. J. Gude Co., New York, is one of the largest concerns that furnishes advertising service through painted and electric signs. Its main field of operations is in New York City. There its strongest competitor is found in the great metropolitan dailies, whose circulation to the extent of over 95 per cent thereof is in New York City and in its vicinity, and whose pockets are therefore barely touched by the proposed zone law.

This is also true of every other large sign painting concern in our country, since there activities are invariably centered in large cities. It is almost needless to say that, in the light of these facts, advertising appropriations will naturally be diverted from our company and from the other outdoor display concerns in this country, to the great daily papers, so that the advertisers may make a salvage of 5 per cent which they would have to pay to us. We are gladly willing to share any burden that may be placed on the entire advertising industry. Indeed, in common with other outdoor display companies, the Government is largely availing itself of the use of our facilities in recruiting and its laudable efforts to sell liberty-loan bonds. But we most respectfully and earnestly protest against a tax that falls on but 4 per cent of the advertising business, a tax that would fail of collection because of the insurmountable obstacle that it places upon us to continue in competition with the metropolitan press.

The estimate that $7,500,000 would be raised by the provisions of this section of the bill, is, of course, erroneous. If the advertising that is taxed could continue unimparied, the actual net amount collectible would be around $1,000,000. But when there is taken into consideration the shrinkage of gross receipts that will now occur because of decreased business in war times when advertisers naturally make minimum appropriations, and that would further occur by reason of the selling preferential that will ensue if this section becomes law, it is no idle prophecy to assert that above revenue would be cut in half. It is true that harsh times require harsh measures; but they do not require futile ones.

Assuredly, when the inconsequential revenue that this section would actually produce is regarded, we respectfully submit that "the game is not worth the candle," and that for so small a result, Congress should not resort to the imposition of an unequal tax among men engaged in the same industry, a tax falling on the shoulders of a small minority to the benefit of the large competing majority, a tax that we say, with all of the earnestness we can, will place upon us burdens which will not be possible for us to bear.

Upon the hearing had on this section, the attention of the committee was called to the fact that 5 per cent of the gross income of the outdoor advertising industry is an amount equal to between 85 and 90 per cent of the net profits This point can not be too strongly emphasized in view of the impression that has been created that the net profits are enormous. So far as concerns our own business, we have filed with the chairman of this committee a sworn confidential statement to which we invite the attention of the committee, and which illustrates the condition predicated of the entire paint and electric-sign business. It is submitted that no law, however drastic, should place upon an industry not only the loss of its entire profits, but also the danger of an encroachment on its invested capital so as to enable it to meet the tax demanded.

We urge, in conclusion, that because of the above facts and of the facts set forth in the briefs filed by other representatives of the industry affected by this section, Congress should either strike the same from the bill or equitably tax the entire advertising field.

Respectfully submitted.

THE O. J. GUDE CO., New York,
By CHARLES O. MAAS.

Dated Washington, May 15, 1917.

The CHAIRMAN. You can go ahead, Mr. Johnson.

STATEMENT OF MR. GEORGE L. JOHNSON, OF CHICAGO, REPRESENTING THE THOMAS CUSACK CO.

SIGN PAINTING.

Mr. JOHNSON. Mr. Chairman, I am with the Thomas Cusack Co., in the sign-painting business.

Our business is strictly competitive. We are in competition not only with other advertising mediums but with the advertisers themselves. The big item in our business is labor. We must prove to the men who buy our advertising that we can do it cheaper than they can.

Many large advertisers do their own sign painting—Mail Pouch, Castoria, Ingersoll watches, Burrows fly screens, Gorton's codfish, H. J. Heinz, Beechnut bacon, Pepsi Cola, and many others.

If placed in a position where we must take up a 5 per cent handicap we will drive other advertisers to executing their own work and thereby be exempted from the tax, to the loss of revenue to the Government.

A sign painter is just a sign painter whether employed by us, working for himself, or painting signs for an advertiser direct. It is a most common condition for our employees of to-day to become our direct competitors to-morrow, and now with this proposed preferential in favor of the advertiser who does his own work he is given further encouragement to hire our men away from us and go into sign painting for himself—on all of which the advertiser will pay no tax.

Sign advertising contracts are for long terms—from one to five years—and our business is imperiled by the contracts which we must execute at the contracted price in the face of enormous increase in the cost of all labor and material.

This industry taken for any given number of years has never shown a net 5 per cent profit.

At a later time we desire to present a letter.

The CHAIRMAN. When your letter is received it will be printed.

(The letter referred to by Mr. Johnson was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM SUBMITTED BY THOMAS CUSACK CO. IN RELATION TO SECTION 504 OF THE WAR-REVENUE BILL, (H. R. 4280).

MAY 15, 1917.

To the honorable SENATE FINANCE COMMITTEE,
United States Senate:

We are the largest concern in this country engaged in the business of furnishing advertising through painted and electric signs. Our main activities are centered in Chicago, where we come into keen and constant competition with the great newspapers. It is only by convincing advertisers that our service to them is as effective and as economical as that furnished by newspapers that we can successfully carry on our business. In this connection it can not be too strongly emphasized that these large city papers, whose circulation is almost entirely confined to Chicago and the neighboring zones reached by transportation other than the Postal Service, are barely touched by the proposed increase in postage, and therefore, with a 5 per cent selling preferential in their favor, such as would ensue if section 504 were adopted, competition with our strongest business adversaries will become impossible. We therefore join with the other protestants of this section and assert that taxing less than 4 per cent of an industry instead of all of it creates an inequality so patent and so disastrous to our business that its continuance would cause it to become subnormalized to the point of utter decay. Not only have we to confront the competition of these newspapers, but the fact is that we largely compete with advertisers themselves, namely, those who do their own sign painting.

To create the proposed 5 per cent preferential will, as a matter of course, drive many of our present customers who desire to retain the outdoor advertising medium to do their own work, and thus evade the tax. As matters stand now, the total annual gross income, which is the subject of taxation under section 504, is $30,000,000 (see affidavit verified May 15, 1917, and filed with the committee on that day). The net yield would not, therefore, exceed much over $1,000,000. But with the creation of a 5 per cent preferential in favor of competitors, with many advertisers starting to do their own sign work, and with the large shrinkage in times of crisis of advertising—since advertising is not a trade necessity, but a trade facility to be indulged in as sparingly as possible in such times—it logically follows that the net revenue that really will be

derived from this section will be absolutely inconsequential compared to the unavoidably disastrous result that would follow to our industry.

We gladly join with our coworkers in offering all of our facilities to the Government for its publicity work. We willingly undertake to equitably share any burden that may be imposed on all of the $800,000,000 of advertising that is done in this country. But we do respectfully protest in principle not only against the tax on gross incomes (which is in violation of the principle underlying our present general income tax), but particularly against such a tax levied on the minority of any given industry, leaving the majority untaxed.

The entire outdoor advertising industry is as one earnestly praying that Congress will not permit such an injustice to be worked, and that section 504 should either be stricken out, or that an equitable tax should be placed upon the business of advertising in all of its branches without favoritism.

Respectfully submitted.

THOMAS CUSACK CO.,
By THOMAS CUSACK,
President.

Dated, Washington, May 15, 1917.

The CHAIRMAN. Next we will hear Mr. Ely.

STATEMENT OF MR. W. C. ELY, OF BUFFALO, N. Y., REPRESENTING THE STREET CAR ADVERTISING CO.

STREET CAR ADVERTISING.

Mr. ELY. Mr. Chairman, in addition to the points these other gentlemen have made, some of which apply to our business, we make, first, this point, that no matter how patriotically we may be inclined, how willing we may be, we could not pay the 5 per cent upon our gross, and I will file with the chairman a sworn statement of the largest company, showing its revenues and disbursements and its net, and it will show that 5 per cent upon our gross earnings would equal approximately 50 per cent of our net, and would put us out of business. Five per cent of the earnings from those cards you see in the cars come under long-term contracts, five years with our national advertisers. Fifty per cent of our revenue is tied up in that way, and we would be absolutely unable to increase it.

The leases which cover the payments we make to the railroad companies for the space in which the cards are inserted cover 5, 10, or 15 year periods. So that on 50 per cent of our revenue our hands are tied, and on 50 per cent of our operating expenses our hands are tied.

For the consideration of the committee I present a brief on this matter.

The CHAIRMAN. The clerk will have it printed.

(The brief referred to by Mr. Ely is here printed in full, as follows:)

SOME POINTS BY CAR ADVERTISING COMPANIES AGAINST SECTION 504 OF THE WAR REVENUE BILL.

Point 1: The car advertising companies have not the ability to pay the proposed 5 per cent tax upon their gross earnings.

(*a*) Car advertising as a business does not differ materially from any other form of merchandising. It consists of buying a certain raw material, to wit, blank space; this raw material is developed by the art of the draftsman and the wit of the copy writer; it is then sold at retail to the advertiser, just as any other commodity is sold. It is sold in competition with other like commodities

which are represented to be just as good, to wit, advertising in newspapers and magazines, and through the medium of electric signs, billboards, etc., and it must meet the price of the competing article.

(*b*) Car advertising does not yield extraordinary profits. The business can not be conducted without ample capital. A large organization is necessary and the several departments require distinct groups of experts. Numbers of men and women workers of all grades: Experts, salesmen, accountants, clerks, stenographers, artists, printers, lithographers, and ordinary laborers are employed. This results in a large operating expense.

(*c*) The items of operating expenses are about as follows:

To the railroad companies for space in the cars, about 50 per cent of the gross revenues.

Expense of selling the space to advertisers, approximately 20 per cent.

Copy preparation and general office expenses, approximately 15 per cent.

Taxes, depreciation, and other overhead, about 5 per cent.

Leaving a net profit of only approximately 10 per cent.

(A confidential sworn statement, filed with the chairman of the Senate committee by one of the largest companies in the country, shows a net profit of even less than 10 per cent.)

If 5 per cent of the gross would equal 50 per cent of that small margin, manifestly there would not be enough left to justify the business nor to secure its perpetuation. And such is the fact. For example, let us assume the case of a car advertising company with an annual gross revenue of $1,000,000; the 10 per cent profit would equal $100,000; 5 per cent of the gross would equal $50,000, or exactly 50 per cent of such net income. From this it would seem quite certain that such a state of facts could not have been in the minds of the framers of the bill. Fifty per cent of the net income exceeds the highest rate upon incomes of the largest and wealthiest taxpayers in the country—upon incomes arising from fixed investments, largely free from the vicissitudes attending a sharply competitive business such as the one in question.

Point 2: If the discrimination which seems to exist against the car advertising companies in favor of newspapers and periodicals is to be suffered to remain in the act, its sure result will be to put the car advertising companies out of business.

Car advertising is sold in competition with advertising in newspapers and magazines. Price considered, newspaper advertising and car advertising and, in fact, all the standard forms of advertising are theoretically of the same value. Whether the advertiser uses newspapers, streets cars, or electric signs or billboards is the result of personal preference or shrewd salesmanship on the part of some particular medium. A differential of 5 per cent is sufficient to overcome any such personal preference and is too great to be overcome by the most skillful salesmanship. Advertisers will not pay a premium of 5 per cent for the privilege of using any particular medium in preference to any other standard medium. The salesman does not live who can take an advertising contract which will result in a 5 per cent tax upon the advertiser when his competitor is offering a similar service without the tax.

Point 3: It is submitted that whatever tax is to be levied upon this business should be a tax upon net income, rather than a tax upon gross earnings.

(*a*) It is important that the committee should consider the fact that contracts for the purchase of advertising space from the railroad companies run from 5 to 15 years and are in existence and their terms can not be varied by the advertising company. This operating expense is therefore fixed and can not be reduced. Furthermore, about 50 per cent of that space is already sold to national advertisers under contracts running about five years and therefore the revenue derived from the sale of this advertising, amounting to about 50 per cent of the total, is fixed and can not be increased. This state of facts will prevent them in large part from adjusting their operating expenses and revenues to meet the new conditions to be created by this act.

(*b*) No possible difficulty attaches to the levying and collecting of a tax upon the net income of such companies. They deal with numbers of different customers, which requires the keeping of accurate accounts and statements are now being filed upon which the existing income taxes are assessed and levied by the different departments of taxation—State and Federal.

Finally, it should be stated, without any reservation whatever, that these companies are not seeking in any way to evade their proper and just proportion of the taxes required in this great national emergency and will submit

patriotically and cheerfully to whatever taxes may be levied by the Congress that shall be made to apply alike to all business of similar character.

As an evidence of our willingness to be of assistance to our Government, we think it might be mentioned here, without indelicacy, that we have already given to the Government, free of any charge whatsoever, a large amount of space for advertising in the railroad cars throughout the country the liberty loan and recruiting for military and naval purposes.

Respectfully submitted.

Mr. ELY. Furthermore, the preferential which was described, which would exist in favor of the newspapers, would apply strictly to us on our local advertising which is in the vicinage, in the vicinity, and the newspapers would get that, because no living salesman could sell street car advertising to the banks and drug stores and merchants as against the advertising in the columns of the newspapers, if the newspapers had the benefit of the 5 per cent on us.

It would put us out of business; it will be impossible to comply with the terms. We want to say, speaking for the street railway advertising company whose sworn statement I will file, accompanied by a short statement of these points, we have already given to the Government considerable space in our cars, answering their request for assistance in advertising their recruiting appeal and the liberty loan throughout the United States in more than 40,000 street railway cars. We were not anticipating the tax at the time. However, we did it; but we could not pay the tax. You catch us coming and going.

The CHAIRMAN. That seems to be the way we want to catch them now.

Mr. ELY. But if you kill the goose you do not get the eggs. I thank you very much. We appreciate the situation you are in.

The CHAIRMAN. Now, Mr. Gunnison, you may proceed.

STATEMENT OF MR. STANLEY E. GUNNISON, REPRESENTING THE INTERNATIONAL CAR ADVERTISING LEAGUE.

Mr. GUNNISON. Mr. Chairman, I simply want to confirm what the previous speakers have said, and to say that the companies represented in this league find those facts to be the case, and that the brief, I think, will represent the feeling felt and expressed in the International Car Advertising League.

The CHAIRMAN. The committee will now hear Mr. Ommen.

STATEMENT OF MR. ALFRED E. OMMEN, REPRESENTING THE UNITED TYPOTHETÆ.

POSTER PRINTERS.

Mr. OMMEN. Mr. Chairman, I represent the United Typothetæ, who are working in the large printing plants throughout the country, having local typothetæ in every one of the larger and smaller cities throughout the country.

We are especially concerned with the construction of the words "for advertising." Does that mean that when a man comes into a printing office and wants to have printed a million circulars, and all we do is the mechanical manufacturing part—the circular itself is to sell his shoes, his automobiles, or his rubbers, or whatever may

be the purpose—there is a tax on us of 5 per cent? Because the act further provides, in section 506, that everybody who gets the money for the advertising must every 15 days report to the Government. So, is the printer compelled under those circumstances to pay 5 per cent to the Government because what he prints happens to be for the moment for advertising?

Senator THOMAS. I do not think that applies to you any more than it does to the men who make the billboards. You do the work for the advertiser.

Mr. OMMEN. That would affect us very seriously; and there are several other provisions in this bill that affect our industry: For example, the increase in postage rates and others. So that if we have to pay 5 per cent on advertising matter and increased postage matter, you would get about 90 per cent of the business. There would not be any printing business. You would get all there was in sight, because you have taxed it under a great many different provisions. That is a serious question. I am very glad to get the expression of the Senator.

Senator THOMAS. There is no doubt about it.

The CHAIRMAN. Suppose you discuss this matter from the standpoint that you think would be most hurtful to you. We can not now undertake to go through this bill. We are taking these hearings preliminary to taking up the bill for committee consideration.

Mr. OMMEN. How long a time would you allow me to submit a memorandum?

The CHAIRMAN. You may submit a brief any time before Tuesday night.

The CHAIRMAN. Now, are the gentlemen who are to represent this other section of this question ready to go on? You go ahead, Mr. Oviatt.

STATEMENT OF MR. PERCIVAL D. OVIATT, OF ROCHESTER, N. Y., REPRESENTING THE ASSOCIATION OF EMPLOYING LITHOGRAPHERS.

POSTER PRINTERS.

Mr. OVIATT. Mr. Chairman, to my mind the word "advertising" appearing in this section is not an accurate word, and it can not be made the basis of any successful tax.

For example, just to suggest the problem. We print these posters that are put upon the billboards. We print the card signs that appear in the street cars. We print these other things which are subject subsequently to public display. It can not be that the person who orders a thousand dollars' worth of posters from us and who is compelled to pay a tax, either directly or through some other person when they appear upon the billboard, is subject to pay the tax in some per cent of the amount paid to us for the manufacture of that product. It can not be that we are supposed to take 5 per cent of the cost of the posters and give it to the Government, and that then the person who puts those bills upon the billboard is compelled to take 5 per cent and give it to the Government, so that it must be that we are exempted from that tax as it stands at the present time.

But the problem then becomes this. We also manufacture the exact thing that goes into the street car, or for the purpose of putting in the window of the drug store, or the window of the department store, for display there. It never becomes the subject of display space or advertising space. Never having become the subject of display space in a street car or on a billboard, therefore, the question is, Is it advertising such as is subject to this tax? We claim that if the same thing put upon the billboard becomes taxable when it appears and is not taxed when it leaves our shop, we are not to be the sponsors for the use of that article after it leaves the shop, and to collect 5 per cent upon it when it appears in the drug-store window, and to collect nothing upon it when it appears in the street car. So that it must be that the word "advertising" is too large, generic, and common a term, and is not sufficiently technical or scientific to be made the basis of the tax.

My suggestion is that this bill be amended to cover advertising space. That is the theory which seems to have been presented here this morning. It seems to me the theory that the person who has his advertising appear upon the billboard or street car or some other place, upon a public place where he has had to pay for its appearance, is taxed, so that the word "advertising" as used in this section adds nothing to the meaning of it. It seems to me the whole thought is to tax advertising space. But if you leave the word "advertising" in that section you are going to have it questioned as to whether or not jimcrack that is put out for any purpose at all, distributed in any way at all, is advertising for which somebody may have to pay a tax.

My suggestion is that Mr. Frost and those who have made their statements here are absolutely technically, morally, and legally right on that proposition, that this is a tax which ought to be imposed upon all advertising without discrimination, but that it is a tax which is intended upon the space, the amount of public display, and not intended to be imposed upon the product which the manufacturer delivered to the second party, the second party intending to have it displayed; that the tax is intended to impinge upon the act of putting the display upon the public boards.

The committee will hear you, Mr. Peter.

STATEMENT OF MR. ARTHUR PETER, REPRESENTING PARKER-BRAWNER CALENDAR CO., OF WASHINGTON, D. C.

CALENDAR ADVERTISING.

Mr. PETER. Mr. Chairman, the calendar is largely sold about the 1st of January. In other words, we have already sold at least 60 per cent of our business, and it is sold upon such a basis that if we are now taxed 5 per cent, it will take all of our profits. I suggest that after the words "paid for" in section 504, the words be added "paid and contracted," which would make the tax applicable to anything that we contract for after the passage of this bill.

Mr. EMERY. Mr. Chairman, I would like to say a few words on the advertising section of this bill.

The CHAIRMAN. What class?

Mr. EMERY. Newspaper and magazine advertising.

The CHAIRMAN. Very well; proceed, Mr. Emery.

STATEMENT OF MR. A. H. EMERY, OF STAMFORD, CONN., REPRESENTING NEWSPAPER AND MAGAZINE ADVERTISING.

NEWSPAPER AND MAGAZINE ADVERTISING.

Mr. EMERY. We are wasting our forests in publishing an unnecessary quantity of pictures in our daily papers and magazines and in publishing an unnecessary quantity of advertising, spoiling our climate by that waste.

A very large revenue may be collected each year by levying a large tax on all advertisements of all our newspapers and magazines and on all the pictures published therein. This is especially the case as regards the newspapers, which are rapidly wasting our forests and greatly injuring our climate by using so much paper, much of which is worse than wasted in publishing comic pictures; much more is wasted in pictures there is no excuse for publishing; and still more is wasted in publishing advertisements far beyond the necessities of the public.

To illustrate this waste, we find from Ayers' Newspaper Directory of 1917 that the daily circulation of all the papers published in the State of New York may be taken approximately at 6,000,000 copies on week days and 5,000,000 copies on Sunday. The weight of to-day's Washington Post for 14 pages is 4 ounces, at which rate 6,000,000 copies would be 1,500,000 pounds, or for six days 9,000,000 pounds. The Sunday papers are much larger, fully five times the average number of pages that the dailies have. Taking the average weight of the Sunday paper at a pound and one-quarter, for 5,000,000 copies it is 6,250,000 pounds more, which, added to the papers for the other six days of the week, makes together 15,250,000 pounds for all the dailies published in the State of New York for one week, or more than 7,500 tons, at which rate the paper used for these dailies for 52 weeks, or one year, would be 390,000 tons, and this is for the dailies published in the State of New York only.

Of the Sunday issues probably a fourth of this paper is required for the pictures only and fully half of the rest for advertising. In part of the papers one section is devoted almost exclusively to pictures of fine quality, but they are all out of place and go mainly to enlarge the volume of waste paper, while in many of the papers many pages are devoted to comic pictures of no good use to anyone, but very bad for the children to see them; and all the colored sections are particularly bad and not fit to be seen in any home. All the Sunday papers have a very large quantity of advertising.

The advertisements in the daily papers are, many of them, needless. For instance, on May 3, the Washington Post had an advertisement of the Saturday Evening Post, its cost, its value, and where to get it. To publish this advertisement consumed about 400 pounds of paper in the Washington Post that day. The circulation of the Washington Post on May 3 may be taken at, say, 45,000 copies. For the same reason this advertisement covering a whole page was put in the Washington Post that day it might have been put in a hundred other papers in the country. I don't know that it was in any of them, but there was the same reason to put it in a hundred that there was in this one Washington Post. If it had been put in 50 of them, with the consumption of paper equal to that used by the Post for this advertisement, there would have been consumed for this needless advertisement in these 50 papers 10 tons of paper. This one advertisement in the

Washington Post covered many thousand pages of the issue. If there were 50,000 copies of the paper published there were 50,000 pages of this waste paper, wasting the paper on which it was printed. I give this as a single instance of waste.

Many instances might be cited showing an unnecessary advertisement in the daily papers. For instance, a single cigarette is advertised day after day in many papers, and on Sundays a very large advertisement of this cigarette, which does the public no good, but in proportion to the extent it benefits the advertiser it curses humanity by the use of these cigarettes. All advertisements of tobacco in this form and all advertisements for liquor in any form should be taxed at either double or triple the rate the Government should tax ordinary advertisements. As a rule, all the papers contain several times as much advertising matter on Sundays as they do in other issues.

The pictures and advertisements in the Sunday papers bring up the Sunday issues to fully five times the weight of the ordinary daily issues. Many single advertisements cover a whole page in each of several different papers on Sunday, and thus waste an enormous sum of money. The people who buy the advertised goods have to pay for this advertising, most of which should not have been made. If half the money spent in this advertising were spent in making the goods better, the buyers of the goods would be that much better off, and the manufacturer might have saved the other half for his pocket, because if he made these goods so much better he would still get the sales.

A good way to save a very large part of this paper wasted in advertising would be to tax every square inch of advertisement 10 per cent of the charge made by the papers and magazines therefor, tripling this charge on all advertisements of tobacco in any form and all liquor in any form, and doubling all these rates of advertising in the Sunday papers. Again, a very large quantity of paper may be saved, with great profit to the public, by charging on each square inch of space used for pictures. The same price that is charged for the ordinary commercial business advertising and on all space used for comic pictures, tripling the price, as advised in the case of liquors and tobacco, and on Sunday issues doubling this charge. This would cut our papers down to a reasonable amount of space, and would save an enormous amount of paper, that is now worse than being wasted. Our children are being greatly injured by seeing these comic pictures; no one is benefited by seeing them, and their use results in this fearful waste. The other pictures are of little real value and result in a very large waste of paper. If the plan recommended is adopted, a very large revenue will be obtained, and the public will be saved this fearful waste of voluminous Sunday papers—first, of paying for them, and, second, in wasting their time in looking at and reading them. Most of the advertisements in the Sunday papers are probably not read by one person in a thousand who look at the papers. Now, let us save this waste of paper and not go on destroying our forests and injuring our climate by this waste.

Mr. Emery. At a later date I will submit a brief expressing my views.

The Chairman. The clerk will have it printed.

(The brief referred to by Mr. Emery was subsequently submitted and is here printed in full, as follows:)

WASHINGTON, D. C., *May 11, 1917.*

A very large revenue may be collected each year by levying a large tax on all advertisements of all our newspapers and magazines, and on all the pictures published therein. This is especially the case as regards the newspapers, which are rapidly wasting our forests and greatly injuring our climate by using so much paper, much of which is worse than wasted in publishing comic pictures; much more is wasted in pictures there is no excuse for publishing; and still more is wasted in publishing advertisements far beyond the necessities of the public.

To illustrate this waste, we find from Ayers Newspaper Directory of 1917 that the daily circulation of all the papers published in the State of New York may be taken approximately at 6,000,000 copies on week days, and 5,000,000 copies on Sunday. The weight of to-day's Washington Post for 14 pages is 4 ounces, at which rate 6,000,000 copies would be 1,500,000 pounds, or for 6 days 9,000,000 pounds. The Sunday papers are much larger, fully five times the average number of pages that the dailies have. Taking the average weight of the Sunday paper at a pound and one-quarter, for 5,000,000 copies it is 6,250,000 pounds more, which added to the papers for the other six days of the week makes together 15,250,000 pounds for all the dailies published in the State of New York for one week, or more than 7,500 tons, at which rate the paper used for these dailies for 52 weeks, or one year, would be 390,000 tons, and this is for the dailies published in the State of New York only.

Of the Sunday issues probably a fourth of this paper is required for the pictures only, and fully half of the rest for advertising. In part of the papers one section is devoted almost exclusively to pictures of fine quality, but they are all out of place and go mainly to enlarge the volume of waste paper, while in many of the papers many pages are devoted to comic pictures of no good use to anyone, but very bad for the children to see them, and all the colored sections are particularly bad and not fit to be seen in any home. All the Sunday papers have a very large quantity of advertising.

The advertisements in the daily papers are, many of them, needless. For instance, on May 3, the Washington Post had an advertisement of the Saturday Evening Post covering a whole page, calling attention of the public to this paper. There was no need for this advertisement. All the reading public of the United States know well of the Saturday Evening Post, its cost, its value, and where to get it. To publish this advertisement, it consumed about 400 pounds of papers in the Washington Post that day. The circulation of the Washington Post of May 3 may be taken at, say, 45,000 copies. For the same reason this advertisement covering a whole page was put in the Washington Post that day, it might have been put in a hundred other papers in the country. I don't know that it was in any of them, but there was the same reason to put it in a hundred that there was in this one Washington Post. If it had been put in 50 of them with the consumption of paper equal to that used by the Post for this advertisement, there would have been consumed for this needless advertisement in these 50 papers 10 tons of paper. This one advertisement in the Washington Post covered many thousand of pages of the issue. If there were 50,000 copies of the paper published, there were 50,000 pages of this waste paper, wasting the paper on which it was printed. I give this as a single instance of waste.

Many instances might be cited showing an unnecessary advertisement in the daily papers. For instance, a single cigarette is advertised, day after day, in many papers, and on Sundays a very large advertisement of this cigarette, which does the public no good, but in proportion to the extent it benefits the advertiser it curses humanity by the use of these cigarettes. All advertisements for tobacco in any form, and all advertisements for liquor in any form should be taxed at either double or triple the rates the Government should tax ordinary advertisements. As a rule, all the papers contain several times as much advertising matter on Sundays as they do in other issues.

The pictures and advertisements in the Sunday papers bring up the Sunday issues to fully five times the weight of the ordinary daily issues. Many single advertisements cover a whole page in each of several different papers on Sunday and thus waste an enormous sum of money. The people who buy the advertised goods have to pay for this advertising, most of which should

103242—17——15

not have been made. If half the money spent in this advertising were spent in making the goods better the buyers of the goods would be that much better off, and the manufacturer might have saved the other half for his pocket, because if he made these goods so much better he would still get the sales.

A good way to save a very large part of this paper wasted in advertising would be to tax every square inch of advertisement 10 per cent of the charge made by the papers and magazines therefor, tripling this charge on all advertisements of tobacco in any form, and all liquor in any form, and doubling all these rates of advertising in the Sunday papers. Again a very large quantity of paper may be saved with great profit to the public by charging on each square inch of space used for pictures the same price that is charged for the ordinary commercial business advertising, and on all space used for comic pictures tripling the price as advised in the case of liquors and tobacco, and on Sunday issues doubling this charge. This would cut our papers down to a reasonable amount of space and would save an enormous amount of paper that is now worse than being wasted. Our children are being greatly injured by seeing these comic pictures; no one is benefited by seeing them, and their use results in this fearful waste. The other pictures are of little real value and result in a very large waste of paper. If the plan recommended is adopted, a very large revenue will be obtained and the public will be saved this fearful waste of voluminous Sunday papers—first, of paying for them, and next in wasting their time in looking at and reading them. Most of the advertisements in the Sunday papers are probably not read by one person in a thousand who look at the papers. Now, let us save this waste of paper and not go on destroying our forests and injuring our climate by this waste.

A. H. EMERY.

Mr. EMERY. I do not own a dollar of railway stock. I am a manufacturer, and for the last year almost all my freights have been expressage because the railroads are hampered so much by the Interstate Commerce Commission that they can not develop themselves, and time after time I am sending freight, ordinary castings, by express. Last month I sent $5,300 worth of castings by express.

Almost all my freights for the past year have been sent by express. If you tax these railroads $78,000,000 on their passengers and freights, you will be crippling business in this country worse than to tax the manufacturers five times that, and I am a manufacturer. Do not tax these railroads any more. They are oppressed enough. They can not do the business now. Give them a chance. Don't put a dollar's tax on their revenues. They are burdened to-day to the extent of injuring manufacturing all over the country. Put no tax on them.

We manufacturers will pay a higher rate. I am perfectly willing to pay a higher rate on freights. Give them a chance to move it. Let them develop.

The CHAIRMAN. I think under this bill you will pay that tax.

Mr. EMERY. I want to pay it direct. I don't want the railroads hampered. I want them developed. I am much obliged to you, gentlemen.

The CHAIRMAN. That concludes the paragraph on advertising. The next subject for consideration is that of insurance. From whom shall we hear first? You may begin, Mr. Cox.

Sec. 505 (a). INSURANCE.

STATEMENT OF MR. ROBERT LYNN COX, THIRD VICE PRESIDENT METROPOLITAN LIFE INSURANCE CO.

Mr. COX. Mr. Chairman and gentlemen, I would like especially to refer to section 505, which deals with the subject of life insurance companies.

We are in some doubt, Mr. Chairman, as to just what was the intention of the House in framing this particular section. I say that because in the statement that was issued by the House Ways and Means Committee they said they "recommended the following taxes," and when they came to life insurance they said they "recommended the reenactment of the Spanish War tax relating to life insurance companies," etc. They did that with reference to life insurance as to the 8 cents per $100 or fractional part thereof. They omitted, however, from the bill a provision which related especially to industrial life insurance taxation, which, under the Spanish-American War tax, was not fixed at 8 cents on $100, but at the rate of 40 per cent of the first weekly premium payment.

The CHAIRMAN. You will have to consider it with reference to the bill, and not the statement of the committee.

Mr. COX. I assume that is so, Mr. Chairman, therefore I am asking to take a moment of your time to explain the difference between these forms of insurance before I proceed.

In ordinary life insurance the unit on which it is issued is $1,000 of life insurance, and the premium is graded through various amounts, according to age, to cover the hazard, as we are all familiar with. This ordinary kind, say upon $1,000 of insurance, may cost $29.40, or $29.80 at some other age, and so on; but when we come to industrial insurance exactly the reverse thing is done—that is, the premium is the unit and the amount of insurance changes, so you see that we take a 5-cent weekly premium and at various ages give varying amounts of insurance for it. For instance, take the ordinary life at a very young age; a 10-cent weekly premium at age 12 produces $302 of insurance; at age 30, $164; at age 50, $76, and so on. So you see that we have odd amounts of insurance in the industrial line of insurance. Never, or very seldom, does the break come on the even hundred dollars of insurance.

It is not difficult for you to see, in applying that 8-cent rate of taxation per hundred dollars of insurance or fractional part thereof, as the bill reads, that you multiply the ratio of taxation very materially. For instance, there are policies issued at $12.50 each for children's insurance at small ages. It would take eight of those to make $100 worth of insurance, and, following this ratio of taxation, "and fractional parts thereof," you would have eight times 8 cents on that insurance, or 64 cents tax to cover that $100 of insurance covered by those policies. That is so manifestly a discrimination against that form of insurance that I am not going to do more than state it to the committee that I believe you should go back when the time comes, if it has not already been done by the House, and cover that as it was in the original act of 1898.

At a later time I desire to present briefs for the consideration of the committee.

The CHAIRMAN. The clerk will have it printed.

(The briefs referred to by Mr. Cox were subsequently submitted and are here printed in full, as follows:)

MEMORANDUM ON BEHALF OF THE LEGAL RESERVE LIFE INSURANCE COMPANIES AGAINST THE SPECIAL TAX ON INSURANCE ISSUED IMPOSED BY SECTION 505 (a).

By Titles I and II of the bill life insurance companies are subjected to the same taxes on incomes and excess profits which are imposed upon other corporations. In

addition, by Title V, section 505 (a), a special tax of 8 cents per $100 is laid upon "the amount for which any life is insured under any policy of insurance." Without yielding the principle for which we have heretofore consistently contended that life insurance should, upon grounds of sound public policy, be exempt from all taxation, we are not now, in view of the imperative need for revenue which confronts the Government, making objection to or asking relief from the war taxes on income and excess profits. That burden we are content to carry until the emergency which requires it shall have passed. We do not, under existing circumstances, ask or expect specially favorable consideration, but we do submit that the institution of life insurance should not be singled out for unfavorable treatment and subjected to greater burdens than other lines are called upon to bear through the imposition of a special tax in addition to the general taxes which it will pay in common with all business.

THE 8-CENT TAX IMPOSED BY SECTION 505 (A) VIOLATES SOUND PRINCIPLES OF TAXATION.

This tax violates the fundamental principles of taxation, which counsels that no tax should be laid without regard to the ability of the person or thing taxed to pay. The general tax imposed by this bill being a tax upon income and profits is wholly in consonance with this principle. Specific and ad valorem taxes, such as those provided for by Title V, involve a very different rule. They are unjustifiable unless capable of being passed on to the ultimate consumer and thus receiving the widest possible distribution. The 8-cent tax on life insurance is not in accord with this rule, because, as we shall show, it can not be passed on or further distributed by the companies furnishing life insurance protection.

LIFE INSURANCE IS A COOPERATIVE AGENCY FOR MUTUAL PROTECTION AGAINST ECONOMIC LOSS.

Statistics show that over 75 per cent of the legal reserve or old-line life insurance in the United States is carried in mutual companies and that more than 87 per cent of such insurance is written on the mutual or participating plan. The severity of competition has, moreover, reduced the premiums charged for the comparatively small residue of 13 per cent of nonparticipating insurance to a practical equivalence with the mutual rate. As a result, it may be stated without reservation that life insurance is to-day furnished to policyholders in the United States as nearly as practicable at cost. The entire business being thus conducted without the desire for or expectation of profits, it is essentially a cooperative enterprise, and the companies, whether stock or mutual, and whether transacting business upon the participating or nonparticipating plan, are merely the agencies through which the funds necessary to the undertaking are collected, accumulated, and disbursed. A specific tax laid on life insurance is therefore incapable of further distribution, because the body of policyholders is in most cases actually and in every instance practically identical with the corporation from which the tax will be collected.

LIFE INSURANCE IS A QUASI-PUBLIC SERVICE WHICH SHOULD BE FOSTERED AND ENCOURAGED.

Life insurance is a facility afforded the living to provide after their decease for their dependents. It involves a pecuniary sacrifice by the person insured which has been aptly described as a self-imposed tax, and indirectly inures to the benefit of the State. In innumerable cases life insurance is all that stands between the beneficiary and absolute destitution. Without it the dependents of the average man would become, for a time at least, either objects of private charity or charges upon the public. Where its amount is insufficient to provide permanent or entire support for the widow and orphan it serves at least to tide them over until they can adjust themselves to the changes in their situations. All told, there are upwards of 40,000,000 policies, aggregating about $23,000,000,000 of old-line life insurance in force in the United States. The average amount of insurance under each policy is approximately $530. The aggregate of insurance outstanding in France on December 31, 1912, was $1,214,339,923. The per capita amount of life insurance in France at the outbreak of the war was probably not in excess of $40. If the average Frenchman had carried adequate

insurance, is it conceivable that the fate of the French "war orphans" would to-day be dependent upon the justice of their Government or the charity of foreign peoples?

Notwithstanding the importance of life insurance, it is not yet generally recognized by the individual as a necessity, and its inevitable cost, even under normal or ordinary circumstances, too often deters the individual from embracing its protection. While the per capita amount of life insurance, including fraternal and assessment insurance, in the United States on January 1, 1916, was $320, it is safe to assert that more than 50 per cent of the insurable population, including a large proportion of those whose circumstances most require this form of protection, are not insured. Any increase in the cost of insurance over the present cost through the imposition of a specific tax thereon, payable absolutely and without regard to the existence of any margin in the premiums now charged out of which it can be paid, would therefore discourage and impede the issuance of new insurance and be against the public interest. Such, we submit, will inevitably be the effect of the 8 per cent tax proposed by section 505 (a).

FRATERNAL AND ASSESSMENT LIFE INSURANCE IS EXEMPTED FROM ALL TAXATION.

Fraternal orders and cooperative life insurance associations transacting business on the assessment plan are exempted from the income and excess-profits tax imposed by the act of September 8, 1916, and from the war tax on income and excess profits which is carried in this bill; and their policies are also excepted from the special tax of 8 cents per $100 of insurance issued by an express provision of this bill. The treatment so accorded these forms of life insurance is, we submit, a recognition by the framers of the bill of their public character and their peculiar claims to consideration at the hands of the Government.

We have already shown that life insurance is merely a cooperative agency for the mutual protection of the persons insured. Three methods have been employed of securing from policyholders contributions to meet losses:

(*a*) The pure assessment plan, under which the loss payable on the death of a policyholder is, after the event, contributed pro rata by the surviving policyholders. This plan takes no account of the differing ages of the insured and the inequity in the probable number of contributions each will have to make, nor of the possibility that diminishing numbers will increase the assessments upon the survivors. This method has been found inequitable and is obsolete.

(*b*) The natural premium plan, under which the policyholder pays each year the cost of carrying his insurance for that year. As the hazard of death increases annually, the premium increases correspondingly, and the plan is objectionable on this account. This method is used only by fraternal orders and assessment associations.

(*c*) The level premium plan is the one in general use by the so-called legal reserve or old-line life insurance companies. Under this plan the maximum annual contribution which any policyholder can be called upon to pay is uniform throughout the life of the policy. The policyholder pays during his early years a sum in excess of the current cost of his insurance. This excess is applied to the creation of a reerve or self-insurance fund, which serves to maintain the insurance in the later years, when the stipulated level premium would be insufficient to meet the current cost of insurance on the natural premium plan.

There is no difference on principle between old-line life insurance and that afforded by the fraternal orders and assessment societies. The only difference lies in the methods pursued to achieve the common end. The interest of the State in each is identical. The claims of each to the consideration of Government are the same. Despite these facts the treatment accorded the old-line life insurance companies and their policyholders in the matter of taxation not only denies to them that consideration to which they are entitled and which the fraternal orders and assessment societies enjoy, but also involves a degree of unfair discrimination between the two systems of insurance such as does not exist in the case of any other interest affected by the tax laws. Whatever may be said of the relative ability of the two systems to pay taxes upon the income or profits, they are upon the same basis with respect to a tax upon the amount of insurance issued. Moreover, the keenest competition occurs in the struggle for new business, upon which both systems alike depend for their perpetuation.

We have not, however, adverted to these facts for the purpose of asking that like taxes be imposed upon the fraternal orders and assessment societies. Believing that all life insurance should be exempt, we are content that they should be exempt. Moreover, realizing the need of the United States Government for revenue in the present emergency, we are not asking to be relieved at this time from either the general or the war taxes on net incomes and excess profits. We ask only that the arbitrary, absolute, and inescapable specific tax of 8 cents per $100 of insurance issued be stricken from the bill. The elimination of this tax would remove the discrimination which exists between the two systems upon the one point of vital importance to the old-line life insurance companies.

EFFECT OF THE WAR ON LIFE INSURANCE.

From an economic or business standpoint the institution of life insurance is in much the same situation as Belgium. It is life insurance that is bound to be caught between the upper and nether millstones of battle. This war will drive across our economic territory, and the slaughter and desolation will fall upon us. Apart from the expenses of operation and taxes, the cost of life insurance is dependent upon the mortality experience, and it goes without saying that the war will inevitably involve an appalling increase in mortality. The Metropolitan Life Insurance Co., in carrying some $11,000,000 of Canadian war risks, with maximum exposure extending over a period of less than a year of service at the front, has suffered losses at from 15 to 20 times the normal rate of mortality. English companies at the outset charged an annual war extra premium of 5 per cent of the amount insured. This charge has since been increased, as a result of actual experience, to 25 or even 30 per cent, which is, of course, practically prohibitive.

Of the twenty-five billions at risk in the United States approximately three billions, or about one-eighth of the whole, is on male lives between the ages of 21 and 30 years, which are subject to the selective draft. Practically all insurance on the books to-day is free from what we call military restrictions. Notwithstanding the fact that the war hazard was not taken into consideration in the calculation of the premium, the risk, so far as present policyholders are concerned, will be carried without additional premiums. Under normal conditions there is a margin over actual requirements in the current premiums, the existence of which has hitherto been regarded as necessary to guarantee future solvency. How long it will take the war mortality to absorb this margin is the only matter for conjecture. That it will be exhausted is inevitable if our young men actually participate in this war.

In addition, the small contingency surplus which the law allows the companies to maintain has already become reduced by shrinkages in the value of the securities in which they are invested, and are likely to be further depleted by further losses of this sort. Finally, it is doubtless expected that the companies will become heavy investors in the bonds which are to be issued by the Government to finance this war, at a rate of interest from 1 to 1½ per cent less than they are able to realize from other investments.

It should be kept in mind that the life insurance companies are subject not only to the normal income and excess-profits taxes, but also to the proposed war tax upon income and excess profits. If they have income in excess of outgo, and if they realize profits the Government will receive its taxes. If no net income be realized, however, the 8 per cent tax will have to be paid out of trust funds which are required by State laws to be held intact for the benefit and protection of policyholders. We submit, therefore, that the imposition of this latter tax upon the business of life insurance in disregard of the disturbing effect upon its affairs of the very war into which it has unwittingly come, and which the tax is intended to support, is no more justifiable than the indemnity tax imposed by the German invaders upon the desolated people of Belgium.

The 8-cent tax imposed upon life insurance by section 500 (a) should be stricken from the bill.

Respectfully submitted.

ASSOCIATION OF LIFE INSURANCE PRESIDENTS.
ROBERT LYNN COX,
FREDERIC G. DUNHAM,
Of Counsel.

MAY 14, 1917.

MEMORANDUM RELATING TO THE WAY IN WHICH H. R. 4280 DISCRIMINATES AGAINST INDUSTRIAL LIFE INSURANCE POLICYHOLDERS.

This bill covers all regular level-premium or "old-line" life insurance companies and in common with provisions relating to other kinds of business proposes:

1. To double income taxes.
2. To double excess-profits taxes.
3. In addition and as a special tax on the business of life insurance it provides in section 505, page 23, beginning at line 18, for "a tax equivalent to 8 cents on each $100 or fractional part thereof, of the amount for which any life is insured under any policy of insurance, or other instrument, by whatever name the same is called."

This is a reenactment in part of the Spanish-American War tax of 1898. It omits, however, an important proviso of the act of 1898 which read as follows:

"*Provided*, That on all policies, for life insurance only, issued on the industrial or weekly-payment plan of insurance, the tax shall be forty per centum of the amount of the first weekly premium."

Thus, under the pending bill, it is proposed in terms that "industrial" life insurance be taxed at "8 cents on each $100 or fractional part thereof" just as ordinary" life insurance is taxed.

But this in effect means that industrial life insurance will be taxed far more than ordinary life insurance, per each $100 of insurance written, though its character and purpose entitle it to a lower rate if, in fact, there is any justification for taxing it at all.

The reason why a tax imposed by the same words and in identical terms imposes the heavier tax upon industrial life insurance is as follows:

In ordinary life insurance custom has fixed $1,000 of insurance as the unit on which cost (premium rate) is based. As a result policies are written always in amounts of $1,000 or multiples thereof or at least in multiples of $100, e. g. $1,000, $1,500, $1,800, $2,500, $3,000, $5,000, etc. Hence a tax of 8 per cent on each $100 of insurance, means a tax of 8 per cent per $100 of any aggregate number of ordinary insurance policies.

Now, the rate of mortality on which all insurance must be based, increases steadily with advancing age. In ordinary insurance the unit of insurance on which premiums are calculated remains at $1,000, but the premiums are increased according to the age at which the applicant takes out his policy of insurance. Hence, in ordinary insurance variation in cost of insurance due to variation of age is not reflected in fractions of $100 of insurance taken out by the policyholders, but in fractions of dollars he must pay for it. This is shown by a typical table of premium rates as follows:

Participating—Premium rates for $1,000.

Age nearest birthday.	Annual.	Semi-annual.	Quarterly.	Age nearest birthday.	Annual.	Semi-annual.	Quarterly.
20	$14.87	$7.74	$3.95	41	$26.97	$14.03	$7.15
21	15.19	7.90	4.03	42	27.97	14.55	7.42
22	15.54	8.09	4.12	43	29.05	15.11	7.70
23	15.90	8.27	4.22	44	30.19	15.70	8.01
24	16.27	8.47	4.32	45	31.42	16.34	8.33
25	16.68	8.68	4.43	46	32.72	17.02	8.68
26	17.09	8.89	4.53	47	34.10	17.74	9.04
27	17.53	9.12	4.65	48	35.58	18.51	9.43
28	17.99	9.36	4.77	49	37.16	19.33	9.85
29	18.47	9.61	4.90	50	38.85	20.21	10.30
30	18.99	9.88	5.04	51	40.65	21.14	10.78
31	19.53	10.16	5.18	52	42.56	22.14	11.28
32	20.10	10.46	5.33	53	44.62	23.21	11.83
33	20.70	10.77	5.49	54	46.80	24.34	12.41
34	21.33	11.10	5.66	55	49.15	25.56	13.03
35	22.00	11.44	5.83	56	51.65	26.86	13.69
36	22.71	11.81	6.02	57	54.33	28.26	14.40
37	23.48	12.21	6.23	58	57.19	29.74	15.16
38	24.27	12.63	6.44	59	60.28	31.35	15.98
39	25.11	13.06	6.66	60	63.58	33.07	16.85
40	26.01	13.53	6.90				

No policy issued on which the premium to be paid is less than $10.

Industrial life insurance is the insurance planned for, sold to, and carried by the industrial classes, those who work for a daily wage of comparatively small amount. It is paid for in weekly installments, ranging from 3 cents a week to 60 cents a week.

In this case the question is not how much insurance does the applicant want, but how much can he set aside each week to pay for life insurance—5 cents, 10 cents, 15 cents, or more. The average among the 40,000,000 industrial policies outstanding in this country is 10 cents a week.

Since it is not practical to vary the weekly premium payment to cover variations in age of applicants for this kind of insurance, involving as it necessarily would a division of cents into fractional parts, the practice was devised of making the premium the unit of calculations and varying the amount of insurance which it will pay for at different ages. Hence, we have a series of tables—5 cents, 10 cents, 15 cents, or larger weekly premimum payments for all persons regardless of age, with benefits varying, however, in each case according to age as follows:

Age next birthday.	Benefits payable for the following weekly premiums.										
	3 cents.	5 cents.	10 cents.	15 cents.	20 cents.	25 cents.	30 cents.	35 cents.	40 cents.	45 cents.	50 cents.
10	$97.20	$162									
11	94.20	157									
12	90.60	151	$302								
13	87.60	146	292	$438							
14	84.00	140	280	420							
15	81.00	135	270	405							
16	78.00	130	260	390	$520						
17	75.00	125	250	375	500						
18	72.60	121	242	363	484	$605					
19	70.20	117	234	351	468	585	$702				
20	67.80	113	226	339	452	565	678	$791			
21	65.40	109	218	327	436	545	654	763	$872		
22	63.60	106	212	318	424	530	636	742	848	$954	$1,060
23	61.20	102	204	306	408	510	612	714	816	918	1,020
24	59.40	99	198	297	396	495	594	693	792	891	990
25	57.60	96	192	288	384	480	576	672	768	864	960
26	55.80	93	186	279	372	465	558	651	744	837	930
27	54.00	90	180	270	360	450	540	630	720	810	900
28	52.20	87	174	261	348	435	522	609	696	783	870
29	50.40	84	168	252	336	420	504	588	672	756	840
30	49.20	82	164	246	328	410	492	574	656	738	820
31	47.40	79	158	237	316	395	474	553	632	711	790
32	45.60	76	152	228	304	380	456	532	608	684	760
33	44.40	74	148	222	296	370	444	518	592	666	740
34	43.20	72	144	216	288	360	432	504	576	648	720
35	41.40	69	138	207	276	345	414	483	552	621	690
36	40.20	67	134	201	268	335	402	469	536	603	670
37	39.00	65	130	195	260	325	390	455	520	585	650
38	37.20	62	124	186	248	310	372	434	496	558	620
39	36.00	60	120	180	240	300	360	420	480	540	600
40	34.80	58	116	174	232	290	348	406	464	522	580
41	33.60	56	112	168	224	280	336	392	448	504	560
42	32.40	54	108	162	216	270	324	378	432	486	540
43	31.20	52	104	156	208	260	312	364	416	468	520
44	30.00	50	100	150	200	250	300	350	400	450	500
45	28.80	48	96	144	192	240	288	336	384	432	480
46	27.60	46	92	138	184	230	276	322	368	414	460
47	26.40	44	88	132	176	220	264	308	352	396	440
48	25.20	42	84	126	168	210	252	294	336	378	420
49	24.00	40	80	120	160	200	240	280	320	360	400
50	22.80	38	76	114	152	190	228	266	304	342	380
51	22.20	37	74	111	148	185	222	259	296	333	370
52	21.00	35	70	105	140	175	210	245	280	315	350
53	19.80	33	66	99	132	165	198	231	264	297	330
54	18.60	31	62	93	124	155	186	217	248	279	310
55	18.00	30	60	90	120	150	180	210	240	270	300
56	16.80	28	56	84	112	140	168	196	224	252	280
57	16.20	27	54	81	108	135	162	189	216	243	270
58	15.00	25	50	75	100	125	150	175	200	225	250
59	14.40	24	48	72	96	120	144	168	192	216	240
60	13.20	22	44	66	88	110	132	154	176	198	220
61	12.60	21	42	63	84	105	126	147	168	189	210
62	12.00	20	40	60	80	100	120	140	160	180	200
63	10.80	18	36	54	72	90	108	126	144	162	180
64	10.20	17	34	51	68	85	102	119	136	153	170
65	9.60	16	32	48	64	80	96	112	128	144	160

Referring to this table and having in mind the fact that 10 cents a week is the average premium paid by industrial policyholders, we find that at age 12 a premium of 10 cents a week will purchase $302 of insurance. At "8 cents for each $100 or fractional part thereof" the tax imposed on such a policy by the pending bill would amount to 32 cents—more than thhree times the first premium which the company has collected from the policyholder. Running down the column we find that in only one instance does the amount of insurance written under a 10 cent a week policy exactly coincide with the $100 unit set up by this bill as the basis of the tax, viz, at age 44. At every other age there is a "fractional part" of insurance either over or under $100 which calls for full 8 cents tax and serves to increase the tax on those policies beyond "8 cents on each $100 of insurance." Just how much this increase would amount to would depend on the relative volume of insurance written at different ages, but it is easy to see that on the average it would probably impose on this class of insurance a tax burden at least 50 per cent greater per "$100 of insurance written" than would be imposed on ordinary insurance where the unit of insurance written is always $100 or multiples thereof, and there is no "fractional part thereof" on which the tax of 8 cents can operate.

The discrimination does not end with that which has just been pointed out. In ordinary insurance the premium is based on a yearly period and is usually paid a year in advance. The exceptions are the comparatively few cases where privilege is given to pay quarterly or semiannually in advance. The average premium is a little over $3 per $100 of insurance. Hence the company would not be required to pay on the average a tax of more than 3 per cent of its premium income on the new insurance written. Even though the insurance should lapse at the end of the year (the first time at which such a policy could lapse) the tax can be paid out of money paid in by the policyholder.

In industrial insurance the policy may lapse at the end of the first week. In fact, many of them do. In the case of the $302 policy cited above it would take more than three premium collections to cover the tax. At no age below 44 would the first premium be sufficient to pay the tax, leaving the company nothing for mortality, expenses, etc., and the expenses of the business are largely the initial cost of putting the insurance on the books. It would hardly seem that a tax more unfair and burdensome to industrial life insurance as it is and must be carried on could be devised. Doubtless it was consideration of such facts which led the Congress of 1898 to classify industrial life insurance separately and impose a tax of "40 per cent of the first weekly premiums" instead of 8 cents on each $100 of insurance or fractional part thereof. The same methods of doing industrial life-insurance business prevail now, and the same reasoning would seem to apply if such policyholders are to be taxed at all.

Under this bill fraternal life insurance is specifically exempted from all tax, presumably because it is written—

First. On the mutual plan and therefore without profit to anyone, and

Second. Largely among classes of moderate means and in limited amount on each life.

These considerations apply with even greater force to industrial life insurance, over 93 per cent of which is on the mutual plan and written in policies averaging less than $150 each.

Furthermore, practically all industrial life insurance is written on the working classes, who can ill afford to pay any tax, even though it be of small amount in each case.

We urge, therefore, on behalf of industrial life-insurance policyholders that the bill be amended by inserting, on page 24, line 3, at the end of paragraph 505-A, the following words: "or to policies of life insurance issued on the industrial or weekly payment plan."

Respectfully submitted.

METROPOLITAN LIFE INSURANCE CO.,
ROBT. LYNN COX,
Third Vice President.

Mr. COX. I want to say a few words now with reference to the general subject of insurance. In the first place, you are dealing, as you know, with one of our largest American institutions. There are about $25,000,000,000 worth of insurance carried by the United States companies to-day, most of which is carried in the United States. In the main, it may be said that this is carried on a cooperative plan,

because 87 per cent of that outstanding insurance is absolutely mutual and carried in that way. We are not saying anything different at the present moment about the income tax which you propose to double or the excess-profits tax which you propose to double, because we can see in that that you are dealing with this business as you are dealing with other large businesses. But you come to the final and third form of taxation, which is this 8 cents per hundred dollars of insurance, and there you seem to have entirely forgotten the rule as to ability to pay. That becomes of very great importance when you are considering the subject of life insurance, because we are dealing with this question of mortality. That is the cause of life insurance, that mortality. The thing which you get out of war is increased mortality. Therefore, you will have increased cost in our business at the basis of the business, and yet when you come to impose a certain percentage of tax on $100 you are having no regard whatever to the question of what our experience may be with reference to ability to meet the tax.

As to the extent to which we may be affected, in that connection I would like to call your attention to the fact that we estimate that out of this $25,000,000,000 of outstanding insurance, about $3,000,000,000 of it is being carried on the ages between 21 and 30, which is the age limit that is now being discussed as being subject to the selective draft, which is about one-eighth of the whole amount. That is the amount of male lives subject to selective draft covered by this insurance.

That part of our business is on our books to-day under policies which, speaking almost universally, are not subject to what we call military restrictions. In other words, that share of our business is going to be put into this war hazard without extra premium and without extra cost to the policyholder. It only needs for me to state that fact to you to show you how much the mortality must be increased. No one knows how much it will be increased. About the only guide we have is what happened in Europe with reference to the foreign companies. There the rates increased materially. For instance, in Canada they started with $50 per thousand extra hazard on new lives being insured; then it went to $100, then to $150, and some to $200 or $300 per thousand dollars of insurance. The company of which I am an officer has $11,000,000,000 of insurance in Canada taken on war hazards. We have had the experience during the first year and a half of that war which shows us that the mortality of that group is 15 to 20 times the normal mortality; so you see that is a very element to be considered in connection with the taxing of our business.

Aside from the mortality, we come to various other elements which should be taken into consideration, such as the shrinkage in value of assets. I emphasize that because, under the law of New York and some other States, we are limited in the amount of surplus that we can carry to 5 per cent of the reserves. The shrinkage in bond values in recent times has been almost enough to consume that surplus that we are expected to carry. We have various decreases in our earning power in addition to that which has been suggested lately, that a large institution like a life insurance company, with several billions of dollars of assets, should become a heavy investor

in Government bonds at 3½ per cent. That represents to such investors, at that rate, 1½ per cent less than they can get elsewhere. That in and of itself is a tax.

You must consider all of these questions in considering the taxation of life insurance. I think you may look at this business from an economic standpoint very much as you could have looked and should have looked at the country of Belgium as a political situation. In other words, we are the ones that are going to be caught between the upper and the nether millstones. This act proposes a drive across our economic territory, and the slaughter is going to be upon us. I can see no other way out of it. It certainly does not seem as if this Government ought to reach out and impose this tax upon the business of life insurance when the mortality is bound to be increased any more than we should reach out and attempt to impose an extra tax upon the poor struggling people of Belgium, whose territory was devastated.

That is drawing rather a strong picture. It is absolutely a true picture, as you would appreciate if there were any way in the world we could tell the extent to which this mortality is going to come to our business. Of course, we do not know how many you are going to be compelled to draft. We do not know how many you are going to be compelled to send to the trenches abroad. But we can only show you that as to the number you do send abroad, you are going to increase the cost enormously on this particular kind of business.

So I suggest with reference to this that the proper attitude for this Congress to take would be to go back to the question of taxation under the income tax and under the excess profits tax and see how it works out. If we have income, you will get the tax. If we have excess profits, you will get the tax. It will of course depend on how this thing works out. We can not, as I say and as I see it, in our business believe that the future holds in store for us anything that warrants Congress in the imposition of such an exceedingly heavy tax as 8 cents per hundred dollars on new insurance written, which relates to companies that I represent and would run into millions and millions of dollars per annum.

The CHAIRMAN. The committee will now listen to Mr. Blackburn.

STATEMENT OF MR. THOMAS W. BLACKBURN, OF OMAHA, SECRETARY FOR THE AMERICAN LIFE INSURANCE COMPANIES.

Mr. BLACKBURN. Mr. Chairman and gentlemen, I am secretary and counsel for the American Life Insurance Cos. organization of 105 western and southern life insurance companies.

We do not come here, gentlemen, in any other sentiment than the feeling that we have to take our medicine, and we are going to take it cheerfully and take it as every other patriotic citizen will have to take it.

I have only one suggestion to make, as far as I am concerned, with reference to this bill. I think, if you will turn to section 505, you will plainly see there is an omission there of an exemption to which we are clearly entitled. At the end of first subsection A, life insurance, there should be added these words:

> *Provided*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision.

You will observe that both the other subdivisions there have that proviso with reference to reinsurance. You gentlemen will understand that the younger companies in particular all carry a very large amount of reinsurance. For instance the line limit of the Jefferson Standard at Greensboro, N. C., may be $10,000 and it may be offered a policy of $25,000. It carries the $10,000 itself and reinsures in the Metropolitan or some other life insurance company the remaining $15,000. What we ask is that that $15,000 of reinsurance, for which we will have to pay the 8 cents per hundred dollars tax as the bill now reads, shall be exempt. It seems to me the mere statement of that proposition carries conviction, and that you gentlemen will cheerfully discover that this was an omission on the part of the House, and if the House does not make that addition to the bill, you should make it.

Senator THOMAS. I notice, Mr. Cox, that in these subdivisions regarding life insurance exemptions are made of all fraternal, beneficiary societies, and orders, etc. Does any business reason exist for those exemptions which is not equally applicable to mutual insurance by Congress.

Mr. COX. As we see it, sir, it looks as if it were all insurance, all for the same purpose, and should be treated alike. Of course, you will realize that in speaking to me you are speaking to a representative of an old-line company and that the fraternals might think otherwise.

Senator THOMAS. And you have not as many votes as the fraternal societies. [Laughter.]

Mr. COX. That is true, Senator. I think I failed to give you the language of that insertion which is the 1898 law. May I just state it here now?

The CHAIRMAN. Certainly.

Mr. COX. On page 23, line 21, after the word "called," insert these words, which are taken exactly from the 1898 law:

Provided, That on all policies for life insurance, when issued on the industrial or weekly payment plan of insurance, the tax shall be forty per centum of the amount of the first weekly premium.

The CHAIRMAN. You understand, gentlemen, that those who have only had five minutes may file a statement or brief for the record, if filed by next Tuesday.

Mr. BLACKBURN. I shall avail myself of the opportunity.

The CHAIRMAN. Very well; it will be printed.

(The brief referred to by Mr. Blackburn was subsequently submitted and is here printed in full, as follows:)

POLICY TAX PROPOSED IN HOUSE BILL 4280 UPON POLICIES OF LIFE INSURANCE.

Committee on Finance of the United States Senate:

Amendment suggested to subsection A of section 505, page 23, printed bill, by adding to line 3 on page 24, printed bill, the following: *Provided further*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision.

Policies of life insurance issued by life insurance companies are subject to a tax of 8 cents per $100 of the face of the policy.

A $10,000 policy is therefore taxed $8, and larger and smaller policies in proportion.

Many States provide that no policy shall be issued in excess of 10 per cent of the amount of the capital of the company unless the same be reinsured in some other like company.

Hence a company having a capital of $100,000 can not issue a contract for more than $10,000 carrying the entire risk.

Therefore it is customary to reinsure the excess and the company issuing a $20,000 policy must obtain a policy of reinsurance for $10,000.

The reinsurance policy runs to the reinsured company and not to the policyholder. The insuring company pays $16 under this provision upon the $20,000 policy. It is manifestly wrong to tax that same policy as a reinsurance.

Evidently the omission of the proviso suggested is due to an oversight on the part of the House Committee on Ways and Means. This is apparent for the identical exemption is allowed to companies named in subsections B and C, who cede reinsurances to reinsuring companies for the same and similar reasons.

The companies of the American convention, 105 in number, domiciled in States west of New York, excepting one in New Hampshire, are frequently referred to as the younger companies. They are the western and southern life companies and their combined volume of old line or legal reserve life insurance approximates $3,000,000,000. They are for the most part stock companies and are becoming the great fiduciary institutions of the West and South.

In this connection the committee is reminded that there is no essential distinction in principle between stock companies and mutual companies in old-line life insurance. Both forms of the business collect from policyholders the premiums from which losses are paid and matured contracts are satisfied. Stock companies add their capital stock to the reserves as additional security to that afforded policyholders in mutual companies, and many write nonparticipating business. When they do so write the "refunds or dividends," which under participating (mutual) policies are returned to policyholders—whether policies of this character are participating (mutual) in a stock company or participating (mutual) in a mutual company—are anticipated by a reduced annual premium.

Therefore, there being no fundamental difference between stock life companies and mutual life companies, writing legal reserve life insurance, upon established tables of mortality, premiums for which are computed in the same way, there should be no discrimination in levying taxes. The nonparticipating premium and the participating premium are equivalents, and mutual and stock companies may, and in fact do, write either or both forms of policies. The revenue act proposed makes no distinction. This is right. The act in question and the section to which this brief is directed makes the 8 cents per hundred dollars a direct tax and not a stamp tax. For this all life insurance companies are grateful, since they are to be taxed, for the stamp was a great source of annoyance.

While we regard the taxation of life insurance as fundamentally wrong, however the tax is levied and collected, we of the South and West appreciate the necessity of collecting the revenue contemplated in this law. We therefore acquiesce and take our medicine for the good of our common country and the ultimate welfare of humanity.

We gravely contemplate the tremendous financial responsibilities which are facing us in this wicked world-wide war, but resolutetly face these responsibilities in a spirit of patriotism and unite with our fellow citizens in assuming and carrying the burdens which the unparalleled conflict imposes upon the United States.

We request the committee to make the amendment set forth in the heading of this brief.

Very respectfully,

THOS. W. BLACKBURN,
Secretary and Counsel American Life Convention.

WASHINGTON, D. C., *May 12, 1917.*

The CHAIRMAN. In this same title we will next take up fire insurance.

STATEMENT OF MR. JOHN R. FREEMAN, PRESIDENT OF THE MANUFACTURERS MUTUAL FIRE INSURANCE CO., OF PROVIDENCE, R. I.

Mr. FREEMAN. Mr. Chairman and gentlemen of the committee, my name is John R. Freeman. I am president of the Manufacturers' Mutual Fire Insurance Co., of Providence, R. I., and am representing about 20 other companies organized on similar lines.

Our petition at the present time is simply that a few of the words on page 24 be qualified by an explanation showing precisely what they mean. That is, in the fourteenth line, on page 24, there should be added a definition of what constitutes "carried on" and "not for profit," an explanation which will make clear just where the tax lies.

The emphasis, as relating to mutual insurance companies, is on the words "carried on" and of the words "not for profit." Our particular group of companies were organized precisely on that basis about 80 years ago and have come to be a great factor in the insurance of factories and more particularly in the prevention of fire. That is, I think we can say without exaggerating that the fire-prevention service established by these companies has led the world in the protection of manufacturing establishments against fire, and we put even more emphasis on that branch of the work than we do on the insurance branch. They were organized purely as mutual companies for the protection of property of members, for the prevention of fire, and for the payment of losses when fires did occur. They were well known, widely known, at the time of the Spanish War act. The provision which has been copied in the present act was drafted in conference with men who thoroughly understood these companies and their scope and in conference with a distinguished Senator no longer alive—Senator Hoar, of Massachusetts—whose home had for many years been insured in one of the dwelling-house mutuals. Senator Hoar, in conference with Senator Aldrich, drafted this language precisely as it stands to-day and with these companies—the factory mutuals in New England and the dwelling-house mutuals—particularly in view. There was a third member of that committee, Senator Allen, of Nebraska, who had more particularly in view the western farmers' mutuals.

These men in conference drafted these words from line 4 to line 14, on page 24, substantially as they now stand.

During the Spanish War we held to be exempt from the application of that tax. There was some little discussion over it. The question was referred to the Attorney General, and the Commissioner of Internal Revenue finally sent word to the collector of customs at Boston to cease all action toward recovery of this tax from these particular companies, and we never paid a tax; that is, we were considered exempt. But recently the question has come up, and there is a difference of opinion as to what is the precise meaning of the words "carried on" and "not for profit."

Our method is at the beginning of the year to take a deposit from every member of an amount about 10 times as great as the probable loss and probable expenses of the business for that year. Then, at the end of the year we hand back to him all that has not been absorbed by losses and by expenses. That leaves quite a large sum of money in our hands which we invest in various securities—Government bonds and State bonds or whatever may look good at the time—and the interest which we receive on those bonds almost precisely pays our operating expenses.

The question has come up on the part of some men as to whether the taking of interest on those bonds—which is a trust fund that we hold for the payment of losses and expenses and which fund is returned to the policyholder at the end of the term—could in any way be construed as carrying on business for profit. We are very

clear that it is not carrying on business for profit, and I think nearly all with whom I have discussed the question have stated that that is so. But we feel that it is better at this time to have this matter clarified, and we feel that legislation is much better than possible litigation, and so I come before you with a brief which, it so happens, was prepared some months ago, but which fits the present case almost perfectly, and which I will leave with the clerk of the committee as a part of my statement. This brief suggests the form of words which will simply clarify and remove the ambiguity in the present language.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Freeman is here printed in full, as follows:)

BRIEF ON BEHALF OF THE MANUFACTURERS' MUTUAL FIRE INSURANCE CO., OF PROVIDENCE, R. I., AND OTHER FACTORY MUTUAL FIRE INSURANCE COMPANIES OF THE SAME CHARACTER.

INTRODUCTORY.

The object and purpose of this brief is to present an argument in support of the addition of a proviso to the exemption clause of paragraph (*b*) of section 505, subdivision (*b*) of H. R. 4280, which exemption clause is in the same words used in similar acts of 1898 and 1914, so as to correct a recent misinterpretation of said exemption.

SECTION 505, SUBDIVISION (B).

Section 505, subdivision (*b*) of H. R. 4280, Sixty-fifth Congress, first session, entitled "A bill to provide revenue to defray war expenses, and for other purposes," provides for a stamp tax on policies of insurance and other instruments whereby insurance is made upon property, and contain, an exemption clause as follows:

"*Provided*, That purely cooperative or mutual insurance companies or associations carried on by the members thereof solely for the protection of their own property and not for profit shall be exempted from the tax herein provided: *And provided further*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision."

Doubt and misunderstanding have arisen as to the interpretation of the words "carried on * * * not for profit."

PROPOSED PROVISO TO SAID EXEMPTION CLAUSE OF SAID SECTION 505, SUBDIVISION (B).

On behalf of factory mutual fire insurance companies it is requested that the exemption clause of said section 505, subdivision (*b*) have inserted a proviso thereto to correct a misinterpretation of said exemption as contained in two previous acts of Congress.

In order to carry out this request it is suggested that on page 24, line 14, after the colon and before the word "And," there be inserted the following words, to wit:

"*And provided further*, That the receipt of interest or dividends upon investments of premium deposits and conflagration reserves held in trust for the payment of losses and expenses shall not be construed as a carrying on for profit, and, notwithstanding said receipt of interest or dividends, said companies and said associations and their policies or other said nstruments shall be exempted from the tax herein provided."

THE EXEMPTION IN THE SPANISH WAR TAX OF JUNE 13, 1898.

The Spanish War tax of June 13, 1898, contained an exemption in almost the identical language of the exemption as contained in said section 505, subdivision (*b*), H. R. 4280, as amended by the Senate Committee on Finance, which exemption in the Spanish War tax was framed after extended discussions for the purpose of exempting this particular class of insurance from the application of this tax, and although manufacturers and similar companies

were actually exempted from all applications of this stamp tax in 1898 there were a few certain companies conducted on a different plan which were held not exempted and in fact were denied exemption by Treasury Decisions 19651 and 20020.

In applying the exemption in a similar law of 1914, the effect of the exemption on factory mutual fire insurance companies and similar mutual insurance companies was practically nullified, so far as paper decisions could nullify a provision of an act, by invoking said Treasury Decision 19651, rendered July 7, 1898, and Treasury Decsion 20020, rendered September 2, 1898, and by a ruling of the Commissioner of Internal Revenue that legitimate investment of the funds of any mutual insurance company or association made it an insurance company or association carried on for profit.

The impropriety of broadly applying these said Treasury decision to factory mutual insurance companies and other mutual companies in 1898 soon became so manifest to the Commissioner of Internal Revenue that in a letter dated January 18, 1899, from the Commissioner of Internal Revenue to Collector Gill, of Boston, the following instruction was given:

"You are instructed to hold in abeyance the question of taxes of policies issued by the mutual companies."

From that time on the open, notorious, consistent, and uniform custom, usage, and practice openly and notoriously acquiesced in by the Treasury Department was to wholly exempt factory mutual fire insurance companies from the stamp tax and, in fact, at no time from the enactment of the Spanish War tax of June 13, 1898, down to its repeal was any stamp tax ever imposed on policies of factory mutual fire insurance companies.

THE EXEMPTION IN THE EMERGENCY TAX ACT OF OCTOBER 22, 1914.

The emergency tax act of October 22, 1914, contained an exemption in almost the identical language of the exemption as contained in the Spanish War tax of June 13, 1898. This act of October 22, 1894, was continued for another year by the act of 1895.

Because of said two paper decisions under the exemption in the Spanish War tax of June 13, 1898, relative to two other so-called mutual companies which carried on their business under an essentially different plan, and entirely ignoring the open, notorious, consistent, and uniform custom, usage, and practice openly and notoriously acquiesced in by the Treasury Department of wholly exempting the policies of factory mutual fire insurance companies together with the vast and overwhelming majority of all other mutual insurance companies from the Spanish War stamp tax of June 13, 1898, the Commissioner of Internal Revenue ruled that because of said two adverse paper decisions it is to be presumed that Congress intended by the language of the exemption of the emergency tax act of October 22, 1914, continued for another year by the act of 1915, to exclude from the exemption such mutual insurance company or association because it received interest or income from a legitimate investment of the funds of such mutual insurance company or association, maintaining that the mere receipt of income from investment took it out of the class of "carried on * * * not for profit."

IT WAS NEVER THE INTENTION OF CONGRESS TO TAX MUTUAL INSURANCE COMPANIES OR ASSOCIATIONS MERELY BECAUSE THEY MADE A LEGITIMATE INVESTMENT OF THEIR FUNDS.

All factory mutual fire insurance companies are purely cooperative or mutual insurance companies carried on by the members thereof solely for the protection of their own property and not for profit. They have no capital stock and no person can obtain an insurance policy without being a member thereof. The policyholders who are members elect directors who are all members. When a policy is issued, these companies require the policyholder to make a deposit of approximately ten to fifteen times the amount of the probable premium to be charged for one year of such insurance. This is made thus large in order to cover the contingency of a series of great and unusual conflagrations. The amount paid by the policyholder is, in fact, a deposit, from which is deducted a premium to be charged, which is determined with the expiration of the policy, whether such expiration takes place by cancellation or by lapse of time. That

this is essentially a deposit and not a premium is shown by the fact that the premium deposit is just the same whether the policy is for one, two, three, or five years. With the expiration of the policy, either through cancellation or by lapse of time, the mutual insurance company ascertains the premium charged to carry the policy, which premium charged includes fire losses and expenses. The unabsorbed portion of the premium deposit is then returned to the policyholder.

It was never the intention of the law to discourage the investment of the funds of such companies, and thereby withdraw such funds from circulation to the general damage of the public or to punish such companies for prudently investing its funds. It is a mandatory requirement of the laws of some States as to how such funds should be invested.

Why was all this effort on the part of Congress and its committees to exempt mutual insurance companies or associations from the Spanish War tax of June 13, 1898, if Congress and its committees did not intend to exempt well-known classes of insurance companies or associations who prudently invest their funds instead of withholding them from circulation?

The investment of the funds is a mere incident to a prudent conduct of the affairs of such mutual insurance companies or associations.

The fact that a hospital or school invests its funds and obtains income therefor does not turn it into a corporation carried on for profit.

The entire income from investments of factory mutual insurance companies are insufficient to pay the fire losses and expenses, and the balance is deducted from the premium deposits. It can not be said that such mutual fire insurance companies even make a profit, much less carried on for profit, and the most that can be said is that they derive a part of their income from the investment of moneys deposited and held in trust, to apply the income so far as it will go as a credit on fire losses and expenses.

THE OBJECT OF THE PROVISO SUGGESTED IS MERELY TO BRING ABOUT A CORRECT INTERPRETATION OF THE PRESENT EMERGENCY TAX ACT WHICH IS REINCORPORATED IN SECTION 505, SUBDIVISION (B) OF H. R. 4280.

The object of the proviso suggested is merely to bring about a correct interpretation of the language used in section 505, subdivision (b) of H. R. 4280.

It is not an uncommon practice for Congress by the insertion of a proviso to correct by legislation an erroneous interpretation of the law rather than put the citizen to the expense and delay of litigation. This was illustrated by the misinterpretation of the corporation tax act of August 5, 1909, when Congress came to reenact the same as an income tax of October 3, 1913.

Moreover, if the tax were to be applied treating the deposit of the mutual like the premium of the stock insurance company the factory mutual would be taxed about ten times as much on a policy of same amount on same property as the competing stock insurance company which is organized primarily for profit.

Thousands of mutual insurance companies and associations throughout the United States, in common with the factory mutual fire insurance companies, are looking to Congress to in effect restore the provision of the law as to exemption from taxes by the insertion of a proviso which will give a correct interpretation thereto.

Attention is called to the fact that because of the grave doubt of the propriety of applying the two paper decisions above referred to and pending an investigation of the record as to the open and notorious practices under the Spanish War tax of 1898, the Commissioner of Internal Revenue is forbearing the enforcement of the emergency stamp tax act of October 22, 1914, as extended for one year by the act of 1915, as to the affixing of stamp tax upon the policies of mutual fire insurance companies.

Good legislation is cheaper and better than litigation.

Respectfully submitted.

JOHN R. FREEMAN,
President Manufacturers Mutual Fire Insurance Co.,
815 Grosvenor Building, Providence, R. I.
FRANCIS B. JAMES,
CLARENCE B. HEWES,
Of counsel.

WESTORY BUILDING, *Washington, D. C., May 12, 1917.*

Suggested Amendments Regarding Tax on Life Insurance Companies.

TENTATIVE DRAFT OF A SUGGESTED AMENDMENT SO AS TO CLARIFY THE LAW AS TO EXEMPTION OF MUTUAL INSURANNCE COMPANIES.

On page 24, line 14, strike out the colon after the word "*provided*" and insert a comma in lieu thereof, and after the comma so inserted insert the words "and the receipt of income from funds held for the payment of losses and expenses shall not be construed as carrying on for profit."

TENTATIVE DRAFT OF A SUGGESTED PROVISO SO AS TO CLARIFY THE LAW AS TO THE TERM "PREMIUM CHARGED" USED IN CONJUNCTION WITH THE TAX IMPOSED ON INSURANCE COMPANIES.

Page 24, line 16, strike out the period and insert in lieu thereof a colon. Pafe 24, after line 16, insert the following: "*And provided further*, That the term 'premium charged' is hereby defined to be the difference between premiums or deposits paid or made by policyholders and unabsorbed premiums or premium deposits returned to policyholders, said difference being calculated according to the percentage of such difference during the preceding calendar year."

Senator THOMAS. Mr. Freeman, you prepared that brief, did you not, when we had under consideration the act of 1916?

Mr. FREEMAN. I did.

Senator THOMAS. I think we incorporated in that bill—that is, the Senate committee did—the language to which you refer.

Mr. FREEMAN. In the final conference I think it went back to the original verbiage of the Spanish War act.

Senator THOMAS. We passed the bill finally as the House sent it over here. My impression is, however, that we incorporated that language in the bill which was sent from the Senate.

Mr. FREEMAN. On the second page of the brief the act as it now stands is given; that is the precise wording that has prevailed since 18 years ago. We ask that after the word "Provided," in the fourteenth line of the bill as now printed, there be inserted this further proviso, which we give at the bottom of the second page of our brief [reading]:

> *And provided further*, That the receipt of interest or dividends upon investments of premium deposits and conflagration reserves held in trust for the payment of losses and expenses shall not be construed as a carrying on for profit, and notwithstanding said receipt of interest or dividends, said companies and said associations and their policies or other said instruments shall be exempted from the tax herein provided.

We simply ask that that be added, or words of equivalent effect.

I think I have said all that I need to say on behalf of our companies, except I might differentiate them from dwelling-house mutuals, in that our work is mutual among factories—that is, the cotton mills of the New England States, the automobile factories of Michigan, etc., but practically four-fifths of the great manufacturing plants of the country. We pay our share of the income tax or franchise tax, and we have no fault to find in that connection. We are ready to pay our fair share of any tax.

There is another slightly different point of view that I think perhaps would best be explained by the former commissioner of insurance of the State of Wisconsin, Mr. Eckern, and I will leave the matter in his hands for him to present to you.

The CHAIRMAN. We will hear from Mr. Eckern, if that is your pleasure.

STATEMENT OF MR. HERMAN L. ECKERN, FORMER COMMISSIONER OF INSURANCE OF WISCONSIN.

Mr. ECKERN. Mr. Chairman and gentlemen, I represent the National Association of Mutual Insurance Companies. That is an organization comprising about 370 mutual fire insurance companies located all over the United States, and including these little farm mutual companies, as well as the larger general writing mutual and trade mutual companies, such as the Millers' Mutual and the Lumbermen's Mutual.

I agree with what Mr. Freeman has said as to the change we want you to make in this bill. We are not asking for any change in the substance of the law as proposed. There has been some difficulty about the interpretation of the language "not for profit," and we want that specifically defined so that we will avoid having trouble with the department here and with the courts.

There have been attempts made by the collectors in two districts to collect this tax from the small farmers' companies and some other small mutual companies. I do not know whether the Senators are acquainted with the manner in which these farmers' companies do business or not, but very many of them are small. Their premium collections through the year may not amount to more than $3,000 or $4,000. Some of them are larger and amount to $40,000 or $50,000 or $100,000 a year, but those are the exceptions. The great mass of them are small companies.

A tax collected monthly on such a premium, you can see, would only amount to $30 a year, and divided on a monthly collection basis would amount to $2.70 a month. It costs the revenue collector more expense and more trouble to collect it than it is worth. Besides that these companies have never been taxed in practice. They are not taxed in the local States and are under very little supervision. It would lead to difficulty or trouble to attempt to tax them, as it did in the two districts where it was attempted. For that reason we want to ask that this be specifically defined so that the words "not for profit" shall not be construed to include under the tax companies which merely accumulate from their collections some funds which are held on hand for the payment of losses and expenses, and from which they derive an interest income or dividend income, in the case of Mr. Freeman's companies, which invest in stock.

There is a tendency in some quarters to insist that mutual companies shall do business without any assets, but that is a most dangerous proposition from the standpoint of solvency of insurance companies, because especially in fire insurance it is absolutely necessary that there should be an accumulation with which to meet losses.

The vice in this whole thing is that if there is any question about this whole tax and there is danger that this tax may be imposed upon these mutual companies, it will encourage them in the idea that they shall carry no fund, or if they do that they shall not invest it and draw interest on it or on their deposits in the banks.

Our contention is that the company is no less mutual and no less entitled to this distinction which Congress has always made as to these companies because it carries this fund which belongs to the policyholders, from which to pay fire losses and expenses of opera-

tion, and even to invest that fund and derive an income from it. That is about all there is to the question we want to present here.

The proposal presented by Mr. Freeman was drafted some time ago when this question was up before, and was drafted largely from the point of view of the Eastern Mill Mutual companies, the large companies which he represents. The language of that proposal fits their articles and by-laws and their practices. There may a question arise by the department, I take it, under that language, possibly as to whether other companies similarly situated are to be covered by that definition. For that reason we want to suggest this definition—that is, after the exemption clause for the mutual companies on page 24, line 11, which reads:

Provided, That purely cooperative or mutual insurance companies or associations carried on by the members thereof solely for the protection of their own property and not for profit shall be exempted from the tax herein provided—

We want to add the construing phrase reading as follows—

and the receipt of income from funds held for the payment of losses and expenses shall not be construed as "carrying on for profit."

Senator La Follette. You are at liberty, of course, you understand, to file a brief if you have anything to say further than what you have presented to the committee.

Mr. Eckern. Thank you.

The Chairman. Now we will hear from Mr. Bissell.

STATEMENT OF MR. R. M. BISSELL, PRESIDENT OF NATIONAL BOARD OF FIRE UNDERWRITERS.

Mr. Bissell. Mr. Chairman, I represent the National Board of Fire Underwriters, which represents 175 stock fire insurance companies doing business in the United States.

Our organization comprises about 175 companies, Mr. President, who are doing an annual business on the average of between $300,000,000 and $350,000,000. I have to very briefly, as the time limit will compel me to do, instance several points why I believe that our business should not, in addition to taxes levied upon all industries, be singled for a separate and special tax, and then to suggest how the revenue, which the bill before you proposes to collect from the fire insurance business, may be collected and may be even somewhat increased.

The reasons which I have to urge why we should not be singled out for a special tax in excess of this levied upon others are, first, that we are one of the most heavily taxed industries in the United States to-day. The company with which I am connected, the Hartford Fire Insurance Co., paid taxes during the year 1916 of 4.6 per cent of its entire gross income. For a five-year period on all fire insurance companies in the State of New York, as shown by the sworn statements on file there, the tax collection amounted to a net sum during that period of $50,200,000. There was also collected from them on taxes during that period $49,100,000. If you add these two together and assume a great profit of $100,000,000 you will see that one-half of the gross profit under existing statutes, before any of these new items which I will mention come into play, are already taken in the form of taxation. That includes all taxes except real estate taxes. Taxes on property are not included.

The bill as drawn proposes the following items of additional tax: Fifty cents per thousand dollars of capital or surplus over $99,000; net income tax, formerly 2 per cent, now to be raised to 4 per cent; a 16 per cent tax on profits over 8 per cent, if any; an additional charge of 50 per cent on the additional charges which we pay, which would amount, roughly speaking, to one-half of 1 per cent of our income, and in addition the possible infliction of a retroactive income tax of 33⅓ per cent on the amount due on the income of 1916.

There is another reason why I think our business should not be selected out for specific and special taxation, namely, that we are one of the industries who have suffered heavily by the war. I could furnish you with a detailed list of probably 100 fires, involving large amounts, for which fire insurance companies have had to pay, which fires were the direct result of the condition of war existing. I will mention two or three:

The Black Tom Island disaster, in New York, where $11,000,000 worth of property was destroyed, and the insurance companies paid about $4,000,000.

The disaster at Kingsland, where $10,000,000 of property was destroyed, and the fire insurance companies paid in the neighborhood of $3,000,000.

The destruction by fire of Hopewell, Va., where the insurance loss was not less than $500,000.

The fires in Copper Hill and Kingsford, Tenn., where the insurance loss was not less than $1,000,000.

I could name over 100 of such cases of varying amounts, and the sum total is an enormous one.

In addition to that, we are suffering losses, I think I may say without exaggeration, every day of the week, which are indirectly due to the war, and, while time will not allow me to go into details, I will say, and can explain to anyone who desires to inquire later, that we have even paid for two schoolhouses destroyed as a perfectly palpable indirect result of the existence of war. We are getting these losses because the factories are being run overtime, because the proprietors in their desire to complete their rush orders do not take time to shut down for repairs, for realignment of shafting, for proper cleanliness and the removing of inflammable rubbish which always accumulates in a factory when it is being crowded, and for many other incidental causes connected with high-pressure use of our industries.

We then are heavily taxed in the industry, too. We are losing very steadily by the war. So far as the taxes which I have instanced are concerned, and which I believe are to be inflicted generally upon all corporations, we have no objection to offer. We do not feel there is anything in our business which entitles us to any privilege of any kind.

Senator THOMAS. Have you increased your rates on account of these additional risks?

Mr. BISSELL. In some cases, when the factories became concerned in the manufacture of munitions, yes; a general increase, no.

I can say in that connection that the amount of premiums collected by fire insurance companies on account of additional risks arising from war conditions is a very small fraction of the losses they have paid.

Senator LA FOLLETTE. What has been the amount of your increase?

Mr. BISSELL. I can not give it in dollars. There have been perhaps 150 factories in the country where, upon inspection after war industries had begun during the past two years, conditions were found to be such that the hazard was considerably greater than at the time the writing charge had been made. On those factories there has been an increase in rates of certainly less than $1,000,000.

Senator LA FOLLETTE. Can you state the limit of it in percentages?

Mr. BISSELL. Of our total income?

Senator LA FOLLETTE. Of the increase in rates.

Mr. BISSELL. On those particular factories?

Senator LA FOLLETTE. Yes.

Mr. BISSELL. I should say it ran, in cases of moderate increase of hazards, from 25 per cent up to a few very glaring cases of 2½ times.

Senator LA FOLLETTE. Two hundred and fifty per cent?

Mr. BISSELL. Two hundred and fifty per cent in some cases; but, as I said, the amount we have recovered is a small fraction of the extra amount of losses we have paid.

The business of fire insurance has always been conducted on a small margin of prfit. In the past 10 years, which have been characterized by no great conflagration, the margin of profit, pure underwriting profit—that is to say, the fraction remaining on premiums after the establishment of reserves, payment of losses, and expenses—has been not to exceed 2 per cent.

There is one other reason which I may perhaps be pardoned for mentioning here, but which seems to us to be operative—that, barring no industry even before the war began, the fire insurance companies of the country, through the National Board of Fire Underwriters, organized themselves for Government service and are doing a variety and volume of work for the different departments of this Government, the Secret-Service arm, the War Department, the Council for National Defense and various bureaus of that council, the National Board of Munitions, the Food Supply, and different matters of that sort; and if I took the time to go into it I think it would very much astonish all of you.

Senator LA FOLLETTE. The shipping board as well?

Mr. BISSELL. The shipping board; yes. We have organized all our traveling men and inspectors and appraisers and engineers, a force of approximately 3,500 to 4,000, and offered their services to the Government for carrying out any investigation in any part of the country for the purpose of acquiring information of various kinds, and we are already doing that for several departments of the Government.

Assuming that this 1 per cent extra tax on premiums which is mentioned in section 505 is necessary, and that the Government must have it, I argue from what I have just said that the fire-insurance companies should not be called upon to pay it. It may be collected if the statute is so framed that we are directed to collect that tax from our policyholders, just as the express companies, telephone companies, and the other public utility concerns are, and I will call your attention in this connection to the fact that fire insurance is now, as decided by our supreme court, so impressed with public interest as to be subject to State and governmental control in the matter of rates. We can not increase our rates arbitrarily. We can not

increase our rates and absorb this tax. In many States—five or six at least, and, I think, more—the States themselves make our rates. In every State practically now our rates are subject to State regulation, and the processes by which they are made are subject to State control. We can not distribute this tax over the population of the country equitably unless we are clothed with power to do so by direction of the Federal Government.

If, as we ask and as is contemplated in sections 503 and 702, which even tax the amusement concerns who are directed to collect the tax levied upon their receipts from the ticket buyers—if we are put into that category and directed to collect this extra 1 per cent tax from the consumers and policyholders, it will have this effect, that the Government will get as much as is possible to get under the somewhat indefinite language of the statute as now framed, and in addition the amount to be derived from the fire insurance companies by all these other taxes, the 16 per cent tax on profits, and the 4 per cent income tax, which will be increased by the tax on this amount which would otherwise have to be deducted before our net profits could be established. I trust that point is clear—that if we have to pay this 1 per cent extra to the Government we will have so much less profit on which the income tax and the 16 per cent profits tax can be levied.

The fire insurance companies have done another thing which entitles them to public recognition at this time. In addition to the service we are giving to the departments of the Government we have taken up with nearly every State governor and are taking up with nearly every State council of defense the matter of reducing fire waste by concerted, country-wide, organized action. We telegraphed some 10 days ago to all the governors of the great grain-producing States—I had the pleasure of meeting several of them here a few days ago—and have arranged with them a campaign whereby we cooperate with committees of grain associations or elevator owners or what not, and with the council of State defense, with the backing of the governor and the backing of the fire marshal, and we have promised free of charge to examine every elevator in the United States before the 1917 crop comes in, so that owners at least may have suggestions for the removal of discoverable physical hazards which pertain to these elevators and which are very great. The Governor of Iowa told me that five elevators burned in Iowa the week before he came here. The amount of our food supplies destroyed that way every way is a scandal to this Nation.

We are not approaching them by telling them "If you do not make your elevator more safe we will charge you more on it." We are going to them with the sanction of the governors and the State councils of defense, and we are appealing to them on purely patriotic instincts that they must cooperate with us to save the food supply. We are taking that campaign farther south, through all the cotton-storage plants, and are cooperating with the governors of the States for the preservation of that much-needed commodity. Recently we inaugurated similar campaigns in connection with almost every industry which is necessary for the proper carrying on of this war.

There is certainly nothing in our activities which calls for a penalty. We are already overtaxed as compared with most industries. The war has cost us and will cost us heavily, very heavily, and we

have, to an extent that can not be surpassed, if indeed it can be equalled by any other industry, organized and mobilized the entire force of insurance-stock interests of this country in the service of the Government, and I would recommend any of you gentlemen to Mr. Gifford or Mr. Coffin or Mr. Scott or Mr. Bielaski, of the Secret Service Department, or any gentleman of the National Council of Defense to fully bear out and verify my statements in that regard.

I hope, in view of these considerations, you will believe that we are fair in asking not to escape from all the taxation that other corporations and businesses bear. I do not think the fact of this patriotic work entitles us to any privileges, but simply to justice; and if from the considerations I have urged it seems that we are bearing our full share of the public burden and are ready to bear it, and if that 16 per cent is to be made 30 per cent, we will try to bear it, then I hope you will clothe that part of the statute which refers to the collection of the 1 per cent tax in such language as we will be directed, as the other industries whose prices are regulated by the Government are directed, to collect it from the consumer.

Mr. Ecker. I just want to make one suggestion in connection with Mr. Bissell's statement, Mr. Chairman, that I think he omitted a very strong argument for the elimination of this tax on fire insurance in that it is uneconomic. The expense of collecting this tax in the small driblets from the policyholders is almost equal to the tax paid, and the imposition of this tax means that the peope will pay $2 for every $1 that goes to the Federal Government.

The Chairman. Under this same title we will next take up casualty insurance. You may begin, Mr. Whalen.

STATEMENT OF MR. THOMAS A. WHALEN, VICE PRESIDENT OF THE FIDELITY & DEPOSIT CO., OF BALTIMORE, MD.

Mr. Whalen. Mr. Chairman, I am vice president of the Fidelity & Deposit Co. of Maryland, and appear on its behalf to-day in connection with the bond surety business. That matter properly will be heard on Monday, but we are linked in a certain way with the casualty section to be found on page 24.

The act of 1914 classed the fidelity business with the casualty business. The present bill imposes the tax on the bonding business in the shape of stamp taxes. Therefore, we now appear upon page 39. But we feel that the exemption is not set forth in the clearest possible language. The word "fidelity" has been stricken out of subdivision C, but the words "other branch of insurance" in line 24 may be held broad enough to include the fidelity or bonding business, and therefore there would be a double tax imposed upon us if that were true. Hence we ask that the language of subdivision C, the exemption, be made perfectly clear. We have prepared an amendment to that section which reads as follows [reading]:

> Amend section 505, subdivision (c), by inserting in line 25, after the words "health insurance," the following words: "and fidelity and surety insurance."

The committee will appreciate that we are to be taxed under the stamp taxes. Hence, unless it is clearly set forth, we might be held to be subject to the direct tax made under subdivision (c).

On Monday I intend to talk on behalf of our business, that of bonding, covered by the section on page 39, and to ask that that

bonding section be made clearer in its terms; but as the time for that discussion is set for Monday we will not trespass on the time of the committee at this time.

The CHAIRMAN. Now, Mr. Robertson, we will hear you.

STATEMENT OF MR. F. ROBERTSON JONES, OF NEW YORK, SECRETARY AND TREASURER OF THE WORKMEN'S COMPENSATION PUBLICITY BUREAU.

Mr. JONES. Mr. Chairman, I am secretary and treasurer of the Workmen's Compensation Publicity Bureau, No. 80 Maiden Lane, New York. I represent a group of casualty insurance companies. I have not anything to add to what Mr. Bissell said with regard to fire insurance taxation, except to say that what he said in regard to the tax applies equally, it seems to me, to the casualty insurance companies. I shall not take up the time of the committee in enlarging upon that subject, but shall rest satisfied by being given permission to file a memorandum if I think it is necessary in connection with it.

The CHAIRMAN. You may do that.

(The brief referred to by Mr. Jones was subsequently submitted and is here prnited in full, as follows:)

MEMORANDUM FOR THE SENATE FINANCE COMMITTEE ON H. R. 4280.

The undersigned, in behalf of the Workmen's Compensation Publicity Bureau (representing a group of casualty insurance companies) respectfully submits the following suggestions for amendments to the bill and the following reasons therefor:

I. Amend Title V, section 505 (c), by adding a provision that the tax thereby imposed shall be collected by the insurance company, etc., from each policyholder in addition to the premium. (A suitable form for such an amendment is attached hereto.)

II. Amend Title V, section 505 (c), so as to apply certainly to mutual insurance, interinsurance, reciprocal insurance, and State fund insurance, not carried on as a distinct business for profit. (A suitable form for such an amendment is attached hereto.)

The reasons for the suggested amendments are as follows:

I. All casualty insurance companies alike should be required to pass on to consumers (their policyholders) the 1 per cent tax on premiums imposed by section 505 (c) of this bill. Otherwise some of the stronger companies might assume it, to their temporary loss, whereas the weaker companies could not, but would have to collect the tax from their customers or quit business. That would amount practically to rate discrimination, which at present generally is prevented by State laws, and would result in driving many companies out of the business.

That none but the richest casualty companies can, under present circumstances, stand the burden of any material increase in taxation without help from consumers is evidenced by the fact that during 1916 such companies as a body suffered an average underwriting loss of 1.8 per cent of premiums—i. e., their losses and expenses were 101.8 per cent of their net premium income. The profit on their business has thereby been reduced to only a part of the net income on their capital and reserve investments, which in 1916 yielded an average rate of 4.91 per cent.

Now these companies are being asked to convert a large part of their investments into United States 3½ per cent bonds, thereby reducing the rate of income on their investments some 1.41 per cent. By this bill their income tax for the current and future years is to be doubled (sec. 4), a retroactive income tax is to be imposed upon them (sec. 5), their premium receipts are to be taxed (sec. 505 (c)), and they are to be subjected to numerous stamp taxes (sec. 808), and increased postal rates. And their corporation and local taxes of various sorts under State laws are mounting up until they now average nearly 3 per cent of premiums.

No question is here raised as to the propriety in the present unusual emergency of the taxes to be imposed by this bill. The point is that the casualty insurance companies generally can not pay all these additional taxes out of profits, and therefore that the burden of the 1 per cent premium tax should be expressly shifted onto consumers.

II. In many States "persons, corporations, partnerships, and associations transacting the business" of insurance are in close competition, particularly in the line of workmen's compensation insurance, with a variety of insurance "funds," managed for the insured by agents, attorneys, or State officials, and which funds, it may be claimed, are not "transacting the business of" insurance. As these funds are not operated for profit, it is not contended that they should be subjected to the income taxes imposed by sections 4 and 5 of this bill; but they do collect premiums, and there is no sound reason why their premium receipts should not be subjected to the tax imposed by section 505 (c). Otherwise those seeking insurance will resort to such funds in order to escape the tax, and the revenue from the tax will be reduced accordingly. The injustice of taxing the premiums in one form of insurance while exempting them in another form, need not be dwelt upon here; but it must be emphasized that if such discrimination be long continued it would kill the goose that lays the golden egg.

It should be pointed out in this connection that the premiums contributed to "State insurance funds," though such funds are managed by public officials, are not taxes, and that those funds are not public funds. They are simply special forms of trust funds to indemnify private persons against liability, the surplus, if any, being returnable to the subscribers in the form of dividends or credits.

All of which is respectfully submitted.

F. ROBERTSON JONES,
Secretary Workmen's Compensation Publicity Bureau.

MAY 16, 1917.

FORMS SUGGESTED FOR THE DESIRED AMENDMENTS.

Amend subdivision (c) of section 505 to read as follows [new matter italic; position of omitted matter indicated by brackets]:

"(c) Casualty insurance: A tax equivalent to 1 cent on each dollar or fractional part thereof of the premium charged under each policy of insurance or obligation of the nature of indemnity for loss, damage, or liability issued or executed or renewed by any person, corporation, partnership, association, [or] *agency, board, or commission* transacting the business of *or engaged in providing* employer's liability, plate glass, steam boiler, burglary, elevator, automatic sprinkler, automobile, or other branch of *casualty* insurance; [except, etc.]: *Provided*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision."

Add a new subdivision to follow subdivision (c) of section 505, to read as follows:

"That each person, corporation, partnership, association, agent, board, or commission making or issuing a policy or other agreement whereby insurance is made or renewed as described in subdivision (b) or (c) of section 505, shall collect the amount of the tax, if any, imposed by such subsection in addition to the premium charged for the insurance from the person, corporation, partnership, or association paying such premium, and shall make monthly returns and payments of the taxes so collected at the same time and in the same manner as provided in section 503 of this act."

NOTE.—This proposed amendment is in the same terms as the amendment proposed in behalf of the fire insurance companies, except that the opening words have been changed to conform to the first amendment above proposed.

The CHAIRMAN. The committee will now hear Mr. Brosmith.

STATEMENT OF MR. WILLIAM BROSMITH, GENERAL COUNSEL, TRAVELERS INSURANCE CO.

Mr. BROSMITH. Mr. Chairman, whatever your committee might see fit to recommend concerning the transfer of the burden of taxes from the fire insurance companies to the fire insurance patrons, is, of

course, within your power; but speaking for the Travelers and other companies, we object to having that burden transferred from our company to our policyholders. We think it is impracticable, and we feel that a transfer of the tax in the way suggested in the case of accident, sickness, and compensation insurance would be rather to impose upon the Nation. We would rather pay it as is required under the bill.

ADDITIONAL BRIEFS RELATING TO INSURANCE FILED WITH THE COMMITTEE.

Letter from Mr. Francis B. James and Mr. Clarence B. Hewes, of Washington, D. C.

LITTLEFORD, JAMES, BALLARD & FROST,
Washington, D. C., May 16, 1917.

Hon. F. M. SIMMONS,
Chairman Senate Committee on Finance, Washington, D. C.

MY DEAR SENATOR: In the matter of House bill 4280, Sixty-fifth Congress, first session, this is to confirm the interview had with you this morning.

At the hearings of the foregoing bill before your committee on Saturday, May 10, Mr. John R. Freeman and Mr. Eckern presented certain suggestions to you in the form of an oral argument and briefs to clear up an ambiguity existing in the Spanish War tax of 1898 and the stamp tax of 1914, and whose language has been carried into House bill 4280.

Since then these suggestions have been revised, and I herewith inclose you a printed memorandum, identified as No. 1, as to the language which it is now suggested to clarify law on the exemption of mutual insurance companies.

There is another ambiguity in the law which ought to be cleared up, pertaining to the meaning of the term "premium charged." Mr. Freeman, Mr. Eckern, and myself have gone over this subject very carefully and have prepared a tentative draft of a suggested proviso, identified as No. 2.

In the case of the mutual companies it is impossible to know the exact premium charged at the time of the issuance of the policy, and the premium charged can only be ascertained upon the expiration of the policy either by cancellation or the lapse of time. These policies are issued for periods of one, two, three, four, and five years. It will be wholly unfair to the Government to postpone collection of the tax until five years have passed. The law should therefore contain a proviso so that the tax can be collected at the time of issuing the policy. This necessarily must be estimated, but a very close estimate can be reached by taking the preceding year's experience. This would necessarily even itself up and give to the Government the tax on the premium charged.

These two suggested amendments, 1 and 2, inclosed herewith, are each of them independent provisions, and they pertain to the administrative features of the bill; and as the administration of this tax law is in the hands of the Treasury Department, it is very possible that your committee could receive great aid by addressing a communication to the Secretary of the Treasury as to the necessity of certain amendments and as to the phraseology in which such amendments should be couched.

In pursuance with our talk this morning, and as to which you gave your sanction, I shall call on Mr. Talbot, of the Law Division, and Mr. Gates, Assistant Commissioner of Internal Revenue, with whom undoubtedly Mr. Commissioner Osborn will take up the matter, you stating that you would probably get in touch with Mr. Commissioner Osborn. I am furnishing them copies of said proposed amendments No. 1 and No. 2.

Very respectfully,

FRANCIS B. JAMES.
CLARENCE B. HEWES,
Of Counsel.

Brief Signed by Mr. W. E. Mallalieu, of the National Board of Fire Underwriters.

PETITION OF THE NATIONAL BOARD OF FIRE UNDERWRITERS IN RE TAXATION OF INSURANCE COMPANIES.

To the Committee on Finance, United States Senate:

The stock fire insurance companies, through the National Board of Fire Underwriters, respectfully request the consideration of your committee with reference to the special revenue act at this time before Congress.

It is not the purpose of the fire insurance companies to complain against or in any manner seek to escape a just proportion of the burdens which are made necessary to secure the financial support required under existing circumstances. We do respectfully petition your assistance in a fair and equitable distribution of the tax imposed.

We wish to call to your attention the additional burdens of the last 12 months, including the ones proposed in the measure now before you, that have been placed upon the stock fire insurance companies by the acts of Congress:

First. A tax of 50 cents per $1,000 on capital stock and surplus in excess of $99,000.

Second. A tax of 16 per cent upon the profits, if any, in excess of 8 per cent plus $5,000.

Third. A tax of 4 per cent upon the net income derived from all sources.

Fourth. A tax of 33⅓ per cent of the amount of the 2 per cent tax on net income for the year 1916.

Fifth. An increase of 50 per cent in the postal rate, which is exceedingly burdensome in the insurance business because practically all of the transactions are conducted through the mails; the cost of postage under normal conditions being about one-half of 1 per cent of the gross premium receipts.

The foregoing taxes, we understand, are to be levied upon all industries alike and we make no protest against them or against any method of taxation which applies to all industries alike. However, in addition it is now proposed to levy on stock fire insurance companies a tax of 1 per cent of the amount of the gross premiums collected.

There are numerous reasons why fire insurance companies should not be discriminated against nor subjected to the infliction of this additional and special burden of taxation, among others the following:

1. Because the business of fire insurance has always been conducted on a small margin of profit; in the past 10 years, which have been characterized by no great conflagration, the margin of underwriting profit has been not to exceed 2 per cent.

2. The business is one of the most heavily taxed industries in the United States to-day.

3. Fire insurance companies have already been heavy losers by reason of the existence of the state of war, and their losses are being constantly increased by its continuance. Losses in excess of $10,000,000 have already been incurred by the stock fire insurance companies by reason of fires due solely to war. This is several hundred per cent of the amount of additional revenue secured by the companies on plants handling, manufacturing, and storing war materials.

4. The stock fire insurance companies, through the National Board of Fire Underwriters, have organized themselves for Government service and placed their entire facilities, including their employees, at the disposal of the Government, and are actually employed in doing a variety and volume of work for the different departments of the Government.

In addition to the taxes imposed by the Federal Government the business is subjected to taxation by the various States and municipalities, including State taxes, municipal taxes, fire marshal taxes, fire department taxes, fire patrol taxes, income taxes, and taxes for the pensioning of firemen.

The statement of the stock fire insurance companies on the business transacted in the United States for the calendar year 1916, made under oath and verified by the New York Insurance Department, shows that after deducting losses, expenses, and reserves for increase in liabilities but exclusive of taxes, the net underwriting profit was $12,000,000; the taxes paid by the same companies during the year was $12,190,605; producing a final underwriting loss of $189,039. The average rate on business throughout the United States for the year 1915 was $1.0098; for 1916, $0.9851, and has for a number of years steadily decreased.

Assuming that the schedule of taxation as outlined in H. R. 4280 is necessary under present conditions, we earnestly urge and request your committee to so frame the statute that the 1 per cent tax on policies shall be collected for the Government by the companies, and so as to prevent any interference by the various State officials with an equitable distribution of the burden throughout all of the States. The reason for this request is as follows:

The Supreme Court of the United States, in the case of the *German Alliance Insurance Co.* v. *Lewis* (233 U. S. 389, 34 Sup. Ct., Rep. 612), has held that the business is not of such a character that it is affected with a public interest and subject to public regulation and supervision by the States, even as to the matter of rates to be charged to the same extent and in the same manner that public utilities are so subject. A number of States have taken advantage of this right and have assumed to control the rate to be charged, and it is within their power and discretion to approve or disapprove any effort to collect a portion of the new burden from the policyholders. If we can not charge it in one State we can not consistently charge it in any State.

We therefore suggest the following new matter to be inserted immediately after section 505 and preceding section 506:

"SEC. —. That each person, corporation, partnership, or association making and issuing a policy of insurance or other instrument whereby insurance is made or renewed as described in subsection (*b*) of section 505, shall collect the amount of the tax, if any, imposed by such subsection in addition to the premium charged for the insurance from the person, corporation, partnership, or association paying such premium and shall make monthly returns and payments of the taxes so collected at the same time and in the same manner as provided in section 503 of this act."

The amendment requested will in no manner lessen the revenue to the Government, but will actually increase same since the companies take credit in their income-tax and excess-profits return for all taxes paid, and if the 1 per cent tax is collected from the policyholders no deduction for same in the income and excess profit returns will be made by the companies.

We respectfully call to the attention of the committee the work that has been and is being done by the stock fire insurance companies in the way of service to the various departments of the Government and to the further fact that the business is in no manner benefited but has suffered and is constantly suffering severe losses by reason of a state of war.

The destruction of munition plants and property adjacent by fire and explosion has been exceedingly heavy, and the average loss ratio much increased through factories being run overtime in an effort to complete rush orders with the consequent disregard for repairs, realignment of shafting, proper cleanliness, removal of inflammable material, and many other incidental causes connected with the high-pressure use of our industries.

The above are a few of the many reasons why we feel that the fire-insurance business should not be discriminated against in this bill, nor should it be left subject, in the matter of a Federal tax, to the different rulings of the various officials, but the same protection afforded by section 503 to the public utilities should be extended to the fire-insurance interests which are under a similar measure of supervision.

Respectfully submitted.

NATIONAL BOARD OF FIRE UNDERWRITERS,
By W. E. MALLALIEN, *General Manager.*

Letter from Mr. D. J. Tompkins, President of the United States Guarantee Co., of New York City.

MAY 10, 1917.

Hon. F. McL. SIMMONS,
Chairman Committee on Finance, United States Senate,
Washington, D. C.

DEAR SIR: In re proposed amendment to H. R. 4280, "to provide revenue to defray war expenses," etc.

The business of the fidelity and surety bonding companies is included for a double taxation by two different sections of this bill: (1) Definitely, under subdivision 2 of Schedule A ("Bonds, indemnity, and surety"), and again (2), less obviously but with equal certainty, under the "casualty insurance" paragraph in section 505, which taxes not only certain specified casualty business but also "or other branches of insurance."

The fact is that fidelity and surety companies are all organized under the insurance laws of their respective States, take license from, and operate under the supervision and control of the insurance commissioners of the States they do business in, and are classed as insurance companies in all their business and official relations—a fact evidently overlooked by the one who drafted the casualty insurance paragr. ph.

Hence, in order to avoid their double taxation under this bill, it is essential that they be excluded from taxation under the "casualty insurance" paragraph in section 505 by amending same to read as follows: (The proposed amending words being underlined.)

"(C) Casualty Insurance: A tax equivalent to 1 cent on each dollar or fractional part thereof of the premium charged under each policy of insurance of obligation of the nature of indemnity for loss, damage, or liability, except bonds taxable under subdivision 2 of Schedule A of Title VIII of this act, issued or executed or renewed."

A reference of this proposed amendment to the law officer of the Internal Revenue Bureau for his opinion as to its propriety is respectfully requested.

Very respectfully,

D. J. TOMPKINS,
President United States Guarantee Co.
111 Broadway, New York.

In further explanation: The emergency revenue law of October 22, 1914 (Schedule A), required the affixing on "each policy of insurance or bond or obligation of the nature of indemnity for loss, damage, or liability, issued, etc., by any * * * corporation transacting the business of fidelity, employers liability, plate glass, etc., insurance * * * and each bond, undertaking or reconizance conditioned for the performance of the duties of any office or position, or for the doing or not doing of anything therein specified, or other obligation of the nature of indemnity "of a tax stamp representing one-half of 1 per cent of the premium charged thereon.

When the "casualty insurance" paragraph of section 505 of the present bill was drafted it was assumed that fidelity and surety bonds would all be eliminated therefrom by omission of the words above underlined, and without realizing that the words "or other branches of insurance" still would operate to include fidelity and surety bonds.

Brief Submitted by Servan & Joyce on Behalf of the Massachusetts Mutual Life Insurance Co., of Springfield, Mass.

H. R. 4280. A BILL TO PROVIDE REVENUE TO DEFRAY WAR EXPENSES, AND FOR OTHER PURPOSES.

Hon. F. M. SIMMONS,
Chairman Finance Committee,
United States Senate, Washington, D. C.

SIR: On behalf of the Massachusetts Mutual Life Insurance Co., of Springfield, Mass., we have the honor to present the following in reference to the pending tax bill, H. R. 4280—a bill to provide revenue to defray war expenses, and for other purposes:

First. We wish to call the attention of your committee specially to the fact that under existing circumstances, with all of the increased cost of doing business incident to the war condition, it is well-nigh impossible for any corporation engaged in business not in some way connected with the furnishing of some war supplies to derive a sufficient revenue therefrom to enable it to continue the transaction of its ordinary business and meet the expenses incident thereto. This especially refers to the tremendous increases in the cost of labor of all kinds and of the materials which must be used. On this account all classes of business in the United States are at present severely burdened in order to carry on their ordinary and customary transactions.

WAR TAXES V. BOND ISSUE.

The pending bill seems clearly to propose the increase of these heavy burdens by the infliction of a great addition to the Federal taxes already imposed by existing law upon corporations and partnerships engaged in such business. In addition to an income tax of 2 per cent, which was doubled last year, a capital-stock tax and an excess-profits tax of 8 per cent, based upon profits arbitrarily

computed and not those actually earned, it is now proposed to again double the income tax, to double the excess-profits tax, and in certain specific lines of business to also add a tax upon each of their business operations. During the past few years many of the corporations of the United States not transacting business directly connected with the present war operations have been none too prosperous, and the additional Federal taxes imposed by the last Congress, when increased by those now proposed by this bill, will undoubtedly result in severe financial trouble for many of them. Speaking generally for these corporations, including the life insurance companies, the business of all of whom is not beneficially affected by war conditions, it is respectfully suggested that in the present emergency it would seem to be the part of wisdom to provide for the immediate war expenses by the proceeds of such bond issues as may be necessary, with a reasonable provision for the creation of a sinking fund with which, from time to time hereafter, to retire them in such amounts as might seem feasible, and thus distribute the war expenses over a period of years, much the same as the insurance business distributes the individual losses over many policyholders. Such a course would not unsettle the great business interests of the United States in any way, or, at most, certainly not to the alarming extent that would result from the imposition of the heavy war taxes proposed by the pending bill.

NO WAR TAX ON LIFE INSURANCE COMPANIES.

While the foregoing is true as to the mutual life insurance companies in common with the other corporations referred to, yet these life companies will be compelled to face a far graver situation than the other corporations referred to, if it is determined to raise any great part of the war expenses by the present imposition of direct taxes. Your committee must certainly realize that the expenses of transacting life insurance business during a period of war and the settlement of losses resulting therefrom must be tremendously increased. While we have no reliable data to depend upon under the present conditions, it has been carefully and conservatively estimated that the losses of the life insurance companies doing business in the belligerent countries of the present war are being increased from fifteen to twenty times more than they were in times of peace for the classes of risks effected by it; that is, males between the ages of 18 and 50. This seems to mean if the war should continue for any extended period either that the life companies must in many cases totally consume their assets in the settlement of such losses or find some way by which to escape the payment of them. We therefore ask your committee if it is the wise, prudent, and statesmanlike course, at such a time when the very existence of the American life insurance companies is threatened, to add to the burdens under which they are laboring by not only taxing them to the full limit to which corporations and other lines of business not subject to any such war risks are taxed but to even add additional taxes, viz, the policy tax, to which such other corporations are not proposed to be subjected? When it is remembered that war inflicts a much greater loss upon the business of life insurance than upon any other class of private business whatsoever it may well be asked why at such a time should any tax at all be imposed upon our life insurance companies by the General Government, as these companies are already taxed by force of existing circumstances far beyond what it would reasonably be proposed to tax those engaged in other enterprises.

If the life insurance companies were engaged in an enterprise of an extravagant nature, such as furnishing amusement to the general public, or promoting the indulgence of expensive habits in no way necessary to the health or happiness of our citizens, or indeed, leading to indulgence in luxuries or other needless forms of expense, then there would seem to be good ground for requiring those who indulged in such expenditures for this reason to pay a proportionate share of war taxes thereon. In these days, however, it is admitted on all sides that life insurance for the person of small or moderate means, is a most commendable and desirable subject of expense, in order to provide for his dependents in some degree against want and suffering when the wage earner is no longer capable of their support. This was the reason why, during our Civil War, Congress steadfastly refused to lay a tax upon the life insurance companies doing business in the United States, notwithstanding the desperate financial straits through which our country was then passing. And for the same reason during the present war, England is understood to have allowed an exemption from income tax of the premiums paid for life insurance up to

£5,000. If there ever is a period when the life insurance business would seem to be entitled by every sound reason of economics and public policy to exemption from all taxation, it is during times of war, when the companies engaged in this business are carrying so large a share of the burdens and losses consequent upon the destruction of human life incident thereto. We therefor submit that the strongest reasons exist at present in this country against the taxation of the life insurance business.

THE MUTUAL LIFE COMPANIES.

Whether the wisdom of exempting the life insurance business generally from taxation in times of war is conceded or not, when the question is considered in relation to the strictly mutual life insurance companies which are not conducted for the gain or profit of any stockholders or other persons, but solely for the mutual protection of the individuals insured therein, a great injustice will be worked upon these persons if such companies are taxed. It will readily be admitted that the average amount of insurance carried by those insured in such companies is small, the premiums on each policy averaging not to exceed about $100. As these companies are conducted solely for the benefit of their individual policyholders, a tax upon them is, therefore, a tax upon the individuals of which they are composed. It follows that each policyholder on account of paying the premium on his insurance, whether more or less than the average of $100, must be charged with his proportion of the taxes collected from the company whether or not his net income is sufficiently large to subject him to any income tax. We think it will be granted that not less than 50 per cent of the policyholders in these strictly mutual life insurance companies are in very moderate circumstances and their insurance payments are kept up only through self-denial and self-sacrifice. The income-tax law exempts from taxation individuals of small income, and also mutual savings banks, mutual savings societies and associations, and mutual building and loan associations. The wisdom of these latter exemptions has never been denied, because it is regarded and admitted to be sound public policy to encourage habits of economy and thrift among our citizens, and especially those of small financial resources. Surely it must be regarded as equally commendable to encourage the carrying of a moderate amount of life insurance by the same class of our people, as it is equally contributing to the good citizenship of our body politic. If it is just and proper to exempt from taxation any class of those organizations devoted to the encouragement of savings, it is just as right and proper to extend this exemption to all organizations engaged in this purpose. Why, therefore, should this discrimination be practiced by our Government against the citizen who puts his savings into the mutual life insurance company and in favor of the citizen who puts his in the savings bank or building association?

Of course the committee understands that the citizen with an income sufficient to subject him to the income tax is not permitted to deduct his insurance payments from his gross income in computing his taxable income. In this computation insurance payments are treated exactly as the deposits in savings banks or payments to the savings society or building association, that is as a capital investment which can not be included in the deductions from gross income. But the difference which constitutes the injustice occurs when the payments to mutual savings banks or savings and building associations are not taxed while the payments to mutual life insurance companies are taxed a second time because they are paid to such a company. This double taxation and the exemption in one case and taxation in the other is vicious both in principle and practice.

The injustice of such discrimination has no defense. We therefore ask that section 11 of the act entitled, "An act to increase the revenue and for other purposes," approved September 8, 1916, be amended so as to provide that mutual life insurance companies not conducted for the gain or profit of private stockholders or individuals but solely for the benefit of their policyholders, shall be exempt from the tax provided for by title 1, part 2, of said act. We also ask that said act be so amended as to provide that no mutual insurance companies of any kind shall be subject to the income tax provided for by said act because of the fact that it receives income from any source other than the deposits or payments made to it by its policyholders. The reason for this amendment is that heretofore under the corporation excise tax provisions of the act approved August 5, 1909, the corporation income-tax provisions of the tax act approved October 3, 1913, and of the act approved September 8, 1916, the Treasury

Department has held that if a mutual insurance company has received any interest on its bank balances or its deposits with State insurance departments or under State laws as a condition to its doing business in said States or on bonds, or dividends on stocks in either of which its reserves required by law were invested, it was not entitled to the exemptions from the excise and income tax provisions contained in said acts.

In other words, the Treasury Department has held that unless a mutual insurance company received every cent of its income directly from its members and disbursed nothing in addition thereto it was not entitled to the exemptions from tax provided by Congress in these acts. We do not believe this was the intention of Congress in providing the exemptions referred to, but the language employed is just ambiguous enough to prevent such a construction being successfully contested in the courts. Therefore, notwithstanding the seeming fairness of the exemptions provided by Congress, based upon sound public policy, and the evident intent that the corporation excise and income taxes should be imposed only on such corporations as were engaged in business for gain or profit, if a mutual insurance company in any one year received $5 interest on the balances in its bank account or from any other source than its policyholders, it has been held by the Treasury Department to be subject to the corporation excise and income taxes whenever, through the strictest interpretation of the letter of the statutes, any taxable income could be produced on which to base such a tax. It is therefore respectfully submitted that in all fairness all such mutual corporations should be equally taxed or that none of them should be taxed. We believe this was the exact intent of Congress in passing the provisions referred to, and that they should be now amended so as to leave no doubt of this purpose.

MUTUAL LIFE INSURANCE COMPANIES AND THE EXCESS-PROFITS TAX.

No strictly mutual life insurance company could have any possible objection to what is termed the excess-profits tax if the definition of "actual capital invested" were amended so as to include its reserve investments, the income from which constituted its so-called "net income" or profits.

When the excess-profits tax provision was enacted it was explained in the discussion that the surplus of the mutual companies was to be considered as its "actual capital" under the proposed legislative definition of these words. This surplus is retained to enable a mutual company at all times to promptly pay all claims against it and to cover all fluctuations in the market value of its reserves. As the losses fluctuate very widely from year to year, it is necessary to have on hand a considerable sum in order to be perfectly certain of present ability at all times to meet these variations.

Any income from this surplus, as well as that derived from the investments of the company, are included in gross income from which the net taxable income is computed. Whatever the net balance may be which is derived from the combined income from the invested and uninvested funds of the company, namely, the reserve investments and the surplus or uninvested funds. It would certainly be entirely fair and proper that the "actual capital" invested should be defined so as to include both invested and uninvested funds of the company. In no sense can justice be found for one amount to be considered as the "actual capital invested," and then treating income from an entirely different source as the income from such capital. Either there should be a combined actual capital invested or an uncombined income from such capital in order to arrive at a fair determination of excess profits. We, therefore, suggest that the definition of actual capital invested be amended so as to include all funds or investments, income from which is included in computing net incomes on which excess profits may be based.

WAR TAX ON MUTUAL LIFE INSURANCE COMPANIES.

In view of the greatly multiplied burdens which the life insurance companies of the United States will be compelled to bear on account of the war, which are greatly in excess of the war burden of any other class of business, it is respectfully urged that the bill be amended so as to relieve life insurance companies of any special war tax upon the amount of the business transacted by them during the period of the present war.

Drafts of amendments designed to embody the above are submitted upon a separate sheet.

103242—17——17

Respectfully submitted for the Massachusetts Mutual Life Insurance Co. by Serven & Joyce, its attorneys.

Amend H. R. 4280, a bill to provide revenue to defray war expenses, and for other purposes, by adding to the first paragraph of section 4, at the end of line 14, on page 5, the words: "The act entitled 'An act to increase the revenue, and for other purposes,' approved September 8, 1916, is hereby amended by adding, after the words 'but not including partnerships,' at the end of line 5, the words: 'nor mutual insurance companies not conducted for the gain or profit of private stockholders or individuals but solely for the benefit of their policyholders,'" so that the first clause of said section 10 shall read as follows:

"Sec. 10. That there shall be levied, assessed, collected, and paid annually upon the total net income received in the preceding calendar year from all sources by every corporation, joint-stock company, or association, or insurance company, organized in the United States, no matter how created or organized but not including partnerships nor mutual insurance companies not conducted for the gain or profit of private stockholders or individuals but solely for the benefit of their policyholders, a tax of two per centum upon such income";

And section 11 (a) of said act is hereby amended by adding at the end thereof the words:

"Fifteenth. Mutual life insurance company not conducted for the gain or profit of any private stockholder or individual but solely for the benefit of its policyholders.

"Sixteenth. Mutual fire, casualty, surety, or indemnity insurance company not conducted for the gain or profit of any private stockholder or individual but solely for the benefit of its policyholders."

That title 2, section 202, of H. R. 4280, entitled "A bill to provide revenue to defray war expenses, and for other purposes," is hereby amended so as to read in part as follows:

"Sec. 202. That for the purpose of this title, actual capital invested means (1) actual cash paid in; (2) the actual cash value of property paid in other than cash, stock, or shares of such corporation or partnership at the time of such payment; and (3) paid in or earned surplus and undivided profits used or employed in the business and including the invested reserve funds of insurance companies."

Amend section 505 (a) of the bill H. R. 4280, entitled "A bill to provide revenue to defray war expenses, and for other purposes," by adding at the end thereof the words "or mutual life insurance company not conducted for the gain or profit of any private stockholders or individuals but solely for the benefit of its policyholders."

The Chairman. That concludes the hearing on Title V. The next subject for consideration by the committee is Title VI, "War Tax on Manufactures," which begins with automobiles. From whom shall we hear first?

Mr. C. C. Hanch. Mr. Chairman, I am not going to take any of your time; I am simply going to introduce another speaker.

The proposal to tax the production of a manufacturing industry is a very serious proposal. Therefore, the representatives who will speak to you do not desire to take any time in making assertions, in enunciating generalities. We shall be just as brief as possible and present facts as to the present condition and possible effects on the automobile industry, and if time is permitted we desire to have the personal statements of a number of men who will be directly affected, as to their personal situation.

With your permission, I would like for Mr. Alfred Reeves, general manager of the National Automobile Chamber of Commerce, to cover the subject in general.

The Chairman. Very well; go ahead, Mr. Reeves.

TITLE VI. WAR TAX ON MANUFACTURES.

Sec. 600 (A). AUTOMOBILES.

STATEMENT OF MR. ALFRED REEVES, OF THE NATIONAL AUTOMOBILE CHAMBER OF COMMERCE.

Mr. Reeves. Mr. Chairman and gentlemen, the automobile industry appreciates this opportunity, of course.

The motor-car industry appreciates this privilege of a hearing by your committee of the motor-car makers' side of the proposed 5 per cent tax on the selling price of automobiles.

Automobile manufacturers, without exception, desire to pay their full, fair proportion of the Government's expense, and they ask to be taxed fully and in proportion to all other industries.

They do, however, consider it unfair to subject them to double taxation or to any form of taxation that may make for monopoly by the elimination of scores of companies that can not afford to carry such a burden.

There are 450 listed automobile manufacturers in the United States (Automobile Trade Directory, April, 1917), of which 12 makers produce 80 per cent and 438 makers 20 per cent of the whole. The 12 have been prosperous while the bulk of the others are able to exist only in good times. Prosperity in the motor-car trade is due to increasing volume, and the reverse occurs when the volume shrinks.

It is the prosperity of a few of the very big companies which makes it appear that everyone is prosperous in the motor-car trade, and that it can stand the special tax.

In truth, the making and marketing of motor cars is an industry of many hazards. Purchases of supplies have to be made more than a year ahead, and in the assembling of a car the failure to be supplied by one or two parts has been known to hold up production for weeks.

Last year the trade was the best that the industry ever enjoyed, but with the declaration of war the volume of sales has been seriously affected. The automobile business is one of big units and profits can only come with volume.

This industry has been obliged to increase its cost for labor 25 per cent and material a great deal more, as indicated in the following list of recent increases:

	Per cent.		Per cent.
Sheet aluminum	40	Sheet steel	65
Steel castings	30	Steel tubing	40
Bearings	25	Tungsten steel	400
Aluminum castings	50	Iron castings	35
Leather	30	Forgings	75
Stampings	75		

By the increased volume of sales these material and labor costs have been overcome to some degree, although last year almost all makers were obliged to increase their list prices in a good market. To attempt to increase now, however, with a falling market, would be certain to seriously curtail sales and production.

Although not generally known, because of the giant strides of 10 or 15 of the bigger companies, the automobile industry comprises approximately 450 manufacturers of motor cars located in 32 States, 825 makers of parts and accessories located in almost every State in the Union, besides 25,024 dealers and 23,686 garages throughout the country all depending on the products of the motor-car manufacturers. Fourteen companies employ 145,000 men. Figuring an average of only 300 men for each of the others gives 350,000, or a total of 280,000 wage earners.

Body, parts, material, accessory, and supply plants employ 350,000. The 25,724 automobile dealers with an average of only 6 employees, indicates 150,000.

The 23,686 garages with 3 people each, is 75,000, while there are approximately 50,000 employees in the 12,171 machine shops, with not less than 10,000 employees in the 2,500 supplies houses. These figures show 66,443 concerns or plants directly or indirectly associated with the industry, employing 915,000 wage earners, with total dependents of 3,000,000 or more.

Another very serious fact that faces the automobile industry is the falling off of exports, these exports amounting last year to 61,941 passenger cars and 18,903 trucks, with a total valuation of $96,000,000. Because of embargoes, shipping conditions, and other reasons practically half of this will be lacking in 1917.

Few of the 450 manufacturers are, we believe, averaging to exceed 12 per cent on their turnover. The 5 per cent tax would, therefore, take five-twelfths of their profits (assuming the tax can not be passed on to the consumer) which would equal five-twelfths or 41.6 per cent of the profits of the trade as a whole. It would be equivalent to a tax of 41.5 per cent on the profits of companies that make profits, and would, of course, entail a serious loss for a great many others.

Profits have been small per unit because the trade depends on volume. An average of 12 per cent is much lower than most other industries.

Overland made 10 per cent on $80,000,000 car sales; Hupmobile made 1 1/10 per cent on $10,000,000 car sales; Chandler made 11 4/10 per cent on $12,860,000; Winton made 4 3/8 per cent on $9,150,000; Chalmers made 2 1/10 per cent on $18,500,000; Packard made 11 per cent on $35,000,000; and Saxon made 8 per cent on $15,000,000.

Senator THOMAS. Do you think these companies will be willing to file a statement in the form of a general balance sheet for last year?

Mr. REEVES. I think they will be very glad to do so; yes, sir. It is worth noting that these are all prominent companies. The Winton Co. is next to the oldest in this country, and has been in business for 20 years, yet it made only a little over 4 per cent. In 1915 on more than $5,000,000 it made only a little over 3 per cent, while in 1914 on $3,821,000 sales it made a little more than 6 per cent. The figures of practically all companies will show figures of a similar character.

Senator THOMAS. Is that calculated upon their actual capital invested or upon the whole volume of their stock?

Mr. REEVES. The volume of their sales.

Senator THOMAS. On the volume of their sales?

Mr. REEVES. Yes, sir.

It can be readily seen from this low margin of profits on the volume of sales how confiscatory would be a 5 per cent tax on gross receipts.

The motor-car industry is suffering from the war, makers showing any number of cancellations and a general slowing of demand. If added to this general slowing down there is a 5 per cent tax, the future of the industry is certainly menaced.

The Pierce Co. reports 40 orders last month for passenger cars and 76 cancellations.

Mercer cut production schedule from 1,250 cars to 800.

Hudson reduced from 30,000 to 20,000.

Overland cancellations reduced orders from 30,000 to 16,500 cars.

Haynes will decrease, possibly, 50 per cent next year.

Cadillac reports that 42 per cent of dealers have canceled orders of $1,207,000 worth of cars.

The 5 per cent can not generally be passed with any success to the consumer, because of the impossibility of advancing prices on a falling market. If attempted—and some may attempt it—it will decrease demand and, of course, the volume of business on which profits depend.

Very few manufacturers, if obliged to pay this tax, would have anything to pay under the excess-profits tax, and their profits remaining, if any, would be less than 8 per cent on their investments.

Such a condition would curtail sales and production and decrease any excess profits which the Government might ordinarily receive.

There can probably be no greater indication of the business difficulties than to note the failures that have strewn the business path of the past five years. The business has been extremely hazardous, and the difficulties of many have been overshadowed by the glittering successes of a few great concerns whose organizations and facilities were such that they would have made probably as great a success in any other line. The mortality has been greater than any other industry of which we have record.

The official report, "Automobile Trade Director," gives the names and addresses of 718 companies that failed or went out of business since 1912, and of this number 133 car manufacturers failed during the past two years.

Motor Age, February 8, 1917, prints a list of 241 cars, i. e., cars made by companies that have gone out of business. It gives the names of places where parts for them can be obtained. The Puritan Machine Co. has blue prints and parts for 105 companies that have ceased making motor cars.

Not all of these companies were small, for in the list we find such names as Alco, which is the American Locomotive Co., ceased making after losing several million dollars; Poe, Herreschoff, Thomas, Brush, Maxwell-Briscoe, Stoddard-Dayton, Stevens-Duryea, Own, Acme, Know, Columbus, Columbia, Cleveland, Garford, Elmore, Welch, Krit, Midland, Parry, Ranier, Republic, Sterling, Warren,

Yale, Cutting, American, United States Motors, Bergdoll, and others equally well known.

We believe that not more than one-half of our automobile manufacturers are breaking even, and certainly very few are making in excess of 10 per cent on their turnover.

Stockholders in some instances have had very substantial returns from their investments in motor-car companies, while in other cars the returns have been little or nothing. Some companies now have from 1,500 to 5,000 stockholders, while one company, the Harroun Motors of Wayne, Mich., has been getting under way for a year and has more than 15,000 stockholders awaiting the results of a business which is just now beginning to produce cars. The average holding is 18 shares of $10 par value stock.

The automobile industry is anxious to supply its share of revenue to the Government and feels that with a fair chance to do business and to keep its industry staple it can supply a substantial amount. If the volume of trade falls off, however, this result will be disappointing.

Material costs have gone up and are going up enormously.

Prices have been driven to absolute topnotch by high material and labor costs.

Profits are probably less than three-fourths what they were a year ago.

During the past year, excluding Ford, 80 per cent, or four-fifths, of all new cars were sold to people who already owned cars and traded them in. If any effort is made to impose a 5 per cent tax on them, they will largely keep their old cars instead of replacing them with new and thus prevent the industry producing any great revenue for the Government.

While some makers may try to add such a tax to the consumer's price, the makers generally agree that on the falling market such an attempt would curtail buying to the detriment of the trade as a whole. With materials bought and a schedule of cars under way, an overloading of the market might result.

If one or two of the big makers decided to absorb this tax themselves, the result would be an increasing monopoly for them and certainly failure for many of the smaller ones.

It is estimated that more than 40 per cent of the cars registered in this country are owned by farmers who have been the biggest buyers of cars for the past two years.

State records show 3,541,738 cars and trucks registered in the United States on January 1, 1917. There is 1 motor car for every 13 people in Iowa and Nebraska, 1 for every 19 in Arizona and Montana, and 1 for every 22 people in Texas.

New York State and Pennsylvania have only 1 for every 37 people.

In this connection, classing trucks under the head of luxuries seems without foundation, because certainly they are doing a wonderful transportation work in getting the farmer's products to the city and to the consumer markets.

The advertising expense of motor-car makers, based on the volume of business, is about the same as in other lines of manufactured and trade-marked articles. The Hudson Co.'s advertising expense last year was 1.8 per cent of the volume of their sales; the Studebaker Co. spent only nine-tenths of 1 per cent, while the Maxwell spent 2 per cent for advertising.

So many cars are produced in Michigan and Indiana that statements made indicate the belief that only those States are interested in motor-car manufacture.

While the great majority of the cars are put together or assembled in Michigan, Wisconsin, Ohio, Indiana, New York, Illinois, and other States, the parts for these cars are made in a score of States throughout the country.

There are automobile factories in 32 States. There are 825 makers of parts and accessories dealing directly with the trade and more than 1,100 other companies dealing indirectly with the trade to supply the needs of car makers, and these companies are from almost every State in the country.

The Chilton Trade Directory lists 465 articles sold to automobile makers, including leather, cotton, lumber, steel, copper, paint, rubber, brass, and parts complete, ranging from air gauges, ammeters, and axles to windshields, wrenches, and wheels.

Parts and accessory manufacturers call attention to the fact that any great falling off in the industry, curtailing production, and with possible failures, would leave them with many articles manufactured for a special purpose, but unavailable for general use. Parts like axles, steering gears, frames, and bodies are designed especially for certain cars and weights.

Even after motor cars were sold they must be rehandled by 25,000 or more dealers in every city and hamlet, stored by 23,000 garage owners, and repaired when necessary by 12,000 machine shops.

The dealer's position in connection with this tax warrants careful consideration. He maintains salesrooms, under lease, with certain fixed expenses all dependent on the sale of certain types of motor car. If a dealer can not obtain cars from his own company, he suffers a loss, because most other lines are represented in his own city, and he is left with nothing to sell.

Reports show that not more than one-half of the motor-car dealers are making more than a living. The dealer buys his cars at 15 to 25 per cent from the list price—60 per cent of the cars less than 18 per cent—and out of that margin he is obliged to pay rent, commissions to salesmen, heat, light, and power, furnish a certain amount of free service on all cars sold, and because of his using gasoline and having his cars driven by demonstrators he is obliged to pay high rates for fire and liability insurance.

To make sales dealers are obliged to take in the secondhand cars of their customers, which are invariably sold at cost and in many cases at a loss. In general, it may be said that the average dealer has to make two sales to get one profit, because, with the exception of Fords, four out of five sales of new cars involve the trading of an old car.

In selling to customers the dealer has to overcome the prejudice which the latter has in connection with the general taxing of automobiles, as it does in some States, a car tax, a driver's license tax, a personal tax, and in some cases, as in the District of Columbia, a double registration required by the District and by the adjacent States.

Then, too, in some States, as in North Carolina, $500 must be paid for a license to sell any make of motor car in the State.

People will not freely buy automobiles in war times or under heavy tax conditions; the greatest kind of economy must be practiced and

energetic business methods followed to maintain a fair selling average this year.

If makers have to begin curtailing output to any substantial extent it will mean increasel manufacturing cost. Reduction of output does not correspondingly save overhead, which, next to material, is the largest element entering into the manufacture of cars and trucks.

Automobile manufacturers are proud of the advancement of their industry and the service the motor car has supplied and added to the facilities for the transportation of men and materials.

Within a short time I will present a brief and certain other matter pertaining to this question for the consideration of the committee.

The CHAIRMAN. The clerk will cause your briefs to be printed.

(The brief referred to by Mr. Reeves was subsequently submitted and is here printed in full, as follows:)

A BRIEF IN BEHALF OF THE AUTOMOBILE INDUSTRY RELATIVE TO THE PROPOSED SPECIAL TAX OF 5 PER CENT ON THE SALES OF PASSENGER CARS AND TRUCKS.

To the Members of Congress:

Automobile manufacturers, without exception, desire to pay their full fair share of the Government's expense, and they ask to be taxed fully and in proport'on to all other industries.

They do, however, consider it unfair to subject them to double taxation or to any form of taxation that may make for monoply by the elimination of scores of companies that can not afford to carry the proposed burden.

Twelve makers produce 80 per cent and 438 makers 20 per cent of cars.

There are 450 listed automobile manufacturers in the United States (Automobile Trade Directory, April, 1917), of which 12 makers product 80 per cent and 438 makers 20 per cent of the whole. The 12 have been prosperous while the bulk of the others are able to exist only in good times. Prosperity in the motor car trade is due to increasing volume, and the reverse occurs when the volume shrinks.

It is the prosperity of a few of the very big compan'es which makes it appear that every one is prosperous in the motor car trade and that it can stand the special tax.

In truth, the making and marketing of motor cars is an industry of many hazards. Purchases of supplies have to be made more than a year ahead, and in the assembling of a car the failure to be supplied with one or two parts has been known to hold up production for weeks.

Last year the trade was the best that the industry ever enjoyed, but with the declaration of war the volume of sales has been seriously affected. The automobile business is one of big units and profits come only with volume.

This industry has been obliged to increase its cost for labor 25 per cent and material a great deal more, as indicated in the appended list of recent increases.

	Per cent.
Sheet aluminum	40
Steel castings	30
Bearings	35
Aluminum castings	50
Leather	30
Stampings	75
Sheet steel	65
Tungsten steel	400
Steel tubing	40
Iron castings	35
Forgings	75

By the increased volume of sales, these material and labor costs have been overcome to some degree, although last year almost all makers were obliged to increase their list prices in a good market. To attempt any increase now, however, with a falling market, would be certain to seriously curtail sales and production.

915,000 WAGE EARNERS.

Although not generally known, because of the giant strides of 10 or 15 of the bigger companies, the automobile industry comprises approximately 450 manufacturers of motor cars located in 32 States, 825 makers of parts and accessories located in almost every State in the Union, besides 25,924 dealers and 23,686 garages throughout the country all depending on the products of the motor-car manufacturers. Fourteen companies employ 145,000 men. Figuring an average of only 300 men for each of the others gives 135,000, or a total of 280,000 wage earners.

Body parts, material, accessory, and supply plants employ 350,000. The 25,724 automobile dealers with an average of only six employees indicates 150,000.

The 23,686 garages with three people each is 75,000 while there are approximately 50,000 employees in the 12,171 machine shops and not less than 10,000 employees in the 2,500 supply houses. These figures show 66,443 concerns or plants directly or indirectly associated with the industry, employing 915,000 wage earners with total dependents of almost 3,000,000. These figures are considered very conservative.

EXPORT TRADE LOST THIS YEAR.

Another very serious fact that faces the automobile industry is the falling off of exports, these exports amounting last year to 61,041 passenger cars and 18,903 trucks, with a total valuation of 96,000,000. Because of embargoes, shipping conditions and other reasons exports have already largely fallen off and for 1917 will no doubt be less than half the previous year.

PROFITS OF MAKERS SMALL ON VOLUME.

Few of the 450 manufacturers are, we believe, averaging to exceed 12 per cent on their turnover. The 5 per cent tax would therefore take $\frac{5}{12}$ per cent of their profits (assuming the tax can not be passed on to the consumer) which would equal five-twelfths of 1 per cent of the profits of the trade as a whole. It would be equivalent to a tax of 41.5 per cent on the profits of companies that make profits and would, of course, entail a serious loss for a great many others.

Profits have been small per unit because the trade depends on volume. An average of 12 per cent is much lower than in most other industries.

Overland made 10 per cent on $80,000,000, car sales.
Hupmobile made 1.1 per cent on $10,000,000 sales.
Chandler made 11.4 per cent on $12,800,000.
Winton made 4.4 per cent on $9,150,000.
Chalmers made 2.1 per cent on $18,500,000.
Packard made 11 per cent on $35,000,000.
Saxon made 8 per cent on $15,000,000.

It is worth noting that these are all prominent companies. The Winton Co. is next to the oldest in this country and has been in business for 20 years, yet it made only a little over 4 per cent. In 1915 on more than $5,000,000 it made only a little over 3 per cent, while in 1914 on $3,821,000 sales it made a little more than 6 per cent. The records of all companies are available and will show figures of a similar character.

It can be readily seen from this low margin of profits on the volume of sales how confiscatory would be the proposed 5 per cent tax.

INDUSTRY NOW SUFFERING IN SALES.

The motor-car industry is suffering from the war, makers showing any number of cancellations and a general slowing of demand. If added to this general slowing down there is a 5 per cent tax, the future of the industry is certainly menaced.

The Pierce Co. reports 40 orders last month for passenger cars and 76 cancellations.

Mercer cut production schedule from 1,250 cars to 800.
Hudson reduced from 30,000 to 20,000.
Overland's cancellations reduced shipping orders from 30,000 to 16,500 cars.

From 12 dealers Packard, since April 1, has had cancellation of 199 passenger cars and 33 trucks.

Cadillac reports that 42 per cent of dealers have canceled orders of $1,207,000 worth of cars.

Scores of other companies report similar conditions.

DIFFICULTIES OF A FALLING MARKET.

The 5 per cent tax can not generally be passed with any success to the consumer, because of the impossibility of advancing prices on a falling market. If attempted—and some may attempt it—it will decrease demand and, of course, the volume of business on which profits depend.

Very few manufacturers if obliged to pay this tax would have anything to pay under the excess-profits tax and their profits remaining, if any, would be less than 8 per cent on their investments. In many cases it would entail a substantial loss.

Such conditions would curtail sales and production and decrease any excess profit which the Government might ordinarily receive.

SEVEN HUNDRED AND EIGHTEEN AUTOMOBILE MANUFACTURERS FAIL OR RETIRE FROM BUSINESS IN FIVE YEARS.

There can probably be no greater indication of the difficulties than to note the failures that have strewn the path of the past five years. The business has been extremely hazardous and the difficulties of many have been overshadowed by the glittering successes of a few great concerns whose organizations and facilities were such that they would have made probably as great a success in any other line. The mortality has been greater than in any other industry of which we have record.

The official records of the Automobile Trade Directory gives the names and addresses of 718 companies that failed or went out of business since 1912, and of this number 133 car manufacturers failed during the past two years.

Motor Age, February 8, 1917, prints a list of 241 orphan cars, i. e., cars made by companies that have gone out of business. The Puritan Machine Co. has blue prints and parts of 105 companies that have ceased making motor cars.

MANY PROMINENT NAMES AMONG FAILURES.

Not all of these companies were small, for in the list we find such names as Alco, which the American Locomotive Co. ceased making after losing several million dollars; Pope, Herreshoff, Thomas, Brush, Maxwell-Briscoe, Stoddard-Dayton, Stevens-Duryea, Owen, Acme, Knox, Columbus, Columbia, Cleveland, Garford, Elmore, Welch, Krit, Midland, Parry, U. S. Motor, Rainier, Republic, Sterling, Warren, Yale, Cutting, American, Bergdoll, and others equally well known.

We believe that not more than one-half of our automobile manufacturers are breaking even, and certainly very few are making in excess of 10 per cent on their turnover.

MANY INVESTORS IN MOTOR COMPANIES.

Stockholders in some instances have had very substantial returns from their investments in motor-car companies, while in many other cases the returns have been little or nothing. Some companies now have from 1,500 to 5,000 stockholders, while one company, the Harroun Motors, of Wayne, Mich., has been getting under way for a year and has more than 15,000 stockholders awaiting the results of a business which is just now beginning to produce cars. The average holding is 18 shares of $10 par value stock.

The automobile industry is anxious to supply its share of revenue to the Government, and feels that with a fair chance to do business and to keep its industry stable, it can supply a substantial amount. If the volume of trade falls off, however, this result will be disappointing.

FOUR OUT OF FIVE SALES WITH A TRADE.

During the past year, excluding Ford, 80 per cent, or four-fifths of all new cars were sold to people who already owned cars and traded them in. If any effort is made to impose a 5 per cent tax on them they will largely keep

their old cars instead of replacing them with new, and thus prevent the industry producing any great revenue for the Government.

While some makers may try to add such a tax to the consumer price, the makers generally agree that on the falling market such an attempt would curtail buying to the detriment of the trade as a whole. With materials bought and schedule of cars under way, a congestion of the market might result.

POSSIBILITY OF INCREASING MONOPOLY FOR BIG COMPANIES.

If one or two of the big makers decided to absorb this tax themselves, the result would be an increasing monopoly for them and certain failure for many of the smaller ones.

MOTOR CARS IN GENERAL USE.

It is estimated that more than 40 per cent of the cars registered in this country are owned by farmers, who have been the biggest buyers of cars for the past two years.

State records showed 3,541,738 cars and trucks registered in the United States on January 1, 1917. There is 1 motor car for every 13 people in Iowa and Nebraska, 1 for every 19 people in Arizona and Montana, and 1 for every 22 people in Texas. New York State and Pennsylvania have only 1 for every 37 people. (Reprint from Automobile, Mar. 15, 1917.)

ADVERTISING THE AUTOMOBILE.

The advertising expense of motor-car makers, based on the volume of business, is about the same as in other lines of manufactured and trade-marked articles. The Hudson Co.'s advertising expense last year was 1.3 per cent on the volume of their sales; the Studebaker Co. spent only nine-tenths of 1 per cent, while the Maxwell spent 2 per cent for advertising, and Overland 3 per cent. Printers' Ink of May 10, 1917, says average for 40 advertisers of various lines was 4½ per cent.

CARS ARE MADE EVERYWHERE.

So many cars are produced in Michigan and Indiana that statements made indicate the belief that only those States are interested in motor-car manufacture.

While the great majority of the cars are put together or assembled in Michigan, Wisconsin, Ohio, Indiana, New York, and Illinois, the parts for these cars are made in a score of States throughout the country.

There are automobile factories in 32 States. (The Automobile, Mar. 15, 1917.) There are 825 makers of parts and accessories dealing directly and more than 1,100 other companies dealing indirectly with the trade to supply the needs of car makers, and these companies are from almost every State in the country.

The Chilton Trade Directory lists 405 articles sold to automobile makers, including leather, cotton, lumber, steel, copper, paint, glass, rubber, brass, and parts (complete), ranging from air gauges, ammeters, and axles to wind shields, wrenches, and wheels.

POSITION OF MANUFACTURERS OF PARTS AND ACCESSORIES.

Parts and accessory manufacturers call attention to the fact that any great falling off in the industry, curtailing production, and with possible failures, would leave them with many articles manufactured for a special purpose but unavailable for general use. Parts like axles, steering gears, frames, and bodies are designed especially for certain cars and are of little use for other cars of different design and weights.

DEALERS AND GARAGES EVERYWHERE.

Even after motor cars are sold they must be rehandled by 25,000 or more dealers in every city and hamlet, stored by 23,000 garage owners, and repaired when necessary by 12,000 machine shops.

THE DEALER'S POSITION AND RISK.

The dealer's position in connection with this tax warrants careful consideration. He maintains salesrooms, under lease, with certain fixed expenses, all

dependent on the sale of certain types of motor cars. If a dealer can not obtain cars from his own company he suffers a loss, because most other lines are represented in his own city, and he is left with nothing to sell.

Reports show that not more than half of the motor-car dealers are making more than a living. The dealer buys his cars at 15 to 25 per cent from the list price (on 60 per cent of the cars it is 18 per cent or less), and out of that margin he is obliged to pay rent, commissions to salesmen, heat, light, and power, furnish a certain amount of free service on all cars sold, and because of his using gasoline and having his cars driven by demonstrators he is obliged to pay high rates for fire and liability insurance.

To make sales, dealers are obliged to take in the secondhand cars of their customers, which are invariably sold at cost and in many cases at a loss. In general, it may be said that the average dealer has to make two sales to get one profit, because, with the exception of Fords, four out of five sales of new cars involve the trading of an old car.

UNFAIR TO TAX CARS IN HANDS OF DEALERS.

Because of the trade practice of buying motor cars in advance, the plan to apply the tax on cars held by other than manufacturers at the time the law becomes effective would entail a severe hardship upon the dealers.

It is customary for dealers to take cars from the manufacturers during the winter for selling during the spring months. Dealers now have millions of dollars worth of new and secondhand cars on hand; they have accepted contracts from subdealers for future delivery and retail buyers at published prices, and payment of the tax would mean substantial losses. If an attempt is made to change the retail buyers' orders it will result in many cancellations. The secondhand cars in the hands of the dealers have been taken in at their full worth and in most cases will be sold without profit. To tax these used cars when cars in the hands of users are not taxed is wholly unfair and will certainly result in large losses to the dealers.

In selling to customers the dealer has to overcome the prejudice which the former has in connection with the general taxing of automobiles, involving, as it does in some States, a car tax, a driver's license tax, a wheel tax, a personal tax, and in some cases, as in the District of Columbia, a double registration required by the District and by the adjacent States.

Then, too, in some States, as in North Carolina, $500 must be paid for a license to sell any make of motor car in the State.

MOTOR TRUCKS NOT A LUXURY.

It seems very unfair to class motor trucks in the bill as a luxury. Passenger cars have almost entirely ceased to be a luxury, while motor trucks never were. Truck makers are supplying a vehicle for the transportation of goods that is aiding the railroads and helping to keep down the cost of almost everything that is used by the American family.

The 300,000 commercial cars now in use in the country give an annual service of 4,500,000,000 ton-miles. At the average railroad freight rate of seven-tenths of a cent per ton-mile this is worth $31,500,000, and at the rate of 20 cents per ton-mile for haulage by wagon road is worth $900,000,000 a year.

Certainly the motor truck has no place under any heading that carries with it the idea of luxury. On the contrary, the truck is to be considered a great and growing necessity in our industrial, military, and commercial life.

People will not freely buy automobiles in war times or under heavy tax conditions, and the greatest kind of economy must be practiced and energetic business methods followed to maintain a fair selling average this year.

If makers have to begin curtailing output to any substantial extent, it will mean increased manufacturing cost. Reduction of output does not correspondingly save overhead which, next to material, is the largest element entering into the manufacture of cars and trucks.

Automobile manufacturers are proud of the advancement of their industry and the service of the motor car has supplied and added to the facilities for the transportation of men and materials.

The automobile makers asked to be recorded in their desire to cooperate with the Government needs in every way. They simply ask to be treated like all other industries, and in the long run believe such treatment will furnish greater financial and greater industrial support to the Government, and with

an even chance of maintaining themselves under the very trying conditions which beset all lines of endeavor in this crisis.

Our effort has been to give, in a most concise form, a statement of the position of the industry, and we are ready to supply further information and details regarding any of the statements made herein.

NATIONAL AUTOMOBILE CHAMBER OF COMMERCE (INC.),
ALFRED REEVES, *General Manager.*

NEW YORK, *May 14, 1917.*

INTERESTING FIGURES RELATING TO THE AUTOMOBILE INDUSTRY.

Item	Figure
Automobile and motor-truck plants	450
Body, parts and accessory plants	823
Automobile and truck dealers	25,024
Garages	23,868
Automobile machine shops	12,171
Exclusive automobile supply houses	2,500
Total establishments dependent on the industry	66,443
Wage earners employed in the industry	915,000
Total dependents upon the industry	2,700,000
Passenger cars manufactured in 1916	1,493,000
Commercial vehicles manufactured in 1916	90,576
Average wholesale value of passenger cars produced in 1916	$575
Motor vehicles registered in United States on Dec. 1, 1916	3,541,738
Estimated commercial cars in use	300,000
Estimated percentage of cars owned by farmers	40
Proportion of cars in Iowa to population	1 to 13
Proportion of cars in Nebraska to population	1 to 13
Proportion of cars in New York to population	1 to 37
Increase in registration in Oklahoma in 1916, over 1915, per cent	109
Increase in registration in Nevada last year ... per cent	111
Increase in registration in Georgia last year ... do	90
Increase in registration in North Carolina ... do	65
Increase in registration in New York State ... do	31
Increase in registration in Connecticut ... do	35
Increase in registration in Illinois ... do	38
Total registration and other State fees paid by motor vehicle owners in 1916	$28,889,167
Percentage of cars produced in 1916 by 12 largest companies	80
Percentage of cars produced by 438 companies	20
Passenger cars exported in 1916	61,941
Motor trucks exported in 1916	18,903
Value of 1916 exports	$96,595,861
Motor vehicle companies that failed or went out of the business in last five years	718
Companies that failed since October, 1915	133
Average percentage of profit made by automobile manufacturers last year	12
Ratio of 5 per cent tax to average profit of most prosperous companies, per cent	41.6
Percentage of advertising appropriation to total sales in automobile trade	2
Increase in cost of labor during last two years, per cent	25
Increases in costs of material in last two years, per cent	30 to 400
States in which automobile plants are located	32
Number of different parts bought by motor-car makers	465
Ton-mile service rendered by 300,000 motor trucks in 1916	4,500,000,000
Value of motor-truck service in 1916 at railroad rate of seven-tenths of a cent per ton-mile	$31,500,000
Value of motor-truck service at average rate of 20 cents per ton-mile for road haulage	$900,000,000

Gentlemen, the automobile makers ask to be recorded in their desire to cooperate with the Government needs in every way. They simply ask to be treated like all other industries, and in the long run

believe such treatment will furnish greater financial and greater industrial support to the Government and with an even chance of maintaining themselves under the very trying conditions which beset all lines of endeavor in this crisis.

My effort has been to state to you in a most concise form the position of the industry; and we are ready to supply further information and details regarding any of the statements I have made to the committee.

The CHAIRMAN. The committee will now hear Dr. Crow.

STATEMENT OF DR. E. C. CROW, REPRESENTING THE CROW-ELKHART CO., OF ELKHART, IND.

Dr. CROW. Mr. Chairman and members of the committee, we have thought it wise to give you a concrete statement of an individual concern, which, of course, is embarrassing to me.

I will present a brief statement of facts and points relative to this proposition so that it may be printed in these proceedings.

The CHAIRMAN. It will be done.

(The statement referred to by Dr. Crow was subsequently submitted and is here printed in full, as follows:)

GENERAL STATEMENT OF ACTUAL CONDITIONS IN AUTOMOBILE MANUFACTURING AND REASONS WHY 5 PER CENT TAX ON SELLING PRICE OF AUTOMOBILES IS PROHIBITORY TO THE SMALL AUTOMOBILE MANUFACTURER.

Number of automobile manufacturers in the United States	450
Eighty per cent automobiles manufactured by 12 concerns	12
Twenty per cent manufactured by remaining number of manufacturers	438

These 438 automobile factories produce but 20 per cent of the whole number of cars made. The Crow-Elkhart Motor Co. is one of these 438 producers.

The tremendous advance of materials used in 1917 over 1916 is illustrated as follows:

	1916	1917
Cost sheet steel	$3.85	$10.00
Cost bar cold-rolled steel, average	2.80	7.70
Cost lumber, per M	74.00	85.00
Cost of tires per car	45.00	51.75
Cost of artificial leather per yard	.99	1.45
Cost of bearings, each	2.02	3.24
Cost of cast-iron per pound	.02½	.04½
Cost of malleable castings per pound	.03½	.08
Cost of aluminum castings per pound	.35	.80
Cost of brass castings per pound	.21	.35
Cost of cotton ounce duck, per yard	.14½	.32½
Cost of moss for cushions, per pound	.05½	.08
Excelsior (mineral wool), per ton	26.00	35.00
Cost of cushion spring steel, per set	2.00	3.25
Cost of linoleum, per yard	.62	.87
Cost of steam coal per ton	2.60	4.75

Cost of paint, general advance, 25 per cent.

Cost of turpentine, linseed oil, solder, etc., general advance, 75 per cent.

Cost of hardware for auto construction, wood screws, cap screws, etc., general advance, 50 per cent.

Labor, skilled and unskilled, general advance, 25 per cent.

General overhead, due to transportation conditions alone, general advance, 33⅓ per cent.

The foregoing statement includes the general character of materials used in automobile construction and indicates an average net cost of the raw materials of more than 50 per cent for 1917 over 1916.

Since the declaration of war the volume of sales have been materially decreased.

The uncertainty of the market for steel, rubber, leather, cotton, copper, and all other metals, owing to the probable demand by the Government in its prosecution of the war for these materials, make it highly probable that an additional increase in their cost will occur if the same can be secured at all.

The general interference with local improvements and the demand for local retrenchment will largely affect the volume of business done from this time on. The Government demand for the men and its interference with the labor market will have an important bearing on the cost of labor utilized by the automobile manufacturers.

Exports.—The Crow-Elkhart Motor Co. in 1916 exported 15 per cent of its output, in 1917 but 1½ per cent, in the face of increased effort and expense to obtain foreign business, all of which is occasioned by the present war conditions.

Transportation.—The transportation conditions now existing, and for which conditions no relief is in sight for the immediate future, require the employment of expert traffic men stationed in different parts of the United States to bring about deliveries of raw materials in sufficient quantities to keep factories in operation.

The securing of transportation facilities for the delivery of manufactured product is equally difficult and secured with increased expense.

The net profit to the Crow-Elkhart Motor Co. during the year of 1916 on their product, based on its list price of $795 per car, was $49.85. The list price at this date of the same car is $845. The increased list price per car of $50 for 1917 over 1916 is insufficient to take care of the increased cost of materials, labor, etc.

A tax of 5 per cent on the selling or list price of an automobile in 1917 would make a tax payable of $42.25, leaving the margin of net profit on the basis of last year's figures of but about 1 per cent.

General conditions pertaining at present have created a falling market. It is impossible to advance prices on a falling market; hense, with the increased costs and general uncertainties prevailing, the fixing of a tax of 5 per cent by Congress upon the selling price of automobiles would operate to prevent the making of any profit and would impair the capital of this company.

The above statement is made with particular reference to the Crow-Elkhart Motor Co., and generally is true as to all of the other 437 automobile manufacturers, who are making but 20 per cent of the whole number of automobiles now manufactured in this country.

The impairment of the manufacturer of automobiles by this tax will have far-reaching effects upon the 825 makers of parts and accessories, employing thousands of employees and workmen, skilled and unskilled, 26,000 automobile dealers and their agents, and the 24,000 garages throughout the country, and through the general impairment of the capital invested by such manufacturers in their concerns, all taken together with the conditions now confronting the Nation, will bring about far-reaching disaster.

An income tax upon the net income of all concerns under the present war conditions or needs of the Government is just and no legitimate objection can be made thereto, but the assessment of a tax upon the selling price of automobiles, without regard to the costs, is a step beyond which no Congress has heretofore attempted, and with the general activity, keen competition that has prevailed in the automobile industry for the past five years, and the general perfection of the automobile manufactory has made a market for automobiles wherein the same are sold on close margins, and with many manufacturers, principally the smaller concerns, a tax of 5 per cent on the selling price would absorb all profits and make it prohibitory for the operation of their concerns, in the event such a tax was enforced upon them through congressional legislation, and number these concerns among the other 600 automobile manufacturers that have failed during the last five years.

A general depression is now in process; orders are being canceled; the course of ordinary business retarded; individuals are afraid of the future and are now slowing up on the purchase of automobiles. This is not due alone to the actual declaration of war but to a general systematic publicity campaign which is being waged throughout the country, a continuance of which is bound to place such a barrier in the way of the development of small automobile manufacturing plants that cessation of their business is imminent.

This to contend with in the face of a tax of 5 per cent on the selling price of automobiles is bound to result in the impairment of their capital and its consequent destruction of their business, and finally result in a loss to the

Government of not only the amount of such tax but of the destruction of its units of business, without which its power and influence would be most grievously retarded.

We are willing to stand our full share of income tax, but want the opportunity left us to protect our business and hold same intact, that we may not be destroyed but may live to take our full place in the business of our country and yet bear a just measure of taxation.

CROW-ELKHART MOTOR CO.,
M. E. CROW, *President.*

ELKHART, IND.

Dr. CROW. We have been manufacturing automobiles for eight years in the State of Indiana at Elkhart and did not make much progress until last year, for the reason that overhead expense was so great and our volume was too small. Last year, however, we turned out approximately 3,000 cars and made a little money. In view of the advancing cost of all sorts of material, with which everybody is familiar, we found about the first of this year that we were not making any money on our cars. Out net profit last year per car was $49.89, but after the first of the year we found we were not making any money at all. We were compelled to advance the price of that car $50. We sold the car last year at $795, and this year for $845, and the advance has taken care of the advance in materials up to the present time, but if material continues to advance we will have to increase the price of the car again or quit, even if this tax is not imposed. If this tax is imposed, our commercial life, I believe, is limited.

We are employing now about 500 people. We have approximately 500 dealers, big, little, and all kinds, scattered throughout the United States. But we do not believe, in view of the fact that we have recently raised the price of our car, that we can add this tax to the price of the car when we sell it to the distributor or dealer, and we know beyond any doubt that we can not absorb it and live. We are too familiar with our costs, etc., to try to fool ourselves in regard to that.

Then, if we approximate our output at 3,000 cars at the selling price, after the 20 per cent is taken out, which is about what we give our dealers, it would leave a tax of $31.50, approximately, to be paid by us or by the consumer, and we do not think we can possibly pass it on, and we know we can not absorb it ourselves. That would amount to $94,000, and that is 33⅓ per cent of our capitalization. In three years, if we could live that long, we would be done; we would be down and out absolutely, because the tax we would pay, as I say, would be one-third of our entire capitalization of $250,000.

Senator MCCUMBER. Let me ask a question to elucidate what you are asking. Is it not absolutely true in the automobile business that there are a large number of manufacturers of medium-priced cars which are in intense competition with cars selling just a little lower, and on those medium-priced cars the companies are not making more than 5 per cent, and if they attempt to raise them they destroy their sales entirely and lose them to the lower-priced cars, even though the lower class of cars may be making 100 per cent, like Ford?

Dr. CROW. That is quite true; absolutely true. I had overlooked that point. I am glad you called it to my attention. That is very true. If we lower the price we go broke; if we raise the price, we can not sell the car and will go broke; so it looks like we are up against a stone wall.

The CHAIRMAN. We will hear Mr. Henderson next.

STATEMENT OF MR. THOMAS HENDERSON, REPRESENTING THE WINTON AUTOMOBILE CO.

Mr. HENDERSON. Mr. Chairman and gentlemen, I am here to represent the 400 or more makers who make the 20 per cent of all the cars made in the United States, and I was asked to come here and make this presentation because of the fact that the Winton Co. is one of the oldest, perhaps the first company, that was advertising and selling, from a standard model, automobiles in the United States. We have had some experience if we do not have much money.

We had, to begin with, to hew the car out of the whole, to forge the gears on the anvil and turn them upon the lathe, and to forge our own axles and everything else, to make even our own electrical apparatus as best we could, and develop that and everything else about it, because there was no one to go to; and yet we managed to live on and build up a business for over 20 years, and in that time we made some money. We made enough money to build up quite a sizable business, but none of us got rich out of it. Some years we made no money, some years we lost money, but taking one year with the other, especially when competition was not so keen, we managed to come out on the right side of the ledger. But with all our economical management, that the whole trade knows and has looked to and commented on, the fact that Mr. Winton, myself, and our treasurer, Mr. Brown, worked there for very small salaries in that company—and we worked, and worked all the time in the management of the company—perhaps accounts for the slight success we have had. We have no high-priced men around there. With all our efforts we to-day can not afford to pay 5 per cent on our product and come out whole at all.

I have the figures on that. Just the main facts of the case were taken by the public accountants in Cleveland, whose report will show exactly this:

In 1914 our whole business was $381,000, and we made 6 per cent. In 1915 we had about $5,000,000 and made 3 per cent. You will notice then that the price of material and the cost of labor was going up very fast. We made a slight increase on the price of our car, and in 1916 we turned out $9,000,000 worth of business, the largest business we ever did in our history, but the net profit on that large business was just 4⅜ per cent. We have to turn out quite a large number of cars and sell them at the full price before we break even. The years that we did not make money were years that for some one reason or another we did not get enough cars together or did not sell enough. We made money on every car we sold, but we did not make enough to pay overhead and to come out on the right side of the ledger at the end of the year.

Our condition is the reason why I have consented to make this personal revelation of the condition of this old company of which I am so proud, and to tell you the sad fact, that with all our experience we are not making any more money than that, where many people who came into the business after all the detail of it was developed, and who had the genius to go ahead and finance it in a big way and work rapidly to large production, have made those fabulous millions. We were the people who laid the foundation of this business for them. Mr. Haynes, who is present, started out the very year we

started, and began business in the same way. When, with all our vast experience, we were not able to see any better than that, I want to tell you that we know there are hundreds of companies that can not make up this increase in the form of a 5 per cent tax on all their output and live, for the reason that those who are better situated, those who have made these great successes and whose balance sheets show millions of cash and surplus, can go on the market, "We will absorb that tax and we do not need to raise our price," but all these other companies will be forced to add that tax. By so doing they will have that many less sales, and any sales made will go to the larger and more wealthy companies, and the smaller ones will be the sufferers. We are here to make this revelation and to plead for those which are worse off than ourselves.

The CHAIRMAN. The committee will hear you, Mr. Hardy.

STATEMENT OF MR. A. B. C. HARDY, REPRESENTING THE CHEVROLET AUTOMOBILE CO.

Mr. HARDY. Mr. Chairman, I do not believe that the committees of Congress understand how dependent a business the automobile business is. Each man can use his own figures if he knows they are right. I have no plea to make for the Chevrolet Co. Those things which we can do, we will work out in the most patriotic way. The company will do what it has to do. We hope that it will be asked to do it in the same way that all other lines of business will be asked, and will go the limit. We shall be in at the finish, but there is this element in this, and I will have to use our own figures for illustration.

The product which we build is priced at $550. That price was made upon the basis of estimates made 18 months ago. Into the frame of the automobile enters what is called frame steel. Ours will be a lower class of stock than that contained in the higher priced cars. It takes 120 pounds of metal, including the waste in cutting and fabricating. Eighteen months ago that metal stood us $1.35 per hundred pounds. To-day the most favorable contract we can get is $5.15 to $5.25. It will take 250 pounds of thin sheet metal, of a very high grade, to make what you see on the outside of the body—the fenders, the running board shields, the hood of the motor car. In the costs we figured upon this car 18 months ago, the average price of that metal was $2.75 per hundred pounds. We would be very glad to get a more favorable contract to-day than $8.15 per hundred pounds.

The cheap stuff that is under the body of the car, in the muffler, and things that do not have to show, but simply have to hold something, is the ordinary black stovepipe iron. Eighteen months ago $1.75 a hundred pounds was a good high price on that metal. A contract made 90 days ago called for $5.75 per hundred pounds on the same material. There are 131 pounds of cheap malleable iron in a cheap car sold at $550 that cost us $3.90 per hundred pounds 18 months ago, and it is now $6.70, and on July 1 it must go far, far above that. There are 350 pounds of ordinary gray iron castings involved in the motor in that particular car, and it does not differ in that very much from other cars of like or better class. That is

based on standard northern pig iron, which 18 months ago was selling for $13.35 a ton. An exceedingly favorable contract made four months ago is $43 a ton. The average amount of lumber that goes into a cheap car is not great. It will figure $16 on cars made six months ago. After all, it is an item. Throwing in the materials used in loading these cars and all, the average price of that lumber 14 months ago was $27.50 a thousand and it is now from $42 to $47.50. Cotton fabrics inside of the tire, in a cheap tire, in the top, in the so-called imitation leather, and similar places, has raised in price over 100 per cent.

These are simply indications that these automobile people, not us—don't think of us in the matter at all—have absorbed and absorbed and absorbed and have not raised their prices; and why? They are trying to hold this industry alive, trying to have it not react upon the sales, and thus stop these plants. I believe that we have fairly well enough bought our materials by buying 12 or 14 or 16 months ahead, if possible. We make our motor; we make our transmission; we make our axles; we make our universal joints and many other parts; and we have considered ourselves as manufacturers. I will swear on the stand 70 per cent of the money value in a cheap car, such as a $550 car, is completely finished and fabricated in other men's plants, and they are all specialists. When you get back and figure on that question, really they are absolutely dependent upon getting their material wrapped up and on the market. The automobile business is only the stopping place to wrap the material into a package that the public will take away and pay their money for.

When I started off the other day, we had received within the past three days 700 cancellations because of this threatened condition. Our profit in January, February, and March, on $11,000,000 worth of business, was far less than 8 per cent, and the books are open to you and the statements ready. If on that volume of business nothing more than that can be realized, I do not know what the situation is with the smaller concerns, who can not command their merchandise. We have come to a point where we can not absorb any more. We have got to get a little more money for the product anyway. If a tax is to be tied on top of all that we have now got to bear, we must come out and ask for a double raise. The raise we were compelled to make recently has already stopped sales with us, and this tax will paralyze this industry. Behind that cheap car that I have been telling you about are 135 different concerns who have invested their money and their talent. They are specialists. We have been telling them to "go ahead; we will get an outlet for you." They have strained their resources, and we know it, and we feel a moral responsibility about it. We have engaged more machinery that is coming in a little at a time. The condition is certainly very serious. We ask you, gentlemen, to give it most careful consideration before you apply this large tax to our business.

The CHAIRMAN. From whom shall we hear next?

Mr. HANCH. Mr. Chairman, I want to introduce at this time Mr. Elwood Haynes, of the Haynes Motor Co.

The CHAIRMAN. Proceed, Mr. Haynes.

STATEMENT OF MR. ELWOOD HAYNES, REPRESENTING THE HAYNES MOTOR CO.

Mr. HAYNES. Mr. Chairman and gentlemen, Mr. Henderson and I started into the automobile business at a very early date, and it has now been about 24 years since we commenced to build the first car. I will say in regard to the industry that it has not been a bed of roses by any manner of means. Those who started earlier, perhaps, had a harder time than those who came in later years, because, as Mr. Henderson has already explained, we had to make nearly everything that went into the construction of the car.

For 20 years in our business I think we declared one 6 per cent dividend, and we did not feel as though we could afford to do that. I must admit that within the last two or three years we have done pretty well. We have made more money in that period than ever before, but considering the business as a whole it has not been more remunerative than any other legitimate business up to the present time. I think the public is making a mistake and I think the committee is making a mistake when they put the automobile into a class along with things that are of no utility at all—for instance, with chewing gum and moving pictures. If there is an accident of any kind to a train, you get your automobile down there and if there is a wreck you bring those people home and take care of them. If somebody is sick in your family, you call for your physician and he has an automobile and is able to get to you quickly. Suburban residence has become possible for people who formerly lived in congested parts of the large cities and who are now enabled to live in the suburbs because of the automobile, even where they are within or without the reach of the trolley lines.

I do not want to take your valuable time further than this, but I can assure you that so far as our own company is concerned the business has not been at all remunerative. It has been a menace to everything that we had for 15 or 20 years, and with the exception of the last two or three years it has not paid us at all. We have done well in the last two or three years, but our business for the month of March this year was about 20 per cent greater than it was in April. That is an alarming condition, for the reason that usually April deliveries are very much better than March. This was on account of the war itself, not the war tax. It caused people to hesitate to purchase. The people do not know what may happen, and they hesitate to buy an automobile under those conditions. Of course, this committee and nobody else is responsible for that, but it is a serious condition that we in business have to face.

The CHAIRMAN. Now the committee will hear Mr. Barrows.

STATEMENT OF MR. FREDERICK I. BARROWS, REPRESENTING THE LEXINGTON AUTOMOBILE CO., LEXINGTON, IND.

Mr. BARROWS. Mr. Chairman and gentlemen, I am going to speak about three things I conceive to be important in this situation as regards our car. It has been manufactured since 1908, and up to 1914 the net results of all those labors had been a loss of $180,000, for the reason that no automobile concern can live until it is doing a

business of at least a million dollars a year. I think that even a genius like Ford could not make an automobile business a success unless he did a million dollars of business a year, unless they were in some subsidiary manufacturing business that brought in the revenue some other way. Our business has to be big. We can not sell merely a dollar's worth of automobile. We must sell something like five hundred dollars or a thousand dollars or two thousand dollars' worth of automobile.

It seems to me the levying of this tax will disorganize the business. It will ruin some people who are not appearing here to-day as automobile men. It will prevent us from doing our share, which we are truly anxious to do in this war. It will not bring the revenue that you gentlemen desire and that the people expect. We are perfectly ready to do our share. I think the automobile people were among the first to tender their services in any way they could help and they are just as ready to-day to do their full duty. We are ready to pay our full share of taxation. We will not whimper on the proposition of paying our full share of taxation, but we want to be in with the other fellows, and incidentally the thing that stops our business will not make it possible for us to pay our taxes.

You may say that the fire insurance man can add his taxes. We can not, because when we add anything more, how are you going to get us a market? If you will say in your bill that we may add this tax to the cost of the automobiles, it will be all right if you will then say they shall buy them. If you would say that we might be for this proposition, but as it stands we have 36 distributing districts in the United States, and we have got a stop order from each and every one of them since this proposition has been under discussion. I do not know what did it. I do not know whether the weather did it or the talk of conditions did it, but I know it was done. I know that we have been way, way behind in our orders. I know we are now right up, and we reduced our schedule for the coming month from six hundred and fifty to four hundred, and we are one of the little fellows.

We did what you might think was a big business last month of $403,000, but that is a little thing in the automobile business, because on that amount of business you can just barely get by. If we were to make 10 per cent on that we would be so tickled that I don't know what we would be willing to do. We would be willing to pay some big taxes, I assure you. We have never seen anything like 10 per cent on our turnover since 1908. We are getting better and stronger. We are getting toward the point where we have volume, and when you get volume you can do something. We are merely assemblers. A lot of companies are closely associated with us. They depend on us, and while we have a capital of only $500,000, we have on contract, on positive definite orders, the most of which are started to be performed, $5,000,000 worth of material.

I wonder how in the world a $500.000 company is going to buy $500.000.000 worth of material, with the market going down for automobiles and people saying, "I guess the Government does not want us to use automobiles because it is not patriotic to use them." I do not believe the Congress of the United States will tell the people that this necessity for health and for business purposes is in the same class

with whisky. I do not know but what I like whisky—I would not say—but I will say this, that I do not think that we are on a par with that. Here is a business where there are 250 or 300 men who are putting together the stuff that 5,000 men are building in different parts of the country. Down in Mississippi they saw up the wood for our frames; other parts are made in Pennsylvania and some of them in Connecticut. We buy a lot of stuff there. There are 450 different classes of material go into our little automobile, and if we are shy one of them—bingo! we can not ship!

My main business is not to talk, but I do know how to get this stuff together and get it matched up, and to turn this stuff over to the extent of the amount of our capital stock of $500,000 about once a month, and if we could make 5 per cent during the coming year on what I can turn over I would be tickled to death. I do not know much about selling, but I do know that when they telegraph us from all over the country to hold up their orders until they know what is happening that it means a very serious condition for us to handle.

The CHAIRMAN. Perhaps a lot of people have decided to stop using automobiles and are going to get Fords.

Mr. BARROWS. That might be so. If the Senate wants us to do something else besides make automobiles, and let them ride in wheelbarrows, just let us know. We do not want to stand back on any proposition of that kind.

When the first news of the war came we telegraphed a positive offer of our services to this Government. If you think tax is not high enough we are not standing back on that, but we do want to be treated as other manufacturers, and we do want you to recognize this product of ours as a necessity, a useful thing, and not a harmful thing.

(Thereupon at 1.30 o'clock p. m. the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

(At 2.30 o'clock p. m. the committee reassembled, pursuant to the taking of the recess, Senator Furnifold McL. Simmons presiding.)

The CHAIRMAN. We had not quite finished the hearing on Title VI, concerning automobiles. Is there anybody who desires to be heard on the subject of motorcycles and automobile, motorcycle, and bicycle tires? That is another subject under this subsection. Is there anybody who desires to discuss the tax on tires? If not, then the hearing upon the subject of automobiles and the other things in subsection A will be considered as closed.

ADDITIONAL BRIEFS RELATING TO AUTOMOBILES FILED WITH THE COMMITTEE.

PROPOSED 5 PER CENT TAXATION ON THE SALE PRICE OF CARS AND ITS RELATION TO THE MANUFACTURERS OF MOTORS, PARTS, AND ACCESSORIES.

To the Members of Congress:

Recent referendum votes by the 260 members of the Motor and Accessory Manufacturers Association conclusively prove that they are in favor of preferential delivery of their products to the Government at reasonable profit; in favor of conscription; in favor of shouldering their share of just taxation; in favor of universal taxation on stamps, checks, commercial paper, etc., which

would be borne by all citizens of the United States; but that the association is opposed to unjust and discriminating tax on the automobile industry.

The tax of 5 per cent proposed to be levied upon the automobile manufacturer is certain to seriously affect all manufacturers of motors, parts, and accessories. No automobile manufacturer in the United States manufactures his car complete. Members of the Motor & Accessory Manufacturers Association manufacture the component parts of all automobiles, trucks, tractors, airplanes, bicycles, motorcycles, and motor boats made in the United States, so it can be readily seen that any taxation imposed upon the motor-car manufacturer directly affects the manufacturer of motors, parts, and accessories.

A very large percentage of parts, such as frames, springs, magnetos, etc., are built upon specifications furnished to the parts manufacturer by the maker of the complete car. Excessive taxation on the complete motor-car manufacturer will unquestionably eliminate many of them from business, which in turn, will react on the parts makers with whom they are doing business. In consequence, thousands of employees, both men and women, will be thrown out of work.

Parts made for one manufacturer can not be resold to another manufacturer, as these parts would not fit and, consequently, these parts would be a total loss to the parts manufacturer. No motor-car manufacturer makes his spark plugs, wheels, tires, magnetos, and various other component parts. A great many motor-car manufacturers assemble into the complete car those parts furnished him by members of the Motor & Accessory Manufacturers. Some motor-car manufacturers make their own frames, while others do not. Some make their own motors, but the majority are furnished by the motor manufacturers.

While it is impossible to furnish exact figures of total capitalization, gross volume of annual business, number of persons employed, and the gross weekly pay rolls, it may be stated that the capitalization of the 266 members of the association approximates $1,000,000,000.

The number of persons employed, both men and women, will easily reach 650,000. In our membership are organizations employing from ten to twenty-five thousand persons, paying weekly salaries ranging from $138.08 to approximately $400,000. The gross annual business of these organizations varies from $36,013.36 to $100,000,000. These figures do not by any means show actual net profits, which, by the way, do not compare with what they were prior to the war.

The motor and parts business has been compelled to increase its costs for labor and materials, due to increasing prices in raw materials and the scarcity of labor. Forgings, leather, sheet steel, steel tubing, iron castings, steel castings, aluminum castings, bearings, etc., have all increased in price, thus forcing the maker of motors, parts, and accessories to charge the complete automobile manufacturer more than was necessary prior to the war. Many makers of motors, parts, and accessories are not making a legitimate profit.

It is very doubtful whether the automobile buying public would absorb this increased tax as the price of automobiles, prior to this proposed taxation, has been increased in many instances two and three times. Automobiles are now selling considerably above normal price, all of which has a tendency to curtail production. Such a tax might be possible when prices were being reduced, but to-day when an $800 car is selling for $1,050, it would not seem that there is a possible chance of charging this additional 5 per cent to the consumer.

Members of this association feel that there could not have been a more unfortunate time to have the price of automobiles increased than at the present. Retrenchments are being made in the purchase of automobiles throughout the country. Thousands of owners of used cars who contemplated buying new machines are content with the old model for a year or perhaps longer. Already production is being curtailed from 25 to 40 per cent by many manufacturers, and others will have to follow in their wake. As reduction of output is increased, manufacturing costs inevitably increase. Quantity production of motors, parts, and accessories as well as the complete motor car has always been a predominating feature in the retail sales price. The 266 manufacturers allied with the Motor & Accessory Manufacturers' Association petition you to give unusual consideration to the above facts and ask that you do not unjustly overburden the motor-car industry with taxation.

Respectfully submitted.

MOTOR AND ACCESSORY MANUFACTURERS' ASSOCIATION.

A CAR FOR EVERY 29 PERSONS IN THE UNITED STATES—3,541,738 AUTOMOBILES AND TRUCKS REGISTERED IN 1916.

Cars and trucks in United States Jan. 1, 1917; all duplicate registrations deducted.

State	Cars and trucks	State	Cars and trucks
New York	270,406	Kentucky	31,500
Ohio	252,170	Tennessee	31,400
Illinois	251,300	Oregon	30,917
Pennsylvania	230,048	Maine	28,951
California	212,918	Montana	24,585
Texas	197,687	Alabama	22,354
Iowa	172,791	Rhode Island	21,406
Michigan	159,639	Mississippi	20,474
Indiana	139,138	West Virginia	20,437
Minnesota	137,500	South Carolina	19,000
Massachusetts	136,790	Louisiana	16,800
Wisconsin	117,603	Arkansas	14,704
Kansas	114,364	New Hampshire	14,338
Missouri	107,805	Vermont	14,251
Nebraska	101,201	Florida	14,220
New Jersey	75,108	Utah	13,507
Washington	62,546	District of Columbia	13,118
Connecticut	56,048	Idaho	12,996
Oklahoma	52,718	Arizona	12,122
Georgia	45,775	New Mexico	8,028
South Dakota	44,271	Delaware	7,520
Colorado	44,180	Wyoming	7,125
North Dakota	41,701	Nevada	4,609
Virginia	35,426		
North Carolina	35,150	Total	3,541,738
Maryland	33,364		

Increase in registration.

State.	Increase in cars.	Per cent increase.	State.	Increase in cars.	Per cent increase.
Pennsylvania	79,919	53	Montana	10,063	69
Ohio	72,412	40	Mississippi	8,974	78
Illinois	69,010	38	Alabama	8,556	69
New York	66,562	31	New Jersey	7,552	11
Texas	59,880	43	West Virginia	7,181	54
California	49,117	30	Oregon	7,159	30
Massachusetts	47,657	53	Arkansas	6,683	83
Minnesota	45,671	50	Louisiana	5,920	54
Michigan	44,794	39	Idaho	5,903	83
Indiana	42,223	44	Maryland	5,726	27
Nebraska	42,061	71	Utah	5,513	69
Kansas	39,408	53	Rhode Island	5,044	31
Wisconsin	36,272	45	Arizona	4,802	65
Iowa	32,983	24	South Carolina	4,500	31
Missouri	31,403	41	Tennessee	4,134	15
Oklahoma	27,103	106	New Hampshire	3,519	32
Washington	25,641	69	Wyoming	3,149	79
Georgia	21,716	90	New Mexico	3,081	68
Colorado	17,569	65	District of Columbia	2,918	28
Connecticut	17,008	35	Vermont	2,752	24
North Dakota	17,083	69	Delaware	2,596	53
South Dakota	14,935	50	Nevada	2,432	111
Virginia	14,069	66	Florida	1,097	84
North Carolina	13,990	65			
Kentucky	12,000	61	Total	1,070,143	
Maine	10,351	55	Average increase		44

Registration and population.

State.	Population July 1, 1916, census.	Cars and trucks.	Population per car.
Iowa	2,220,321	172,791	13
Nebraska	1,271,375	101,201	13
California	2,938,651	212,918	14
Kansas	1,829,545	114,364	16
South Dakota	698,500	44,271	16
Minnesota	2,279,093	137,500	17
North Dakota	739,201	41,761	18
Arizona	255,514	12,122	19
Michigan	3,051,851	159,639	19
Montana	459,494	24,585	19
Indiana	2,816,817	139,138	20
Ohio	5,150,356	252,179	20
Wisconsin	2,500,350	117,603	21
Colorado	962,060	44,180	22
Connecticut	1,244,479	56,018	22
Texas	4,429,566	197,687	22
Nevada	106,734	4,609	23
Wyoming	179,559	7,125	25
Illinois	6,152,257	251,300	25
Washington	1,534,221	62,546	25
Vermont	363,609	14,251	26
Maine	772,459	28,951	27
Massachusetts	3,719,156	136,790	27
Oregon	835,741	30,917	27
Delaware	213,380	7,520	28
District of Columbia	363,980	13,118	28
Rhode Island	614,315	21,406	29
New Hampshire	442,506	14,338	31
Missouri	3,410,692	107,865	32
Utah	434,083	13,507	32
Idaho	428,586	12,906	33
Pennsylvania	8,522,017	230,648	37
New York	10,273,375	279,406	37
New Jersey	2,918,017	75,108	39
Maryland	1,362,807	33,364	41
Oklahoma	2,202,081	52,718	42
New Mexico	410,283	8,078	50
Virginia	2,192,019	35,426	62
Georgia	2,856,065	45,775	62
Florida	893,493	14,220	63
North Carolina	2,402,738	35,150	68
West Virginia	1,386,038	20,437	68
Tennessee	2,288,004	31,400	73
Kentucky	2,379,639	31,500	76
South Carolina	1,625,475	19,000	86
Mississippi	1,951,674	20,474	95
Alabama	2,332,608	22,354	104
Louisiana	1,829,139	16,800	108
Arkansas	1,739,723	14,704	118
Total	102,017,312	3,541,728	....
Average for United States	....	....	29

Dealers, garages, machine shops, and supply houses in the United States.

State.	Dealers.	Garages.	Machine shops.	Companies having supply department.	Supplies exclusively.	Total.
Alabama	172	109	74	37	35	278
Arizona	86	82	51	24	12	152
Arkansas	174	96	50	29	18	245
California	1,096	1,211	730	200	151	2,032
Colorado	346	312	177	80	22	520
Connecticut	394	431	211	50	70	713
Delaware	65	62	27	11	5	90
District of Columbia	57	56	36	8	24	140
Florida	246	272	163	64	45	464
Georgia	315	266	123	33	46	549
Idaho	151	100	53	23	19	207
Illinois	1,857	1,645	968	390	131	2,989
Indiana	984	795	409	247	65	1,497
Iowa	1,619	1,322	681	390	64	2,196
Kansas	986	774	380	266	33	1,445
Kentucky	291	230	82	62	24	413
Louisiana	120	67	45	31	18	170
Maine	279	262	124	80	19	456
Maryland	222	242	125	75	36	403
Massachusetts	771	828	421	180	141	1,520
Michigan	986	822	319	132	88	1,535
Minnesota	1,155	833	458	271	50	1,550
Mississippi	133	84	50	40	13	193
Missouri	810	639	413	222	81	1,310
Montana	240	205	117	60	14	345
Nebraska	810	647	285	218	29	1,001
Nevada	57	52	28	19	4	84
New Hampshire	192	214	107	50	10	319
New Mexico	102	73	12	33	78	223
New Jersey	621	844	111	192	6	1,170
New York	2,003	2,217	1,172	456	321	3,735
North Carolina	306	233	111	85	21	421
North Dakota	537	339	198	119	9	703
Ohio	931	1,347	542	425	172	2,589
Oklahoma	386	311	125	136	27	581
Oregon	205	231	130	49	30	315
Pennsylvania	1,677	1,682	776	452	113	2,673
Rhode Island	85	141	91	16	19	262
South Carolina	156	113	58	48	19	248
South Dakota	412	308	155	35	7	584
Tennessee	188	136	75	20	40	285
Texas	626	488	267	47	87	1,059
Utah	88	62	33	15	15	143
Vermont	187	156	83	33	11	286
Virginia	230	158	111	41	44	391
Washington	356	318	168	25	51	599
West Virginia	199	143	52	24	13	246
Wisconsin	1,016	874	410	135	47	182
Wyoming	76	56	37	13	2	103
Hawaii	6	7	3	....	1	9
West Indies	25	20	5	1	1	32
Canada	854	760	358	3	95	1,252
Mexico	8	11	3	1	2	15
Total	25,924	23,686	12,171	5,675	2,503	40,912

Distribution of car, truck, and engine manufacturers in the United States.

State.	Automobiles.	Commercial vehicles.	Engines.	Total.
California	4	14	....	18
Colorado	1	....	....	1
Connecticut	4	3	2	8
Delaware	....	....	....	....
District of Columbia	....	1	....	1
Georgia	....	2	....	2
Illinois	23	43	4	62
Indiana	26	12	5	39
Iowa	1	11	....	11
Kansas	1	1	....	2
Kentucky	2	3	....	4
Louisiana	1	1	....	2
Maine	....	1	....	1
Maryland	2	2	....	2
Massachusetts	7	14	....	17
Michigan	47	43	14	99
Minnesota	3	36	....	37
Missouri	5	9	....	13
Nebraska	1	2	....	3
New Hampshire	....	1	....	1
New Jersey	3	7	....	10
New York	22	43	6	65
North Carolina	....	1	....	5
Ohio	34	48	5	75
Oregon	1	....	....	1
Pennsylvania	13	27	7	42
Rhode Island	....	1	....	1
Texas	1	1	....	2
Virginia	1	1	....	2
Washington	2	5	....	5
West Virginia	1	2	....	3
Wisconsin	6	14	7	25
Canada	19	15	1	27
Total	231	364	51	575

ORPHAN CAR PARTS MAKERS.

The following is a list of 241 cars which are no longer produced by the original manufacturers, and name and address of the concerns which furnish parts:

Abbott: Consolidated Car Co., Detroit; Puritan Machine Co., Detroit; Jos. C. Gorey & Co., New York; Abbott-Detroit Parts Corporation, New York.

Acme: Puritan Machine Co., Detroit.

Aerocar: Auto Parts Co., Chicago; Puritan Machine Co., Detroit.

Alco: International Motor Co., New York; Puritan Machine Co., Detroit; American Locomotive Co., Providence, R. I.; Alco Service Co., Philadelphia; Rand & Chandler, Los Angeles, Cal.

Alden-Sampson: Standard Motor Parts Co., New Castle, Ind.

Allen-Kingston: New Departure Co., Bristol, Conn.

Allis-Chalmers: Puritan Machine Co., Detroit.

Alpena: Puritan Machine Co., Detroit.

American: Levene Motor Co., Philadelphia, Pa.; American Motor Parts Co., Indianapolis; V. A. Longaker Co., Indianapolis; Puritan Machine Co., Detroit; Burt Motor Car Co., Los Angeles, Cal.

American Mors: St. Louis Car Co., St. Louis.

American Truck: Auto Parts Co., Chicago.

Amplex: Gillette Motors Co., Mishawaka, Ind.

Anchor: Anchor Buggy Co., Cincinnati.

Auhut: Puritan Machine Co., Detroit: Auto Parts Co., Chicago.

Ardsley: Ardsley Motor Car Co., Yonkers, N. Y.

Argo: Puritan Machine Co., Detroit.

Atlantic: Puritan Machine Co., Detroit.

Atlas: Auto Parts & Repair Co., Springfield, Mass.; Puritan Machine Co., Detroit; Jos. C. Gorey, New York City.

Autocar: Autocar Co., Ardmore, Pa.

Babcock: Babcock Manufacturers' Supply Co., Watertown, N. Y.; Puritan Machine Co., Detroit.

Badger: Schultz & Harder, Columbus, Wis.; Puritan Machine Co., Detroit.

Barnes: Auto Parts Manufacturing Co., Detroit; Puritan Machine Co., Detroit.
Benham: Puritan Machine Co., Detroit.
Bergdoll: Louis J. Bergdoll Co., Philadelphia; Levene Motor Co., Philadelphia; Jos. C. Gorey, New York City.
Berkshire: E. B. Belcher, Cambridge, Mass.; Berkshire Motor Co., Pittsfield, Mass.; Puritan Machine Co., Detroit.
Berliet: American Locomotive Co., Providence, R. I.
Bessemer: Robt. M. Cutting Co., Chicago.
Black Crow: Black Manufacturing Co., Chicago; Crow Motor Car Co., Elkhart, Ind.
Blomstrom: Auto Parts Co., Detroit; Puritan Machine Co., Detroit.
Borland: Puritan Machine Co., Detroit.
Briggs-Detroiter: Puritan Machine Co., Detroit.
Brintell: Puritan Machine Co., Detroit.
Brownikar: Hinsdale Electrical Supply Co., Hinsdale, Ill.
Broc Electric: Puritan Machine Co., Detroit.
Brodesser: Puritan Machine Co., Detroit.
Brush: Standard Motor Parts Co., Newcastle, Ind.; Puritan Machine Co., Detroit; Davidson Repairshop, New York, N. Y.
Buffalo Electric: Puritan Machine Co., Detroit.
California: California Auto Co., Los Angeles, Cal.; Puritan Machine Co., Detroit.
Cameron: Cameron Manufacturing Co., New Haven, Conn.
Carhartt: Auto Parts Co., Chicago; Puritan Machine Co., Detroit.
Carnation: Carnation Motor Car Co., Detroit; Auto Parts Co., Chicago; Puritan Machine Co., Detroit; K. C. Auto Parts Co., Kansas City, Mo.
Cartercar: Puritan Machine Co., Detroit.
Carthage: Puritan Machine Co., Detroit.
Cavac: Puritan Machine Co., Detroit.
Century: Puritan Machine Co., Detroit.
Chadwick: Chadwick Engineering Works, Pottstown, Pa.
Chief: Auto Parts Manufacturing Co., Detroit; Chief Motor Co., Detroit.
Cino: Haberer & Co., Cincinnati.
Cinco: Puritan Machine Co., Detroit.
Clark: Clark Motor Car Co., Shelbyville, Ind.; Meteor Motor Car Co., Piqua, Ohio; Clark Auto Co., Atlanta, Ga.; Puritan Machine Co., Detroit; Amercan Motorist Parts Co., Indianapolis.
Clark-Carter: Cutting Motor Car Co., Jackson, Mich.; L. C. Erbes, Waterloo, Iowa; Puritan Machine Co., Detroit; Robt. M. Cutting Co., Chicago.
Cleveland: Western Motor Car Co., Cleveland, Ohio; Garford Motor Truck Co., Lima, Ohio.
Coates-Goshen: Coates-Goshen Auto Co., Goshen, N. Y.; Miller Car Co., Goshen, N. Y.
Colby: A. O. Smith, Milwaukee, Wis.
Colburn: Colburn Automobile Co., Denver, Colo.; Erickson & Stalnaker, Denver, Colo.; Puritan Machine Co., Detroit.
Colley: Puritan Machine Co., Detroit.
Columbia: Columbia Auto Repair Co., Hartford, Conn.; Standard Motor Parts Co., Newcastle, Ind.
Columbus Electric: New Columbus Buggy Co., Columbus, Ohio.
Connersville: Puritan Marchine Co., Detroit.
Continental: Puritan Machine Co., Detroit.
Corbin: Corbin Motor Vehicle Co., New Britain, Conn.
Corbitt: Puritan Machine Co., Detroit.
Correja: J. C. Gorey & Co., New York.
Courier: Standard Motor Parts Co., Newcastle, Ind.; Puritan Machine Co., Detroit.
Courier-Clermont: Standard Motor Parts Co., Newcastle, Ind.
Craig-Toledo: A. W. Colter, Toledo; Puritan Machine Co., Detroit.
Crescent: Northway Auto Parts & Sales Co., Cincinnati; Puritan Machine Co., Detroit.
Cricket: Puritan Machine Co., Detroit.
Crow: Black Manufacturing Co., Crow M. C. Co., Elkhart, Ind.; Puritan Machine Co., Detroit.
Croxton: Auto Parts Co., Chicago; Puritan Machine Co., Detroit.
Croxton-Keeton: K. C. Auto Parts Co., Kansas City, Mo.

Cutting: Puritan Machine Co., Detroit; Harris Bros. Co., Chicago.
Dart: Puritan Machine Co., Detroit.
Dayton: Puritan Machine Co., Detroit.
Deal: Auto Parts Co., Chicago.
Dearborne-Detroit: Hawn Motor Car Co.
De Luxe: Puritan Machine Co., Detroit.
De Mot: Puritan Machine Co., Detroit.
De Tamble: American Motors Parts Co., Indianapolis; Puritan Machine Co., Detroit; De Tamble Motors Co., Anderson, Ind.
Dragon: Philadelphia Machine Works, Philadelphia.
Duer: Chicago Coach & Carriage Co., Chicago.
Durocar: Puritan Machine Co., Detroit.
Eclipse: Kruegar Motor Car Co., Milwaukee; Frank Toepfer's Sons, Milwaukee.
Edwards: Edwards Motor Car Co., Long Island City, N. Y.; Puritan Machine Co., Detroit.
Electric Vehicle: Maxwell Briscoe Motor Co., Long Island City, N. Y.
Elk: Puritan Machine Co., Detroit.
Elmore: Auto Parts Co., Chicago; Puritan Machine Co., Detroit; Standard Motor Parts Co., Newcastle, Ind.
Evertt: Holt-Chandler, Long Island City, N. Y.
Everitt: Maxwell Motor Sales, Newcastle, Ind.; Puritan Machine Co., Detroit.
Ewing: Jos. C. Gorey, New York; Puritan Machine Co., Detroit; L. E. Ewing, Cleveland, Ohio.
F. A. L.: Puritan Machine Co., Detroit; Auto Parts Co., Chicago; K. C. Motor Parts Co., Kansas City, Mo.
Findley: L. E. Ewing, Cleveland.
Firestone Columbus: Puritan Machine Co., Detroit; New Columbus Buggy Co., Columbus, Ohio.
Flanders: Puritan Machine Co., Detroit; Studebaker Corporation, Detroit.
Fuller: Jackson Automobile Co., Jackson, Mich.
Gaeth: Gaeth Motor Car Co., Cleveland.
Garford: Elyria Belting & Machinery Co., Elyria, Ohio; Garford Motor Truck Co., Lima, Ohio; Puritan Machine Co., Detroit.
G. J. G.: Puritan Machine Co., Detroit.
Grabowsky: Puritan Machine Co., Detroit; Jos. C. Gorey, New York City.
Gramm: Garford Motor Truck Co., Lima, Ohio; Puritan Machine Co., Detroit.
Gleason: Bauer Machine Works Co., Kansas City, Mo.
Great Smith: Bauer Machine Works Co., Kansas City, Mo.; Smith Automobile Co., Topeka, Kans.
Great Western: Great Western Auto Co., Peru, Ind.
Grout: A. F. Kirkpatrick, Orange, Mass.; Puritan Machine Co., Detroit.
Halladay: A. O. Barley, Streator, Ill.; A. O. Smith Co., Milwaukee; W. J. Burt Motor Car Co., Los Angeles.
Hart-Kraft: Quincy Engine Co., Chambersburg, Pa.; Petrie & Morganthall, Greencastle, Pa.
Havers: Puritan Machine Co., Detroit; Jos. C. Gorey, New York.
Henderson: Henderson Motor Car Co., Detroit; Auto Parts Co., Chicago; Puritan Machine Co., Detroit.
Henry: A. O. Smith Co., Milwaukee; Jos. C. Gorey, New York; Puritan Machine Co., Detroit; Muskegon Auto Co., Muskegon, Mich.
Herreshoff: American Motor Parts Co., Indianapolis; Puritan Machine Co., Detroit; Levene Motor Co., Philadelphia; Jos. C. Gorey, New York.
Hewitt: International Motor Co., New York.
Holsman: Mercury Manufacturing Co., Chicago.
Houpt: New Departure Manufacturing Co., Bristol, Conn.
Imperial: Imperial Automobile Co., Detroit.
Indiana: Puritan Machine Co., Detroit.
Jenkins: Puritan Machine Co., Detroit.
Jewell: Croxton Motor Car Co., Washington, Pa.
Johnson: Johnson Service Co., Milwaukee.
Keeton: Keeton Motor Car Co., Detroit; Puritan Machine Co., Detroit; Car-Nation Motor Car Co., Detroit.
Kelly-Springfield: Puritan Machine Co., Detroit.
Kelsey: Auto Parts & Repair Co., Boston; Kelsey Motor Co., Hartford, Conn.
Kline: Puritan Machine Co., Detroit.
Knox: Alco Service Co., Philadelphia, Pa.

Komet: Elkhart Motor Car Co., Elkhart, Ind.; Keith Bros., Elkhart, Ind.
Krall: Puritan Machine Co., Detroit.
Krit: Krit Motor Car Co., Detroit; Puritan Machine Co., Detroit; Auto Parts Co., Chicago; Motor Corporation, Philadelphia, Pa.
Lansden: Lansden Co. (Inc.), Brooklyn, N. Y.
Lewis: American Motor Parts Co., Indianapolis.
Lexon: Puritan Machine Co., Detroit.
Liberty: Belmont Auto Manufacturing Co., New Haven, Conn.
Lion: American Motors Parts Co., Indianapolis; Auto Parts Co., Chicago; Puritan Machine Co., Detroit; K. C. Auto Parts Co., Kansas City, Mo.; Lion Motor Parts Co., Philadelphia, Pa.
Little Six: Puritan Machine Co., Detroit.
Logan: Garford Motor Truck Co., Lima, Ohio; Gramm Motor Truck Co., Lima, Ohio.
Lozier: Puritan Machine Co., Detroit; Philadelphia Machine Works, Philadelphia, Pa.
L. P. C.: American Motors Parts Co., Indianapolis; Auto Parts Co., Chicago.
McIntyre: Puritan Machine Co., Detroit.
Marathon: Marathon Service Co., Nashville, Tenn.; Puritan Machine Co., Detroit.
Marion: Puritan Machine Co., Detroit; Auto Parts Co., Chicago; American Motors Parts Co., Indianapolis; Marion Auto Service Co., New York City; K. C. Auto Parts Co., Kansas City, Mo.; Motor Car Co., Chicago.
Marron: Puritan Machine Co., Detroit.
Marquette: Puritan Machine Co., Detroit.
Marvel: Puritan Machine Co., Detroit.
Mason: Mason Motor Car Co., Detroit; Puritan Machine Co., Detroit.
Mather: Puritan Machine Co., Detroit.
Matheson: Matheson Auto Co., Wilkes-Barre, Pa.
Maxwell (Old): Standard Motor Parts Co., Newcastle, Ind.; Puritan Machine Co., Detroit; Auto Gear and Parts Co., Chicago.
Maytag-Mason: Mason Motor Car Co., Detroit; Puritan Machine Co., Detroit.
Merchant: Puritan Machine Co., Detroit.
Meteor: Meteor Motor Car Co., Piqua, Ohio.
Michigan: Michigan Motor Car Co., Detroit; Puritan Machine Co., Detroit; Philadelphia Machine Works, Philadelphia; Dauch Manufacturng Co., Sandusky, Ohio; Jos. C. Gorey, New York City; K. C. Auto Parts Co., Kansas City, Mo.
Middleby: Puritan Machine Co., Detroit; H. Goldberg, Philadelphia; A. J. Levengood, Reading, Pa.
Midland: Levene Motor Co., Philadelphia; Puritan Machine Co., Detroit; Auto Parts Co., Chicago; K. C. Auto Parts Co., Kansas City, Mo.; Midland Motor Co., Philadelphia, Pa.
Mier: Mier Carriage & Buggy Co., Ligonier, Ind.
Miller: Puritan Machine Co., Detroit.
Milwaukee: Harris Bros. Co., Chicago.
Monarch: Puritan Machine Co., Detroit.
Mora: Jos. C. Gorey, New York; Philadelphia Machine Works, Philadelphia.
Moyer: Puritan Machine Co., Detroit.
Nance: Jos. C. Gorey, New York.
Northern: Puritan Machine Co., Detroit.
North Western: Puritan Machine Co., Detroit.
Nyberg: Puritan Machine Co., Detroit; Levene Motor Co., Philadelphia; V. A. Longaker, Indianapolis.
Ohio: Northway Auto Parts & Sales Co., Cincinnati; A. O. Smith Co., Milwaukee; Puritan Machine Co., Detroit.
Oliver: Oliver Motor Truck Co., Detroit; Puritan Machine Co., Detroit.
Omaha: A. O. Smith Co., Milwaukee; Puritan Machine Co., Detroit.
Orient: Metz Co., Waltham, Mass.
Orson: Drenco Machine Co., New York City.
Otto-Mobile: Holly Motor Co., Mt. Holly, N. J.
Overholt: A. O. Smith Co., Milwaukee.
Owen: Puritan Machine Co., Detroit.
Packers: Puritan Machine Co., Detroit.
Palmer-Singer: Singer Motor Co., Long Island City, N. Y.; Puritan Machine Co., Detroit; A. O. Smith Co., Milwaukee; Drenco Machine Co., New York City.
Parry: Motor Car Manufacturing Co., Indianapolis; Pathfinder Co., Indianapolis, Ind.

Peabody: Puritan Machine Co., Detroit.
Penn: Puritan Machine Co., Detroit; Buda Co., Harvey, Ill.; Levene Motor Co., Philadelphia.
Pennsylvania: Puritan Machine Co., Detroit; Central Auto Supply Co., Philadelphia; Dougherty, Philadelphia.
Peru: Puritan Machine Co., Detroit.
Petrel: Filer & Stowell Co., Milwaukee.
Pierce-Racine: Puritan Machine Co., Detroit; Pierce Motor Co., Racine, Wis.
Pioneer: Pioneer Car Manufacturing Co., Oklahoma City, Okla.
Pittsburgh: Chester Engineering Co., Chester, Pa.
Pope-Hartford: Hartford Motor Co., Hartford, Conn.; Walker & Barkman Manufacturing Co., Hartford, Conn.; Puritan Machine Co., Detroit; Boulevard Motor Co., Cambridge, Mass.; J. Rosenfeld, Boston.
Pope-Toledo: Auto Salvage Parts Co., Chicago.
Pope-Tribune: Pope-Hartford Manufacturing Co., Hartford, Conn.
Poss: Puritan Machine Co., Detroit.
Pratt-Elkhart: Elkhart Carriage & Motor Car Co., Elkhart, Ind.
Pungs-Finch: Pungs-Finch Auto & Gas Engine Co., Detroit.
Queen: Puritan Machine Co., Detroit.
Randolph: Randolph Motor Truck Co., Flint, Mich.; De Kalb Wagon Co., De Kalb, Ill.
Rainier: Puritan Machine Co., Detroit; Garford Motor Truck Co., Lima, Ohio.
Rapid: Puritan Machine Co., Detroit.
Rayfield: Holmes Garage, Danville, Ill.
R. C. H.: R. C. H. Corporation, Detroit; Joseph C. Gorey, New York; W. J. Burt Motor Car Co., Los Angeles, Cal.; Puritan Machine Co., Detroit.
Reading: H. Goldberg, Reading, Pa.
Reed: Puritan Machine Co., Detroit.
Reliable-Dayton: Puritan Machine Co., Detroit.
Reliance: Puritan Machine Co., Detroit.
Republic: Republic Motor Car Co., Youngstown, Ohio.
Ricketts: Ricketts Auto Works, Detroit.
Rider-Lewis: Levene Motor Co., Philadelphia; Puritan Machine Co., Detroit; V. A. Longaker, Indianapolis; Auto Parts Manufacturing Co., Detroit.
Royal Tourist: Puritan Machine Co., Detroit.
Sampson: Standard Motor Parts Co., Newcastle, Ind.; Puritan Machine Co., Detroit.
Sandusky: Dauch Manufacturing Co., Sandusky, Ohio.
Schacht: General Auto Repairs Co., Cincinnati; Puritan Machine Co., Detroit.
Seldon: Puritan Machine Co., Detroit.
S. G. V.: Drenco Machine Co., New York City; New Jersey Machinery Co., Newark, N. J.
Sibley: Sibley Motor Car Co., Detroit.
Sommer: Sommer Motor Co., Detroit.
Southern: Southern Auto & Equipment Co., Atlanta, Ga.; Puritan Machine Co., Detroit.
Spaulding: Puritan Machine Co., Detroit.
Speedwell: Puritan Machine Co., Detroit; Green Engineering Co., Dayton, Ohio.
Springfield: R. Hass Electrical & Manufacturing Co., Springfield, Ill.
Standard Six: St. Louis Car. Co., St. Louis, Mo.; Puritan Machine Co., Detroit.
Star: Miler Carriage & Buggy Co., Ligonier, Ind.
Staver: Puritan Machine Co., Detroit.
Sterling: Keith Bros., Elkhart, Ind.
Stevens-Duryea: Walk Hill Garage, Mattapan, Mass.
Stoddard-Dayton: Standard Motor Parts Co., Newcastle, Ind.; Puritan Machine Co., Detroit; Dayton Auto Repair Co., New York City.
Suburban: Puritan Machine Co., Detroit.
Sultan: Joseph C. Gorey, New York City.
Thomas: E. R. Thomas Motor Car Co., Buffalo, N. Y.; Puritan Machine Co., Detroit; W. H. Jahns, Los Angeles, Cal.; J. Rosenfeld, Boston.
Tincher: Chicago Coach & Carriage Co., Chicago.
Tourine: Joseph C. Gorey, New York.
Tourist: W. J. Burt Motor Car Co., Los Angeles, Cal.
Traveler: Traveler Automobile Co., Evansville, Ind.
Twombly: Driggs-Seabury Ordnance Co., Sharon, Pa.

Van: L. C. Erbes, Waterloo, Iowa.
Van Dyke: Puritan Machine Co., Detroit.
Victor-Thomas-Detroit: Puritan Machine Co., Detroit.
Wagenhalls: Riverside Machinery Depot, Detroit.
Wahl: Harris Bros. Co., Chicago; Barley Manufacturing Co., Streator, Ill.; Puritan Machine Co., Detroit.
Waltham-Orient: Metz Co., Waltham, Mass.
Warren: Puritan Machine Co., Detroit.
Washington: Puritan Machine Co., Detroit.
Waverly Electric: V. A. Longaker Co., Indianapolis.
Wayne: Auto Parts Manufacturing Co., Detroit; Puritan Machine Co., Detroit.
Welch-Detroit: Puritan Machine Co., Detroit, Mich.
Welch-Marquette: Oldsmobile Co., Chicago, Ill.
Welch-Pontiac: Puritan Machine Co., Detroit.
Whiting: Chevrolet Motor Co. of Michigan, Flint, Mich.; Puritan Machine Co., Detroit.
Woodworth: Puritan Machine Co., Detroit.
Yale: Consolidated Manufacturing Co., Toledo, Ohio.
Zip: H. A. Huebotter, Davenport, Iowa.

MOTOR-VEHICLE MANUFACTURING COMPANIES THAT HAVE FAILED OR RETIRED FROM THE BUSINESS SINCE 1912.

"A" Automobile Co. of California, San Francisco, Cal.
Abbott Motor Co., Detroit, Mich. (succeeded by Consolidated Car Co.).
Abell Auto. Tr. & Manufacturing Co., Newark, N. J.
Abendroth & Root Manufacturing Co., Newburgh, N. Y.
Abresch & Co., Milwaukee, Wis. (retired from automobile business).
Acme Motor Car Co., Reading, Pa.
Acorn Motor Car Co., Cincinnati, Ohio.
Adams Bros. Co., the, Findlay, Ohio (reorganized as Adams Truck, Foundry & Machine Co.)
Adams Co., the, Dubuque, Iowa.
Aerocar Co., Detroit, Mich.
Akron Motor Car & Truck Co., Akron, Ohio.
Allen Kingston Motor Car Co., New York, N. Y.
Alpena Motor Car Co., Alpena, Mich.
Amalgamated Motor Corporation, Alhambra, Cal.
American Cycle Car Co., Bridgeport, Conn. (succeeded by Trumbrill Motor Car Co.).
American Commercial Truck (Inc.), Kingston, N. Y.
American Eagle Motor Car Co., Brooklyn, N. Y.
American Locomotive Co., New York, N. Y. (retired).
American Manufacturing Co., Chicago, Ill. (succeeded by Partin Manufacturing Co.).
American Motor Co., Brockton, Mass.
American Motor Truck Co., Detroit, Mich.
American Motor Truck Manufacturing Co., San Francisco, Cal.
Americans Motors Co., Indianapolis, Ind.
American Steam Truck Co., Saginaw, Mich.
American Voiturette Co., Detroit, Mich.
Amplex Motor Car Co., Mishawaka, Ind. (reorganized as Amplex Manufacturing Co.).
Augus Auto. Co., Nelson, Nebr.
Anbut Motor Car Co., Detroit, Mich.
Argo Electric Vehicle Co., Saginaw, Mich. (succeeded by American Electric Car Co.).
Armore Motor Car Corporation, New York, N. Y.
Atlantic Vehicle Co., Newark, N. J.
Atlas Motor Car Co., Springfield, Mass.
Automatic Registering Machine Co., Jamestown, N. Y.
Auto-Cart Co., Hallowell, Mo.
Auto Motor Co., Columbus, Ohio.
Automobile Cycle Car Co., Detroit, Mich.
Automobile Manufacturing & Engine Co., Traverse City, Mich. (succeeded by Evans Motor Car Co., Nashville, Tenn., also failed).
Auto Tri Manufacturing Co., Buffalo, N. Y.

Babcock Co. (Inc.), H. H., Watertown, N. Y.
Badger Motor Car Co., Columbus, Ohio.
Baker-Bell Motor Co., Philadelphia, Pa.
Bantam Motor Co., Boston, Mass.
Bean, W. M., Malden, Mass.
Behlen Sons & Co., Cincinnati, Ohio.
Bell Locomotive Works, Yonkers, N. Y. (retired from the business).
Bell & Waring Steam Vehicle Co., New York, N. Y.
Bellamore Armored Car & Equipment Co., New York, N. Y.
Belmont Motor Vehicle Co., Castleton, N. Y.
Benham Manufacturing Co., Detroit, Mich.
Benton Motor Car Co., Benton, Ill.
Bergdoll Motor Co., L. J., Philadelphia, Pa.
Berkshire Motors Co., Pittsfield, Mass.
Bertvlet Motor Car Co., Reading, Pa.
Best Manufacturing Co., San Leandro, Cal.
Beyster-Detroit Motor Car Co., Detroit, Mich.
Bingham Manufacturing Co., West Park, Ohio.
Blacker & Co., John H., Chillicothe, Ohio.
Board Motor Truck Co., B. F., Alexandria, Va.
Bond Tri Car Co., Los Angeles, Cal.
Borland-Crannis Co., Chicago, Ill. (succeeded by American Electric Car Co.).
Briggs-Detroiter Co., Detroit, Mich.
Brightwood Motor Manufacturing Co., Springfield, Mass.
Broc Electric Vehicle Co., Cleveland, Ohio (succeeded by American Electric Car Co.).
Bronx Electric Vehicle Co., New York, N. Y.
Brooks Manufacturing Co., Saginaw, Mich. (succeeded by Duryea Manufacturing Co., also out of business).
Brooks Motor Car Co., Buffalo, N. Y.
Brown Commercial Car Co., Peru, Ind.
Brown-Sautter Motor Tr. Co., Newark, N. J.
Brunn's Carriage Manufacturing Co., Buffalo, N. Y.
Buckeye Wagon & Motor Car Co., Dayton, Ohio.
Buehlen, Jr., Motor Truck Co., H. E. Elkhart, Ind.
Buffalo Electric Vehicle Co., Buffalo, N. Y.
Burg Carriage Co., Dallas City, Ill.
Burne Bros., Hagerstown, Md.
Bushnell, G. H., Press Co., Thompsonville, Conn.
Byron Motor Co., Pueblo, Colo.
C. de L. Engineering Works, Nutley, N. J.
Cady Co., Canastota, N. Y.
California Automobile Co., Los Angeles, Cal.
California Motor Car Co., Oakland, Cal. (succeeded by Cole California Car Co., also failed).
Cameron Manufacturing Co., Beverly, Mass. (succeeded by Cameron Manufacturing Co., West Haven, Conn.).
Canton Buggy Co., Canton, Ohio.
Carhartt Auto. Corporation, Detroit, Mich.
Carrier Car Co., Dayton, Ohio.
Carroll Motor Car Co., Strasburg, Pa.
Case Motor Car Co., New Bremen, Ohio.
Cass Motor Truck Co., Port Huron, Mich. (succeeded by Independent Motors Co.).
Catasaqua Motor Car Works, Catasaqua, Pa.
Central Car Co., Connorsville, Ind.
Century Electric Car Co., Detroit, Mich. (succeeded by Century Manufacturing Co.).
Chalfant's Sons, John H., Lenover, Pa.
Champion Motor Car Co., St. Louis, Mo.
Champion Wagon Works, Owego, N. Y.
Chautauqua Motor Co., Dunkirk, N. Y.
Chelsea Manufacturing Co., Newark, N. J.
Chester County Motor Co., Coatesville, Pa.
Church-Field Motor Car Co., Sibley, Mich.
Church Motor Car Co., Chicago, Ill.
Chicago Business Car Co., Chicago, Ill.

Chicago Coach & Carriage Co., Chicago, Ill.
Chicago Commercial Car Co., Chicago, Ill.
Chicago Electric Motor Car Co., Chicago, Ill. (succeeded by Walker Vehicle Co.).
Chicago Motor Wagon Co., Chicago, Ill.
Cino Motor Car Co., Cincinnati, Ohio.
Clark-Carter Co., Jackson, Mich. (succeeded by Cutting Motor Car Co., also out of business).
Clark Motor Car Co., Shelbyville, Ind.
Clark Motor Co., Buffalo, N. Y. (succeeded by Buffalo Electric Vehicle Co., also failed).
Clark Power Wagon Co., Lansing, Mich.
Cleburne Motor Car Manufacturing Co., Cleburne, Tex.
Cleveland Auto Sales & Manufacturing Co., Columbus, Ohio.
Cleveland-Gallon Truck Co., Cleveland, Ohio.
Cleveland Motor Tr. Co., Cleveland, Ohio.
Club Car Co. of America, New York City, N. Y.
Coates Commercial Car Co., Goshen, N. Y.
Cocy-Mitchell Automobile Co., Chicago, Ill. (succeeded by Motor Co.).
Cohoes Automobile Co., Cohoes, N. Y.
Colburn Auto. Co., Denver, Colo.
Colby Motor Co., Mason City, Iowa (succeeded by Standard Motor Co., Minneapolis).
Coleridge Commercial Car Co., Detroit, Mich.
Colonial Electric Car Co., Detroit, Mich.
Columbia Electric Co., the, Knightstown, Ind.
Columbia Motor Car Co., Hartford, Conn.
Columbia Vehicle Co., Washington, D. C.
Columbus Buggy Co., Columbus, Ohio (succeeded by New Columbus Buggy Co.).
Colvin, L. H., Muncie, Ind.
Comet Cycle Car Co., Indianapolis, Ind.
Commercial Motor Car Co., Detroit, Mich.
Commercial Motor Car Co., South Houston, Tex.
Commercial Motor Co., Minneapolis, Minn.
Commercial Motor Truck Construction Co., Newark, N. J.
Commercial Motors Co., Chicago, Ill.
Consolidated Motor Car Co., Cleveland, Ohio.
Consolidated Motor Car Co., Atlanta, Ga.
Continental Engineering Co., Chicago, Ill.
Continental Motors Corporation, Buffalo, N. Y.
Cooper Machine Works, Brooklyn, N. Y.
Corbin Motor Vehicle Co., New Britain, Conn.
Cortland Motor Wagon Co., Pittsfield, Mass.
Covel Manufacturing Co., Benton Harbor, Mich.
Cowles-MacDovell Pneumobile Co., Chicago, Ill. (succeeded by Pneumobile Motor Car Co., Anderson, Ind., also failed).
Crane Motor Car Mo., Bayonne, N. J. (succeeded by Simplex Auto Co., New Brunswick).
Crary Motor Car Co., Detroit, Mich.
Crescent Motor Car Co., Carthage, Mo.
Crescent Motor Co., The, Cincinnati, Ohio.
Crichet Cycle Car Co., Detroit, Mich. (succeeded by Motor Products Co.).
Criterian Motor Car Co., Kent, Ohio.
Crown Commercial Car Co., Louisville, Ky. (succeeded by Hercules Motor Car Co.).
Crown Motor Car Co., Louisville, Ky.
Croxton Motor Car Co., Washington, Pa.
Croxton Motor Co., Cleveland, Ohio.
Cutting Motor Car Co., Jackson, Mich.
Dain Manufacturing Co., Ottumwa, Iowa.
Daniels Motor Car Co., East St. Louis, Ill.
Dauch Manufacturing Co., Sandusky, Ohio.
Davis Flyer Co. (not incorporated), Milwaukee, Wis.
Davis Motor Co., Anderson, Ind.
Day Auto Co., Detroit, Mich.

Dayton Auto Truck Co., Dayton, Ohio (succeeded by Durable Dayton Tr. Co.).
Dayton Cycle Car Co., Joliet, Ill. (succeeded by Crusader Motor Car Co.).
Dayton Electric Car Co., Dayton, Ohio.
Dayton Motor Car Co., Dayton, Ohio (bought by Maxwell Motor Co.).
Deal Motor Vehicle Co., Jonesville, Mich.
Decatur Motor Car Co., Decatur, Ind. (succeeded by Grand Rapids M. T. Co.).
De Cross Cycle Car Co., Cincinnati, Ohio.
De Loach Manufacturing Co., Atlanta, Ga.
De Luxe Motor Car Co., Detroit, Mich.
Denniston Co., Buffalo, N. Y.
De Tamble Motors Co., Anderson, Ind.
Detroit Cyclecar Co., Detroit, Mich.
Detroit River Boat & Car Co., Wyandotte, Mich.
Diamond Motor Car Co., Chicago, Ill.
Dixie Motor Car Co., Frederick, Okla.
Doyle's Sons, Austin, Chicago, Ill.
Dragon Automobile Co., Philadelphia, Pa.
Dunlap Manufacturing Co., Columbus, Ohio.
Duplex Motor Tr. Co., Philadelphia, Pa.
Duquesne Motor Car Co., Pittsburgh, Pa.
Durocar Manufacturing Co., Alhambra, Cal. (succeeded by Amalgamated Motor Corporation, also failed).
Duryea Motor Co., Saginaw, Mich.
Dusseau Fore & Rear Drive Auto Co., Toledo, Ohio.
Eastern Power Trulk Co., Providence, R. I.
Eastern Machine Co., South Easton, Mass.
Eclipse Truck Co., Franklin, Pa.
Economy Car Co., Indianapolis, Ind. (succeeded by International Cycle Car Co., New York City, also failed).
Economy Motor Car Co., Joliet, Ill.
Edgemont Machine Co., Dayton, Ohio.
Edison Electric Vehicle Co., Lawrence, Mass.
Edwards Motor Car Co., Long Island City, N. Y.
Electric Omnibus Co., Troy, N. Y.
Electric Vehicle Co., Louisville, Ky. (bought by Kentucky Wagon Manufacturing Co.).
Elgin Light Car Co., Fenton, Mich.
Elk Motor Truck Co., Charleston, W. Va.
Elkhart Motor Car Co., Elkhart, Ind.
Elmer Auto Corporation, Elkhart, Ind.
Elmore Manufacturing Co., Clyde, Ohio (bought by General Motors Co. and discontinued).
Emerson Contracting Co., New Brunswick, N. J.
Enterprise Machine Co., Chicago, Ill.
Epperson Commercial Truck Co., St. Louis, Mo.
Erwin Motor & Machine Co., Philadelphia, Pa.
Euclid Motor Car Co., New York City, N. Y.
Evans Motor Car Co., Detroit, Mich.
Evarts Machine Co., Hartford, Conn.
Evansville Automobile Co., Evansville, Ind.
Everitt-Metzger-Flanders Co., Detroit, Mich.
Erbank Elec. Trans. Co., Portland, Oreg.
Ex-Cel Motor Tr. Co., Jamesburg, N. J.
F. A. L. Auto Co., Chicago, Ill.
F. S. Motors Co., East Allis, Milwaukee, Wis.
Falcon Cyclecar Co., Staunton, Va.
Fate Co., J. D., Plymouth, Mich.
Fauber, W. H., New York City, N. Y.
Fawick Motor Car Co., Sioux Falls, S. Dak.
Fenton Cyclecar Co., Fenton, Mich. (succeeded by Koppin Motor Car Co., Detroit, also failed).
Findlay Carriage Co., Findlay, Ohio (succeeded by Grant Motor Co).
Findlay Motor Co., Findlay, Ohio.
Fischer Co., C. J., Detroit, Mich.
Flagler Cyclecar Co., Chicago, Ill. (in receiver's hands).

Flanders Electric (Inc.), Pontiac, Mich.
Flanders Manufacturing Co., Chelsea, Mich.
Flanders Motor Co., Detroit, Mich.
Flyer Motor Car Co., Detroit, Mich.
Fort Wayne Auto. Manufacturing Co., Fort Wayne, Ind.
Franklin Boiler Works, Troy, N. Y.
Fuller Power Truck Co., Delphos, Ohio.
C. J. G. Motor Car Co., White Plains, N. Y.
Gage Manufacturing Co., Los Angeles, Cal. (succeeded by Union Car. Co.).
Gaylord Motor Car Co., Gaylord, Mich.
General Industrial & Manufacturing Co., Indianapolis, Ind.
Geneva Auto. Co., Geneva, N. Y.
Grabowsly Power Wagon Co., Detroit, Mich.
Grand Rapids Motor Truck Co., Grand Rapids, Mich. (succeeded by Parcel Post Equipment Co.).
Grant-Lees Machine Co., Cleveland, Ohio.
Great Southern Auto. Co., Birmingham, Ala.
Greyhound Auto Co., Orange, Mass.
Greyhound Cycle Car Co., Toledo, Ohio (succeeded by States Motor Car Co., also out of business.
Grant Automobile Co., Orange, Mass.
Haberer & Co., Cincinnati, Ohio.
James T. Halsey, Philadelphia, Pa.
B. E. Harris, Chicago, Ill.
Hart-Kraft Motor Co., York, Pa.
Hatfield Auto Truck Co., Elmira, N. Y.
Hauber Wagon & Auto Works, St. Marys, Pa.
Havers Motor Car Co., Port Huron, Mich.
Hawkins Cycle Car Co., Xenia, Ohio.
Hayward Wagon Co., Newark, N. J.
Heine-Velox Agency, San Francisco, Cal.
Henderson Motor Car Co., Indianapolis, Ind.
Henry Motor Truck Co., Muskegon, Mich.
Hercules Motor Truck Co., Boston, Mass.
Hercules Motor Truck Co., Detroit, Mich. (succeeded by Alma Motor Truck Co.).
Hercules Motor Truck Co., Grove City, Pa.
Herman Bros., Chicago, Ill. (succeeded by Tulsa Auto. Manufacturing Co.).
Hermes Motor Car Co., Cincinnati, Ohio (succeeded by De Cross Cy Car Co., also failed).
Herreshoff Light Car Co., Troy, N. Y.
Herreschoff Motor Co., Detroit, Mich.
Hexter Motor Truck Co., New York, N. Y. (succeeded by Roland Gas Electric Co., also failed).
Hoff Motor Car Co., La Crosse, Wis.
Holly Motor Co., Mount Holly, N. J.
Horner Handy Wagon Co., Detroit, Mich.
Howard Motor Car Co., Connersville, Ind.
Howe Engine Co., Indianapolis, Ind. (business continued).
Huselton Motor Car Co., Butler, Pa.
Ideal Motor Car Co., Indianapolis, Ind. (succeeded by Stutz).
Imperial Auto. Co., Jackson, Mich. (succeeded by Mutual Motors Co.).
Imperial Electric Motor Co., Philadelphia, Pa.
Independence Motor Co., Hyattsville, Md.
Independent Harvester Co., Plano, Ill.
Indiana Motor & Manufacturing Co., Franklin, Ind. (succeeded by Martindale & Millikan).
International Cycle Car Co., New York City, N. Y.
Inter-State Auto. Co., Muncie, Ind. (still in business).
Ivey Motor Truck Co., Buffalo, N. Y.
J. & M. Motor Car Co., Lawrenceburg Ind.
Jarvis-Huntington Auto. Co., Huntington, W. Va.
Jefferson Motor Car Co., Detroit, Mich.
Jenkins Motor Car Co., Rochester, N. Y.
Jewell Carriage Co., Cincinnati, Ohio.
Joerns-Thiem Motor Car Co., St. Paul, Minn.
Johnson Service Co., Milwaukee, Wis.

Joliet Auto. Truck Co., Joliet, Ill. (succeeded by Doyton Cycle Car Co.).
Jones Cycle Car Co., Malcom, Detroit, Mich.
E-D Motor Co., Boston, Mass.
Kalix Motor Truck Co., Newark, N. J.
Kalamazoo Motor Vehicle Co., Kalamazoo, Mich. (succeeded by Columbia Motor Truck & Trailer Co., Pontiac Mich.).
Kanawha Auto. Truck Co., Charlestown, W. Va. (succeeded by Elk Motor Tr. Co., also failed).
Kansas City Vehicle Co., Kansas City, Mo.
Kaufman Buggy Co., Miamisburg, Ohio.
Keeton Motor Co., Detroit, Mich.
Kenen Manufacturing Co., Long Beach, Cal. (formerly Keenen Motor Truck Co., also failed).
Kendle Motor Car Co., Philadelphia, Pa.
Kenmore Manufacturing Co., Chicago, Ill.
Kimball & Co., Chicago, Ill. (retired).
Kinnear Manufacturing Co., Columbus, Ohio.
Kirby Motor Car Co., Detroit, Mich.
Kline Motor Car Corporation, Richmond, Va., and York, Pa. (resumed).
Knickerbocker Motor Tr. Co., New York City, N. Y.
Knox Auto. Co., Springfield, Mass. (succeeded by Knox Motors Co.).
Kopp Motor Truck Co., Buffalo, N. Y.
Koppin Motor Co., Detroit, Mich.
Kratzer Auto. Co., Allentown, Pa.
Kress & Son, O. F., Lawrence, Mass.
Krickworth Motor Truck Co., Chicago, Ill. (succeeded by the Krick Co.).
Krit Motor Car Co., Detroit, Mich.
L. A. W. Motor Truck Co., Findlay, Ohio.
L-P-C Motor Co., Racine, Wis. (receiver).
Lagerquist Carriage & Auto. Co., Des Moines, Iowa.
Lane Motor Vehicle Co., Poughkeepsie, N. Y.
Lanpher Carriage & Auto. Co., Carthage, Mo.
Lansden Co., Newark, N. J.
La Vigne Cycle Car Co., Detroit, Mich.
Lewis Motor Truck Co., Oakland, Cal.
Lexington Motor Car Co., Connersville, Ind. (succeeded by Lexington-Howard Co.).
Light Commercial Car Co., Marietta, Pa.
Light Motor Truck Co., Detroit, Mich.
Linfrank Motor Manufacturing Works, Brooklyn, N. Y.
Little Motor Car Co., Flint, Mich. (succeeded by Republic Motor Co.).
Lincoln Motor Car Co., Lincoln, Ill.
Lincoln Motor Car Works, Chicago, Ill.
Lincoln Motor Tr. Co., Sacramento, Cal.
Lion Motor Car Co., Adrian, Mich.
Longest Bros. Co., Louisville, Ky.
Los Angeles Cyclecar Co., Los Angeles, Cal.
Los Angeles Motor Truck Manufacturing Co., Los Angeles, Cal.
M. & P. Electric Vehicle Co., Detroit, Mich.
McCord Auto. Co., Chicago, Ill.
McIntyre Co., W. H., Auburn, Ind.
MacInnie Bros., Toledo, Ohio.
Manistee Motor Car Co., Manistee, Mich.
Marathon Motor Works (Inc.), Nashville, Tenn.
Marinette Motor Car Co., Marinette, Wis.
Marion Motor Car Co., Indianapolis, Ind. (succeeded by Mutual Motors Co.).
Marquette Motor Vehicle Co., Chicago, Ill.
Martin-Coulter Co., Pittsburgh, Pa.
Mason Motor Co., Waterloo, Iowa.
Matheson Auto Co., Wilkes-Barre, Pa.
Maxim Tri-Car Manufacturing Co., Port Jefferson, N. Y.
Maxwell Briscoe Motor Co., Tarrytown, N. Y.
Megow Co., C. F., Milwaukee, Wis.
Mechanics Machine Co., Rockford, Ill.
Merchants Auto. Co., Chicago, Ill.
Mercury Cyclecar Co., Detroit, Mich.
Mercury Motor Co., Long Island City, N. Y.

Meteor Motor Car Co., Battendorf, Iowa.
Meteor Auto. Co., Mount Vernon, N. Y.
Metropole Motors Corporation, Port Jefferson, N. Y.
Metropolitan Auto. Co., Chicago, Ill.
Michaelson Motor Truck Co., Minneapolis, Minn.
Michigan Auto. Co., Kalamazoo, Mich.
Michigan Buggy Co., Jackson, Mich.
Michigan Motor Car Co., Kalamazoo, Mich.
Michigan Steam Motor Co., Detroit, Mich.
Middleboro Automobile Exchange, Middleboro, Mass.
Middleby Automobile Co., Reading, Pa.
Midland Motor Car Co., Moline, Ill.
Mier Carriage & Buggy Co., Ligonier, Ind.
Miller Car Co., Detroit, Mich. (now Kosmath Co.).
Miller Machine Co., Defiance, Ohio.
Milwaukee Auto Truck Co., Milwaukee, Wis.
Milwaukee Cycle Car Co., Milwaukee, Wis.
Missouri Motor Car Co., St. Louis, Mo.
Modern Motor Truck Co., St. Louis, Mo.
Monarch Motor Co., Detroit, Mich. (succeeded by Monarch Motor Car Co.).
Moore Motor Truck Co., Philadelphia, Pa.
Moore Motor Truck Co., the, Toledo, Ohio (removed to Waterville, Ohio, out of business).
Moore Motor Truck C., F. L., Los Angeles, Cal. (succeeded by Pacific Metal Pro. Co.).
Mora Power Wagon Co., Cleveland, Ohio.
Morgan Motor Truck Co., Worcester, Mass.
Morse Motor Car Co., Brookline, Mass.
Motokart Co., Tarrytown, N. Y. (reorganized as Motokart Manufacturing Co., New York).
Motor Car Manufacturing Co., Indianapolis, Ind. (succeeded by Pathfinder Co.).
Motor Conveyance Co., Milwaukee, Wis.
Motor Truck Co., St. Paul, Minn.
Motor Vehicle & Marine Construction Co., Sewaren, N. J.
Motor Wagon Co. of Detroit, Detroit, Mich.
Muelhauser Machine Co., Cleveland, Ohio.
Multiplex Manufacturing Co., Berwick, Pa.
Muncie Motor Truck Co., Muncie, Ind.
Nauman Co., Milwaukee, Wis.
Nelson-Brennan-Peterson, Detroit, Mich.
New Columbus Buggy Co., Columbus, Ohio.
New Departure Manufacturing Co., Bristol, Conn.
New Primo Motor Works, Atlanta, Ga.
New York Motor Wagon Works Co., Avondale, N. J.
Newark Automobile Manufacturing Co., Newark, N. J.
Nonpareil Motor Truck Co., Newark, N. J.
Norwalk Motor Car Co., Martinsburg, W. Va.
Nyberg Auto. Works, Anderson, Ind.
O. K. Motor Truck Co., Detroit, Mich.
Ohio Falls Motor Co., New Albany, Ind.
Ohio Motor Car Co., Cincinnati, Ohio (succeeded by Crescent Motor Co., also failed).
Oklahoma Motor Tr. Co., Tulsa, Okla.
Oliver Motor Truck Co., Detroit, Mich.
Omaha Motor Car Co., Omaha, Nebr.
Omaha Tractor & Engine Co., Omaha, Nebr.
Only Car Co., New York, N. Y.
Orson Auto. Co., New York City, N. Y.
Otto-Mobile Co., Mt. Holly, N. J.
Overholt Co., S., Galesburg, Ill.
Owego Car Co. (Inc.), Owego, N. Y.
Owosso Motor Co., Owosso, Mich.
P. H. P. Motor Truck Co., Westfield, Mass.
Packers Motor Truck Co., Wheeling, W. Va.
Paige-Detroit Motor Car Co., Detroit, Mich. (resumed).
Palmer & Singer Manufacturing Co., Long Island City, N. Y.

Parsons Co., George W., Newton, Iowa.
Partin-Palmer Motor Car Co., Detroit, Mich.
Peninsula Motor Co., Saginaw, Mich. (bought by General Motors Co. and discontinued).
Penn Auto Co. (not incorporated), Philadelphia, Pa.
Penn Motor Car Co., Newcastle, Pa.
Penn-Unit Car Co., Allentown, Pa.
Pennsylvania Auto Motor Co., Bryn Mawr, Pa.
Perfix Co., Milwaukee, Wis.
Petrol Motor Car Co., Milwaukee, Wis.
Philadelphia Truck Co., Philadelphia, Pa.
Phipps Electric Vehicle Co., Detroit, Mich.
Phoenix Auto Works, Phoenixville, Pa.
Pickard Bros., M. C. Co., Brockton, Mass.
Piggins Motor Truck Co., Racine, Wis. (succeeded by Piggins Bros. M. T. Co.).
Pitt Motor Truck Co., Pittsburgh, Pa.
Pneucar Co., Washington, D. C.
Pope Manufacturing Co., Hartford, Conn.
Poss Motor Co., Detroit, Mich.
Powell Engine Corporation, Brooklyn, N. Y.
Powercar Auto. Co., Cincinnati, Ohio.
Power Vehicle Co., Milwaukee, Wis.
Pratt, Carter, Sigsbee & Co., Detroit, Mich.
Pratt Manufacturing Co., Joliet, Ill.
Premier Motor Manufacturing Co., Indianapolis, Ind. (in receiver's hands).
Primo Motor Co., Atlanta, Ga.
Prince Motor Car Co., Cleveland, Ohio.
Princess Motor Car Co., Detroit, Mich.
Pullman Motor Car Co., York, Pa. (resumed).
Pungs-Finch Auto & Gas Eng. Co., Detroit, Mich.
Quakertown Auto Co., Quakertown, Pa.
R. C. H. Corporation, Detroit, Mich.
R. & S. Manufacturing Co., Cedar Rapids, Iowa.
Rainier Motor Co., New York, N. Y.
Randall Manufacturing Co., Baltimore, Md.
Randolph Motor Truck Co., Flint, Mich.
Ranger Automobile Co., Chicago, Ill.
Rassel Motor Car Co., Toledo, Ohio (succeeded by Toledo Motor Truck Co., also out of business).
Read Motor Car Co., Detroit, Mich.
Rector Engineering Co., New York, N. Y.
Red Arrow Auto. Co., Orange, Mass.
Red Shield Hustler Power Car Co., Detroit, Mich. (succeeded by Auburn Motor Chassis Co.).
Remington Standard M. C. Co., New York City, N. Y.
Richard Auto Manufacturing Co., Cleveland, Ohio.
Richmond Cycle Car Co., Richmond, Va.
Rider-Lewis Automobile Co., Anderson, Ind.
Ritz Cycle Car Co., Sharon, Pa.
Robson Manufacturing Co., Galesburg, Ill.
Rockford Motor Truck Co., Rockford, Ill.
Rodefeld Manufacturing Co., Richmond, Ind.
Rogers Motor Car Co., Richmond, Ind.
Rogers Motor Car Co., Omaha, Nebr.
Roland Gas-Electric Co., New York, N. Y.
Royal Tourist Car Co., Cleveland, Ohio.
S. G. V. Co., Reading, Pa.
S. M. Motor Co. (Inc.), Detroit, Mich. (succeeded by Benham Manufacturing Co.).
Sandusky Auto. Parts & Tr. Co., Sandusky, Ohio.
Savage Factories, M. W., Minneapolis, Minn.
Savage Motor Co., Detroit, Mich.
Sebring Motor Car Co., Sebring, Ohio.
Seitz Auto. & Transmission Co., Wyandotte, Mich.
Sellers Motor Car Co., Hutchinson, Kans.
Senator Motor Car Co., Pittsburgh, Pa.
Schacht Motor Car Co., Cincinnati, Ohio (succeeded by Schacht M. T. Co.).

Schmidt Bros. Co., Chicago, Ill.
Schubert Wagon Co., August, Oneida, N. Y.
Schumler Motor Car Co., St. Paul, Minn.
Scioto Auto Car Co., Chillicothe, Ohio.
Sharp Arrow Auto Co., Trenton, N. J.
Sibley Motor Car Co., Detroit, Mich.
Simplex Auto. Co., New York City, N. Y.
Smith Auto. Co., Topeka, Kans.
Smith Co., A. O., Milwaukee, Wis. (retired).
Somers Motor Truck Co., Boston, Mass.
Sommer Motor Co., Bucyrus, Ohio.
Southern Automobile Co., Fort Worth, Tex.
Southern Auto & Equipment Co., Atlanta, Ga.
Speedwell Motor Car Co., Jackson, Mich.
Spoerer's Sons Co., Carl, Baltimore, Md.
St. Louis Car Co., St. Louis, Mo. (retired).
Standard Electric Car Co., Jackson, Mich.
Standard Gas-Electric Power Co., Philadelphia, Pa. (succeeded by Vulcan Motor Devices Co.).
Standard Motor Truck Co., Warren, Ohio.
Stanley Motor Car Co., Detroit, Mich.
Star Motor Car Co., Ann Arbor, Mich.
Star Motor Car Co., Indianapolis, Ind.
Star Tribune Motor Sales Co., Detroit, Mich. (succeeded by O. K. M. T. Co.).
Starbuck Auto Co., Philadelphia, Pa. (resumed).
Staver Carriage Co., Chicago, Ill.
Steel Swallom Auto Co., Jackson, Mich.
Stephenson Motor Tr. Co., Milwaukee, Wis.
Sterling Motor Co., Detroit, Mich.
Stevens-Duryea Co., Chicopee Falls, Mass. (retired).
Stickney Co., Chas. A., St. Paul, Minn.
Storage Power Battery Co., San Francisco, Cal.
Streator Motor Car Co., Streator, Ill. (succeeded by Barley Manufacturing Co.).
Suburban Motor Car Co., Detroit, Mich. (succeeded by Palmer Motor Car Co.).
Sultan Motor Co., Springfield, Mass.
Swanson Motor Car Co., Chicago, Ill
Symonds Auto Truck Co., Chicago, Ill.
Symonds Motor Wagon Works, Hyde Park, Mass.
Tate Gas-Electric Motor Vehicle Co., Jersey City, N. J.
Tegetmeier & Riepe Co., New York City, N. Y.
Tell Manufacturing Co., Medford, Mass.
Terre Haute Motor Co., Terre Haute, Ind.
Thomas Elevator Co., Chicago, Ill.
Thomas Motor Car Co., E. E., Buffalo, N. Y.
Toledo Carriage Woodstock Co., Toledo, Ohio.
Toledo Cycle Car Co., Toledo, Ohio.
Toledo Electric Vehicle Co., Toledo, Ohio.
Toledo Motor Truck Co., Toledo, Ohio.
Tone Car Corporation, Indianapolis, Ind.
Toomey & Co., Frank, Newark, N. J.
Tractor Engine Co., Trenton, N. J.
Traveler Auto Co., Evansville, Ind.
Traveler Motor Car Co., Detroit, Mich.
Tribune Motor Co., Detroit, Mich.
Triumph Manufacturing Co., Detroit, Mich.
Tuller Manufacturing Co., Kansas City, Mo.
Tulsa Auto & Manufacturing Co., Tulsa, Okla.
Twin City Motor Car Co., St. Paul, Minn.
Twombley Car Corporation, New York, N. Y.
Union Motor Truck Co., San Francisco, Cal.
Universal Machinery Co., Milwaukee, Wis.
Universal Motor Co., Denver, Colo.
Universal Motor Co., Washington, Pa.
Universal Motor Truck Co., Detroit, Mich. (succeeded by Universal Service Co.).

United States motor constituent companies (reorganized as Maxwell Motor Co.): Alden-Sampson Manufacturing Co., Detroit, Mich.; Brush Runabout Co., Detroit, Mich.; Columbia Motor Car Co., Hartford, Conn.; Courier Car Co., Dayton, Ohio; Dayton Motor Car Co., Dayton, Ohio; Maxwell-Briscoe Motor Co., Newcastle, Ind.; Maxwell-Briscoe Motor Co., Providence, R. I.; Maxwell-Briscoe Motor Co., Tarrytown, N. Y.

V-C Motor Truck Co., Lynn, Mass.

Van Anken Electric Car Co., Chicago, Ill.

Van L. Commercial Car Co., Grand Rapids, Mich.

Van Motor Car Co., Grand Haven, Mich.

Van Motor Wagon Co., Elgin, Ill.

Vandewater & Co., Elizabeth, N. J.

Vaughn Motor Car Co., Kingston, N. Y.

Victor Automobile Co., Ridgeville, Ind.

Victor Motor Truck Co., Buffalo, N. Y.

Victor Motor Car Co., St. Louis, Mo.

Victory Motor Car Co., San Jose, Cal.

Vulcan Manufacturing Co., Painesville, Ohio.

Vulcan Motor Car Co., Detroit, Mich.

W. F. S. Motor Car Co., Philadelphia, Pa.

Wade Commercial Car Co., Holley, Mich.

Wagenhals Motor Co., Detroit, Mich.

Wahl Motor Car Co., Detroit, Mich.

Wallof Motor Truck Co., Minneapolis, Minn.

Ware Motor Vehicle Co. (not incorporated), St. Paul, Minn. (succeeded by Twin City Four-Wheel Drive Co.).

Warwick Motors Co., Newark, N. J.

Warren Motor Car Co., Detroit, Mich.

Wasatch Motor Manufacturing Co., Salt Lake City, Utah.

Washington Motor Vehicle Co., Washington, D. C. (succeeded by Columbia Vehicle Co., also failed).

Waterville Tractor Co., Waterville, Ohio.

Wayne Light Commercial Car Co., New York, N. Y.

The Webb Co., Allentown, Pa.

Webb Motor Fire Apparatus Co., St. Louis, Mo.

Weber Auto Truck Manufacturing Co., Louisville, Ky.

Weber Motor Vehicle Co., Louisville, Ky.

Welch Motor Car Co., Pontiac, Mich. (bought by General Motor Co. and discontinued).

Wenonah Motor Car Co., Bay City, Mich.

Westfield Motor Truck Co., Westfield, Mass.

Westman Motor Truck Co., Cleveland, Ohio.

Westone Cycle Car Co., Los Angeles, Cal. (succeeded by Homer Laughlin Engineers Corporation).

White Star Motor & Eng. Co., Brooklyn, N. Y.

Whitesides Commercial Car Co., Newcastle, Ind.

Whitmore & Co., Dayton, Ohio.

Whitwood Corporation, the, Weedsport, N. Y.

Whyland-Nelson Motor Car Co., Buffalo, N. Y.

Willet Engine & Truck Co., Buffalo, N. Y.

Winkler Bros. Manufacturing Co., South Bend, Ind.

Woodburn Automobile Co., Woodburn, Ind.

Woodworth Motor Truck Co., Providence, R. I.

Woolston Auto Tr. Co., Riverton, N. J.

Wyckoff, Church & Partridge, Kingston, N. Y. (succeeded by Vaughn Car Co., also failed).

COMPANIES FAILED OR WENT OUT OF BUSINESS.

Homer Motors Co., December 26, 1916, Los Angeles, Cal.

Hydraulic Truck Co., November 24, 1916, Los Angeles, Cal.

Mission Motor Car Co., November 14, 1916, Los Angeles, Cal.

Union Car Co., November 24, 1916, Los Angeles, Cal.

Pacific Metal Products Co., September 6, 1916, Torrance, Cal.

Capital Truck Manufacturing Co., August 9, 1916, Denver, Colo.

Continental Motor Truck, May 15, 1916, Denver, Colo.

Trumbull Motor Car Co. (cycle), January 20, 1916, Bridgeport, Conn.

Kelsey Motor Co., January 26, 1916, Hartford, Conn.
Hodgetts Manufacturing Co., W. J., October 31, 1916, Wallingford, Conn.
Cycle Car of Wilmington (cycle), August 23, 1916, Wilmington, Del.
Frazier & Co., W. S. (cycle), August 28, 1916, Aurora, Ill.
American Electric Car Co., September 15, 1916, Chicago, Ill.
American Manufacturing Co. (Auburn Park), May 13, 1915, Chicago, Ill.
Clark Delivery Car Co., October 24, 1916, Chicago, Ill.
Flagler Cycle Car Co. (cycle), March 2, 1917, Chicago, Ill.
Frederickson Patents Co. (cycle), June 9, 1916, Chicago, Ill.
Golden Motor Car Co., November 19, 1915, Chicago, Ill.
Hanke Iron & Wire Works, January 24, 1916, Chicago, Ill.
Harders Auto Truck Co., September 25, 1916, Chicago, Ill.
Keller Cyclecar Corp. (cycle), September 25, 1916, Chicago, Ill.
Majestic Motor Car Co., September 29, 1916, Chicago, Ill.
Maremont Manufacturing Co., August 24, 1916, Chicago, Ill.
O'Connor Corp., September 25, 1916, Chicago, Ill.
Owen-Schoeneck Co., September 25, 1916, Chicago Ill.
Spenny Motor Car Co., September 29, 1916, Chicago, Ill.
Standard Cyclecar Co. (cycle), July 17, 1916, Chicago, Ill.
Stephens Co. (cycle), July 17, 1916, Chicago, Ill.
Rayfield Motor Co., July 17, 1916, Chrisman, Ill.
Crusader Motor Car Co., May 16, 1916, Joliet, Ill.
Gay Co., S. G., August 21, 1916, Ottawa, Ill.
Tischer Tri Car Co., Linton C., August 11, 1916, Peoria, Ill.
Auburn Motor Chassis Co., November 19, 1916, Auburn, Ind.
Union Automobile Co., March 6, 1916, Auburn, Ind.
Zimmerman Manufacturing Co., November 18, 1916, Auburn, Ind.
Connersville Wheel Co., July 17, 1916, Connersville, Ind.
Prigg Co., H. P., July 17, 1916, Converse, Ind.
Famous Manufacturing Co., July 17, 1916, East Chicago, Ind.
Queen Motor Car Co., April 21, 1916, Elkhart, Ind.
Ideal Auto Co., July 17, 1916, Fort Wayne, Ind.
Continental Auto Parts Co., July 17, 1916, Franklin, Ind.
Martindale & Millikan, May 16, 1916, Franklin, Ind.
Howe Engine Co., October 20, 1916, Indianapolis, Ind.
Merz Cyclecar Co. (cycle), November 18, 1915, Indianapolis, Ind.
Modern Electric & Machine Co. (cycle), April 18, 1916, Indianapolis, Ind.
Swan Motor Car Co., September 5, 1916, Indianapolis, Ind.
Waverly Co., November 6, 1916, Indianapolis, Ind.
Amplex Auto & Machine Works, December 4, 1916, Mishawaka, Ind.
Hercules Motor Car Co., September 5, 1916, New Albany, Ind.
Great Western Auto Co., July 11, 1916, Peru, Ind.
Zip Cyclecar Co. (cycle), January 24, 1916, Davenport, Iowa.
Spaulding Manufacturing Co., September 1, 1916, Grinnell, Iowa.
Nevada Truck & Tractor Co., February 6, 1917, Nevada, Iowa.
Rexroad Engine Co., August 31, 1916, Hutchinson, Kans.
Transit Motor Truck Co., July 17, 1916, Louisville, Ky.
Ames Motor Car Co., July 26, 1916, Owensboro, Ky.
Burns Bros., July 17, 1916, Havre de Grace, Md.
Bailey & Co., S. R., July 17, 1916, Amesbury, Mass
Howard Motor Truck Co., September 13, 1916, Boston, Mass.
S. J. R. Motor Co., February 16, 1917, Boston, Mass.
Ross, Louis, December 9, 1916, Newtonville, Mass.
Star Motor Car Co., February 23, 1917, Ann Arbor, Mich.
Bollstrom Products Sales Co., July 15, 1916, Battle Creek, Mich.
Toeppner Bros., July 17, 1916, Bay City, Mich.
Aland Motor Car Co., February 23, 1917, Detroit, Mich.
Kosmath Co., July 17, 1916, Detroit Mich.
Monarch Motor Car Co., February 6, 1917, Detroit, Mich.
Argo, July 17, 1916, Jackson, Mich.
Standard Car Manufacturing Co., November 19, 1915, Jackson, Mich.
Dudley Tool Co., August 31, 1916, Menominee, Mich.
Mount Pleasant Motor Car Co., September 18, 1916, Mount Pleasant, Mich.
Cartercar Co., November 17, 1915, Pontiac, Mich.
Flanders Electric, July 17, 1916, Pontiac, Mich.
American Electric Car Co., September 18, 1916, Saginaw, Mich.
Valley Boat & Engine Co. (cycle), December 9, 1915, Saginaw, Mich.

Rex Motor Co., September 18, 1916, Wyandotte, Mich.
Hoffman Motor Car Co., March 6, 1917, Minneapolis, Minn.
Nott Fire Engine Co., August 21, 1916, Minneapolis, Minn.
Carter Manufacturing Co., June 22, 1916, Hannibal, Mo.
Roto Motor Car Corporation, November 16, 1916, Hannibal, Mo.
Forsythe Manufacturing Co., July 17, 1916, Joplin, Mo.
Bauer Motor Car Co., March 16, 1916, Kansas City, Mo.
Stafford Motor Car Co., September 25, 1916, Kansas City, Mo.
Brooks-Latta Automobile Manufacturing Co., September 25, 1916, St. Louis, Mo.
De Kalb Automobile Co., September 25, 1916, St. Louis, Mo.
Robinson Motor Car Co., March 27, 1916, St. Louis, Mo.
St. Louis Motor Truck Co., September 5, 1916, St. Louis, Mo.
Chelsea Manufacturing Co., November 19, 1915, Newark, N. J.
Thomas Motor Car Co., September 11, 1916, Buffalo, N. Y.
Belmont Motor Vehicle Co., April 14, 1916, Castleton, N. Y.
Coleman Carriage & Harness Co., September 14, 1916, Ilion, N. Y.
Cyco-Lectric Car Co., September 16, 1916, New York, N. Y.
Ice Manufacturing Co., December 1, 1916, New York, N. Y.
Knickerbocker Motors Co., March 28, 1917, New York, N. Y.
Malcolm Motor Car Co., November 8, 1916, New York, N. Y.
Royal Motor Truck Co., December 2, 1915, New York, N. Y.
B. Z. T. Car Co., November 26, 1915, Owego, N. Y.
Burrows Cycle Car Co., December 8, 1915, Ripley, N. Y.
Rochester Motor Fire Pump Co., November 26, 1915, Rochester, N. Y.
Empire Motor Truck Corporation, September 2, 1916, Troy, N. Y.
Niagara Motor Car Co., January 20, 1917, Barberton, Ohio.
Cincinnati Motor Manufacturing Co., September 22, 1916, Cincinnati, Ohio.
American Electric Car Co., September 7, 1916, Cleveland, Ohio.
Hanger Co., C. F., August 29, 1916, Cleveland, Ohio.
New Columbus Buggy Co., September 11, 1916, Columbus, Ohio.
United States Carriage Co., March 2, 1917, Columbus, Ohio.
Apple Motor Car Co., September 28, 1916, Dayton, Ohio.
J. L. B. Motor Co., March 2, 1917, Dayton, Ohio.
Adams Truck Foundry & Machine Co., July 17, 1916, Findlay, Ohio.
Republic Motor Car Co., July 17, 1916, Hamilton, Ohio.
Niles Car & Manufacturing Co., April 6, 1917, Niles, Ohio.
Mohawk Motor Truck Co., March 2, 1917, Ravenna, Ohio.
Pilliod Motor Co., July 17, 1916, Toledo, Ohio.
Siebert, Shop of, July 17, 1916, Toledo, Ohio.
Bingham Manufacturing Co., September 12, 1916, West Park, Ohio.
Beaver State Motor Co., April 18, 1916, Portland, Oreg.
Pittsburgh Machine Tool Co., August 21, 1916, Braddock, Pa.
Morton Truck & Tractor Co., February 10, 1917, Harrisburg, Pa.
Cresson-Morris Co., November 16, 1916, Philadelphia, Pa.
Interboro Motor Truck Co., May 3, 1916, Philadelphia, Pa.
Victor Motor Co., December 21, 1916, Philadelphia, Pa.
Pittsburgh Motor Co., January 3, 1916, Pittsburgh, Pa.
Driggs-Seabury Ordnance Co., July 17, 1916, Sharon, Pa.
Sphinx Motor Car Co., November 11, 1916, York, Pa.
Cleburne Motor Car Manufacturing Co., August 3, 1916, Seattle, Wash.
Schram Motor Car Co., April 17, 1916, Seattle, Wash.
Patrick Corporation, October 9, 1916, Spokane, Wash.
Wisconsin Motor Truck Works, November 2, 1916, Baraboo, Wis.
Juno Motor Truck Co., September 5, 1916, Juneau, Wis.
Monarch Light Truck Co., December 4, 1916, Milwaukee, Wis.
Crown Commercial Car Co., May 16, 1916, North Milwaukee, Wis.
Time Manufacturing Co., October 24, 1916, Ostburg, Wis.
Davis Manufacturing Co., February 17, 1916, West Allis, Wis.

PACKARD MOTOR CAR CO.,
DETROIT, MICH., *May 14, 1917.*

Senator F. M. SIMMONS,
Chairman of Finance Committee, United States Senate,
Washington, D. C.

DEAR SIR: I asked leave of you and obtained your kind permission to file a short statement on behalf of the manufacturers of trucks, which it has been proposed to tax 5 per cent of their wholesale price, the same as motor cars.

Without here going into the case for the automobile manufacturers, we wish to give you some considerations on behalf of the manufacturers of trucks that will interest you.

Truck manufacture is a very much newer business than the manufacture of motor cars.

Your committee never heard of a manufacturer of trucks that has gotten rich out of it.

No one ever took a joy ride in a truck. It is designed to haul freight and is as far removed from being a luxury as is a wheelbarrow.

What, then, is the reason for subjecting trucks to the proposed 5 per cent tax, in addition to all the other taxes they will have to stand?

Trucks are made to take care of the business of the Nation.

They are regarded by the warring Governments just as important a part of war equipment as are the cannon themselves, being used to bring provisions to soldiers, ammunition to the guns, and largely, where railroads are not available, to move all the equipment of warfare.

Some of the European Governments, among them Germany, and we believe France and England, subsidize all trucks used industrially that are adapted to transportation uses in time of warfare. Every encouragement is given to their production in quantities and to their widespread distribution.

The last two years have proven the inadequacy of the railroad equipment of the country to handle the freight traffic in peace times. This has given rise to a demand for trucks in every city, town, and hamlet of the country. They are largely used to bring foodstuffs and produce to the markets, and then to take care of their retail distribution.

As you doubtless know, our Government is even now proposing to buy trucks in large numbers, in connection with the training of the large army we have been raising and are about to raise.

Please consider what a tremendous factor trucks will be if this country is attacked by any foe that attempts to land troops for an invasion.

In the nature of things, the foe would select a point inaccessible to our railroads. Trucks would then prove the main reliance of the Nation for transporting troops, guns, ammunition, and all supplies and equipment.

Trucks saved Verdun to the allies.

Do not by harsh taxation discourage the sale of trucks, since they are used solely for the distribution from producer to consumer. They are combating the high cost of living by eliminating the middleman. They will be always available for requisition by the Government in time of need.

If there is any article sold in America that is strictly utilitarian and not in any remote sense luxurious, it is a truck.

We respectfully urge you to foster this infant industry.

Yours, very truly,

ALVAN MACAULEY, *President.*

Sec. 600 (A). TIRES AND TUBES.[1]

The CHAIRMAN. Some gentleman wanted to know if we would not take up pianos. Some one suggested to me that we might consider subsection B and subsection E, in regard to jewelry, together. He seems to think that they bear some relation to each other. I do not know who that gentleman was.

Anyway, you proceed, Mr. Bartlett.

Sec. 600 (B). MUSICAL INSTRUMENTS.

STATEMENT OF MR. E. B. BARTLETT, PRESIDENT OF THE NATIONAL PIANO MANUFACTURERS' ASSOCIATION.

Mr. BARTLETT. Mr. Chairman and gentlemen. I shall ask you to take for granted the things we might say about our patriotism and our willingness to share in the expense of this war. We only object to the special 5 per cent excise tax proposed to be levied on our sales.

---

[1] The hearing on this paragraph will be found on p. 523.

Our reasons for objecting may be briefly catalogued as four: First, we consider it unfair to single out from the many industries of the country one that is devoted so largely to educational purposes, which can not in any sense, when the situation is analyzed, be considered a luxury. Second, our profits are not such as to warrant this special 5 per cent excise tax. Third, owing to the way our business is conducted it is practically impossible to pass it along. Fourth, it is against public policy.

As to the unfairness of this proposed tax, there are over 50,000 pianos in use in music schools or colleges and by teachers in the education of children. We estimate, based on our knowledge of where the instruments go, that 85 per cent in number of our product are used in the family for educational purposes, and we submit that unless you tax all forms of education, outside of reading, arithmetic, and writing, we should be exempt from this special excise tax. The piano as a means of education not only contributes to the mental discipline of the child but to the physical as well. Manual dexterity is required, and those of you who have children who have gone through the routine of practice probably realize that it is about as good discipline, both mental and physical, as they can have.

In addition, the purchasers of 80 or 85 per cent of the pianos are people of moderate means, who buy them for the purpose already explained. They pay for them in small monthly installments, extending over a period of three or four years sometimes, and here comes one of the financial difficulties. If we are forced to pay 5 per cent on our sales, we must get up this money somewhere, somehow, two or three years before it is possible for us to get it back, and it will be a severe strain on an industry that for the past four or five years has had great difficulty in financing its operations at all. If you have followed this particular line, you know that many factories of enormous output are in the courts now getting their affairs settled up. Bankruptcy is not a pleasant thing to contemplate.

As nearly as we can estimate—and in the short time at our disposal we have not been able to gather many figures, but we know the state of the trade pretty well—the average profit on sales by the manufacturer does not exceed 7 per cent. There are more factories that have to get along with about 5. A few, under especially favorable conditions, do better than either of those figures. If they do so much better that they ought to be reached, I thing the excess-profits tax will take care of that. I am not offering, for the trade at large, to trade this special 5 per cent excess tax for an increase excess-profits tax, because you would not get any money that way, on the whole. It might be a little, but it would be foolish for me to make such a proposition.

A very great difficulty that we would have we have already had some experience with. The increase in material and labor in the construction of pianos in the last 18 months or 2 years is about 25 per cent. Those of us who have tried to pass along about half of that find our trade falling off; dealers who had been in the habit of ordering freely slowing up; others canceling orders, and all that sort of thing; and this condition, increasing cost and narrowing market, added to the unfavorable conditions of the last four or five years, is more than we feel we can stand.

I might say that the high-water mark in the piano business was in 1909. The census of 1914 taken in that branch of business showed a considerable diminution in business between 1909 and 1914. A census taken now would probably show a further shrinkage. Last year—the latter part of the year—there was a good demand for pianos and organs, following a long period of depression. But the difficulty of getting the material, the high prices charged, the fact that in metal industries, particularly, nearly all our supplies came from people who could make four or five times the profit on a war order that we could possibly afford to pay for their stuff, resulted in delays and bothers. Beside the increase we had to stand, it was a physical impossibility to get the goods very often, and instead of the seller approaching us with his wares, we were around on our knees begging for a little of this and a little of that so that we could get our product. In our own shop we have had four or five hundred backs strung with strings with the exception of a few bass strings. They are wound with an extra wire, and we could not get that covering wire. We have had our stringers laid off several days at a time on several different occasions because the tuning pins, half of which were formerly imported from Germany, were slow in arriving, delayed in transit, or something of that kind. So that we have had our difficulties, and very few of us were able to get any advantage from the demand of last fall. As I started to say, we fear we can not pass along this 5 per cent proposed excise tax, because we have been unable to pass along the increased cost we have already suffered.

Then there are other difficulties. Many manufacturers are obliged, in order to market their products at all, to furnish them through consignment agents, carrying the account until the goods are delivered, carrying the paper resulting from those sales until paid in. We do a great deal of that in the Kimball Co. It is about 29 months, on the average, not until the last money is in, but the average time from the date we ship our goods until payment. We do not get much money out of it. A piano man with any surplus money is a curiosity, whether he is in the wholesale, the retail, or the manufacturing business.

We have to use large lines of credit frequently in order to carry the business as it is conducted. The question is, what effect an added burden would have in the minds of our bankers. Will they curtail our credits and still further curtail the business? Is it wise, in other words, to lay burdens on any industry that are likely to curtail, limit, and in many cases extinguish it? Is it wise? You gentlemen can determine that.

Now, as to the public policy question. We believe that in times like this industry should be encouraged and no unnecessary burdens placed upon it. If we can not keep our factories running and men employed, where are the profits to come from, or where is the money to come from to pay any taxes? If there are no taxes collectible, how can we support an army or raise or equip one? It seems to me that now is the time when general business should be encouraged from every possible angle.

I wish I could express the disappointment I have felt at the public press preaching economy from every possible angle, the result of which, in our own city of Chicago, has been the laying off of 1,500 clerks in one department store. Those things must not go on if

we are to have money to pursue this war. We must have encouragement and support to keep our business going.

Senator THOMAS. Do you attribute that laying off of clerks to this cry of economy?

Mr. BARTLETT. To this wave of economy due to the newspaper publicity. I have seen headlines that we were facing famine, and all that sort of thing. I can not think of any other reason. I am not a prophet or a seer——

Senator THOMAS. I was asking for your opinion.

Mr. BARTLETT. That is my opinion. Of course, there is the psychological effect of the declaration of war. Naturally, under normal conditions, that will wear off after a few months and we should go on with our natural normal business conditions just as nearly as possible. Let us keep the money of the country in circulation. It is absolutely essential. Money hoarded in banks, safety-deposit vaults, or even the stockings of our wives does not stimulate trade. It must be kept going. Credit must not be impaired or business will stop. Ninety-odd per cent of the business is credit anyway. And every effort should be made, it seems to me, to keep business going as nearly normal as possible. Of course, it can not maintain in volume of actual products what we have in good peace times. It may in dollars through inflated values. But our young men will be at the front, our clerks will be engaged in various occupations in connection with the prosecution of this war, and we will not have men enough to do a normal volume of business, even if there were a market. But let us get as near to that as we can.

I shall submit a brief stating our reasons for opposing this tax and will deliver it to the clerk of the committee.

The CHAIRMAN. When it is received, it will be printed as a part of these proceedings.

(The brief referred to by Mr. Bartlett was subsequently submitted and is here printed in full, as follows:)

NATIONAL PIANO MANUFACTURERS' ASSOCIATION OF AMERICA.

May 8, 1917.

HONORABLE SIR: Referring to the proposed special excise tax on pianos, which I understand is now receiving consideration in Congress, I beg to inclose herewith copy of memorandum prepared by the chairman of the committee on national legislation of the National Piano Manufacturers' Association of America in objection to this tax as unfairly discriminating against the piano industry.

Yours, respectfully,

HERBERT W. HILL,
Assistant Secretary.

Hon. FURNIFOLD McL. SIMMONS,
Chairman Committee on Finance,
United States Senate, Washington, D. C.

SIR: While pledging our loyalty to the Nation's cause and expressing our willingness to bear our just share of the necessary burden, we oppose the imposition of the special excise tax of 5 per cent on pianos, player pianos, and organs for the following reasons:

First. The piano, piano player, and organ business has suffered a severe shrinkage since the declaration of the European war in 1914, due to the extraordinary prices paid for materials and labor and the decreasing purchasing power of the public. To the best of our knowledge and belief, the total wholesale value of musical instruments, exclusive of talking machines, for the year 1917, will be less than $75,000,000, and not $140,000,000, as estimated. Thus it is evident to us that the proposed tax will not only not yield the desired

amount of income but will actually injure a suffering business rather than tax a prosperous one.

Second. In support of the fact that the special excise tax of 5 per cent on sales is oppressive we unhesitatingly state that the average factory wholesale net profit to piano, player piano, and organ manufacturers does not exceed 7 per cent.

Third. During the last two years the cost of production of pianos has increased approximately 25 per cent. We have been unable to pass along to the consumer more than half of this increase, and even this has caused a severe curtailment of our sales. Therefore we feel certain the proposed tax can not be passed along to consumers.

Fourth. Practically all pianos, player pianos, and organs are sold on long time and small monthly payments, extending over a period of three or four years, the average initial payment, perhaps, not exceeding $15. This necessary method of selling requires the manufacturer either to consign his product or sell at wholesale on long-time settlement.

Fifth. While other products classed in this special excise tax bill are sold for either cash or short-time settlements in this industry on account of long-deferred payments, the already comparatively small cash on hand available will be very seriously impaired.

Sixth. The manufacture and sale of pianos and player pianos at the present time are not subject to any special taxation whatsoever by France, England, Canada, or Germany. At the beginning of the war the English Government did levy a discriminating tax on pianos, but subsequently repealed it and is encouraging the manufacture of pianos, etc., as contributing, through their music, to the morale of the nation.

Seventh. About 90 per cent of pianos, player pianos, and organs are used for educational purposes. Music is part of the curriculum of all primary school grades. As a necessary part of education it may be considered next to reading, writing, and arithmetic Music has a refining and sustaining influence during war time. Music is encouraged and financed by governments and municipalities. Music should be protected, rather than attacked, and should not be classed as a luxury.

NATIONAL PIANO MANUFACTURERS' ASSOCIATION OF AMERICA,
By E. B. BARTLETT, *President.*

NEW YORK PIANO MANUFACTURERS' ASSOCIATION,
By GEO. W. GITTINS, *President.*

CHICAGO PIANO & ORGAN ASSOCIATION.
By PAUL B. KLUGH, *Vice President.*

MUSIC INDUSTRIES CHAMBER OF COMMERCE,
By F. W. TEEPLE, *President.*

[Brief submitted by the National Piano Manufacturers' Association of America protesting against a discriminating excise tax on pianos and player pianos.]

MAY 7, 1917.

Hon. CLAUDE KITCHIN,
Chairman of the Ways and Means Committee,
House of Representatives, Washington, D. C.

SIR: Referring to the proposed special excise tax on musical instruments, I beg to address you on behalf of the National Piano Manufacturers' Association of America.

The piano manufacturers of the United States are desirous of contributing their full share of assistance to the Government at this time, whether in the form of taxation or otherwise, but it is their belief that the proposed special excise tax to be directed against manufacturers of pianos is unfairly discriminating and will place an undue hardship on the piano industry as well as seriously curtail the distribution of such musical instruments at a time when extraordinary distribution thereof is highly desirable.

We understand that the theory on which this tax has been considered is that all luxuries, especially those which do not contribute in large measures to the welfare of the Nation, should bear an extra burden of taxation. We feel that the proposed tax discriminating against manufacturers of pianos is unfair to the piano industry and would prove detrimental to the interests of the country at large for a number of reasons which have for convenience been grouped under the two following heads:

1. Music, especially in time of national stress, is not a luxury, but is one of the greatest contributing factors in arousing the patriotism of the people; in assisting to maintain the morale and happiness of the Nation, and thus contributing directly to the support of the Government and rendering greater the productive energy of the individual.

2. The piano industry is not, nor has it been, a producer of excessive profits, and in normal times makes but a small return on the capital invested. As this industry has been affected so adversely by the great increase in cost of all materials, the levy of a discriminating tax at this time would lay an excessive burden on all manufacturers of pianos.

Referring to the first general heading above noted, we respectfully beg to call your attention to the following:

1. According to our information the English Government at the outbreak of the war took steps discriminating against the music industry on the basis of taxation, but finding that this resulted in an undesirable throttling of the industry, which operated against the best interests of the country, it has since changed its attitude and to-day the manufacturers of musical instruments are in the exempt class.

2. The Canadian Government not only has failed to discriminate against the piano industry with respect to special taxation, but recognizing the peculiar status of this industry, has made certain concessions to it, especially with respect to the computation of the war tax on corporations.

3. By reason of the insistent demand for music in war time, piano manufacturers are called upon to make unusual contributions to the war cause. The following excerpts taken from a recent letter of a Canadian piano firm well illustrates this point:

"Soldiers in barracks require some music to entertain them, and to make the time pass pleasantly therefore; we have had as many as 200 pianos out at a time. Some of them get very badly spoiled—scratched up; they get knocked about; and then the cartage is enormous at present; and the tuning of such pianos. Then there are many concerts held for relief or for widows of soldiers and for Belgians, and so on; and for these concerts we are called upon to supply pianos in the way of loans, insurances, cartage, and pianists, which we are supposed to provide to help out the concerts."

4. It has also come to our notice that in the hospitals and the convalescence camps of Europe much of the progress to recovery which has been made by the sick and wounded has been by reason of music and musical entertainment.

Maj. Spender-Clay, military member of the British commissioners, recently made the following statement before an audience of the National Press Club of Washington, D. C.:

"Plenty of musicians should be part of any American expeditionary force that may be sent to France. Early in the war we British made the mistake of not providing recreation for the men in the trenches. Now we have all sorts of entertainments behind the lines to relieve the strain of fighting. And we find it pays."

5. In the building of the Panama Canal the United States Government found it necessary for the maintenance of the welfare and morale of the workers to establish clubhouses as social centers and to install musical instruments of various kinds, even going to the extent of providing artists for the musical entertainment of the workers.

6. Practically every ship in the United States Navy, by reason of individual contribution of the men themselves, is equipped with a piano or other musical instrument contributing to the morale of the enlisted men.

7. Several of the great economists of the world have classified music as the fourth greatest necessity of life, listing the five prime necessities in the order named as, first, food; second, clothing; third, housing; fourth, music; and fifth, education.

In this connection we recognize the fact that the economic pressure of the war will necessarily prevent the indulgence in music and musical instruments by many persons who would otherwise so do, thus affecting adversely the manufacture of such instruments. On the other hand, the needs of our military organizations, together with patriotic fervor, personal discouragement, and sorrow, will turn many throughout the Nation to music. We do not know to what extent the one will offset the other and thus affect production in this industry, but it is our sincere opinion that the production of pianos should be maintained at least at its present level and, if possible, increased in recognition

of the fact that music is normally a prime necessity of a happy people and essentially a necessity of a nation at war.

8. The investment of money in pianos and player pianos, for instance, does not represent a wastage of national wealth as does extravagance of living and the indulgence of expensive habits which are not necessary for the well-being of the people at large. The installation of a piano in a home is a direct addition to national wealth.

With reference to the second general heading above mentioned, we call your attention, respectfully, to the following facts:

1. The piano-manufacturing industry, despite the prosperous times this country has enjoyed, has not been proportionately benefited. The hardship which has been worked on this industry results from the enormous increase in cost of the materials used and the fact that the manufacturers have not been able, by reason of conditions incident to the trade, to raise their prices sufficiently to keep pace with the increased cost of production.

The reasons that the manufacturer of pianos has not been able to increase his price proportionately are twofold:

(*a*) The greater percentage of the pianos manufactured are so-called "commercial" instruments and made to be sold to the person of moderate or little means, in general, on the basis of time payments, and any material increase in the price of these instruments would result in an enormous curtailment of sales by reason of the fact that this large class of people is already being excessively burdened by the serious rise in foodstuffs.

(*b*) In the case of the so-called "art" pianos or high-grade instruments, the name has been established in many cases for generations and the price of any particular make has become standardized. For this reason it has been exceedingly difficult to raise the price of the so-called "art" pianos without calling widespread attention to the fact and thus seriously impairing sales.

2. The situation created by the present war has curtailed the exportation of pianos by reason of the excessive cost of materials and labor.

3. In further proof of the fact that the piano business is not one in which excessive profits have been realized, we would respectfully call your attention to the fact that most piano manufacturers do not make a net profit to exceed 5 per cent of their total net sales, and but exceedingly few manufacturers make a net profit of 10 per cent thereon.

4. The estimated production of pianos manufactured this year will be approximately $50,000,000; that of musical instruments other than pianos and talking machines may approximate $25,000,000; and the estimated value of talking machines for 1917 will be $100,000,000. This means that musical instruments will represent a total output of approximately $175,000,000, and that the proposed tax of 5 per cent would be penalizing the musical industry against other manufactured products in general to the amount of $8,750,000.

5. Recognizing the fact that at least 85 per cent of all pianos are sold on time payments and that the manufacturer is therefore obliged to sell the dealer on long terms of credits, any cash tax on production adversely affects the piano industry to a greater extent than other manufacturing interests. Such a tax represents a cash payment against a long-time credit asset.

By reason of the fact that the proposed imposition of this tax has but just come to the attention of the piano manufacturers we are unable at this time to do more than call your attention very briefly to some of the unfair and disadvantageous features thereof. We respectfully request that before a final determination of this matter by your committee you permit an investigation as to the desirability and fairness of the proposed tax on musical instruments and pianos in particular.

We feel very strongly that the production of pianos should not be classed for the purpose of discriminating and extraordinary taxation with articles which may be termed obnoxious luxuries and other products which are luxuries simply for temporary consumption, and which do not contribute either to the permanent wealth of the Nation or to its present happiness and economic welfare.

Respectfully submitted.

(Signed) J. H. SHALE,
Chairman Committee on National Legislation,
National Piano Manufacturers' Association of America.

Mr. BARTLETT. Just one more point. The European nations, our allies abroad, do not levy any special tax on musical instruments.

The British Empire started with some restrictions. They found it was hampering their people, and the tax levy was declared off in some fashion. I have verified this within the last day or two by a cablegram from London. We are trying to avail ourselves of their experience in other directions. I think we would be wise to follow their example in this. If there is any time in the history of the Nation when we need to keep up the spirits of our people, when they must have suitable entertainment and recreation, it is now. I know of nothing that contributes more to the peace of mind and to the happiness of the people than music. It is considered essential in the hospitals for the wounded. They are even using it in the insane hospitals. It is being recognized as a very valuable agent in that direction. Let us not burden it any more than we are obliged to.

If I had time I could give you the whole history of how this piano business is handled, but my time, I imagine, is about up, and you might not be interested.

The CHAIRMAN. The clock has stopped.

Mr. BARTLETT. I have been told my face would stop a clock, but I did not think my voice would.

The CHAIRMAN. We will next hear Mr. Pound.

STATEMENT OF MR. GEORGE W. POUND, GENERAL COUNSEL OF THE RUDOLPH WURLITZER MANUFACTURING CO.

Mr. POUND. Mr. Chairman, I desire to speak briefly on three points, and to offer an amendment along that line.

The first question will be the retroactive feature of this bill as applied to contracts. Our people have many large contracts which were entered into long before this bill was in contemplation. One of these contracts is a contract with the Government for $400,000 for musical instruments. The English and Canadian people, when the war started, denied allowances to their bands, but soon found that that was wrong. They were compelled to change it, and now full allowance is made for all English, French, and Canadian bands.

We have taken a contract for $400,000 for the bands of the Army of this country. It was taken upon a 10 per cent basis, with no guarantee by the Government to us upon the question of wages and similar things. That contract was entered into in rather a patriotic mood. If this 5 per cent tax should be deemed to be retroactive it would substantially wipe every element of profit on that contract. We make very large unit orchestras, as they are called. One recently contracted for with the city of Denver, which was rather a public matter there, the instrument to be placed in the auditorium, the Rotary Club of Denver gathering up public subscriptions of funds. That contract amounts to $45,000. We took that upon a very close basis, much closer than we take our ordinary contracts, because it was a public benefaction and a public effort. We have not 5 per cent profit on that contract. Our entire profit is much less than 5 per cent.

We are willing to take our chance on the increase of wages, which, of course, we expect, but this proposed tax, if it was made to date back and operate against those contracts, would entirely not only wipe out our profit but compel us to furnish the city of Denver

that $45,000 instrument for their convention hall at an absolute loss of some thousands of dollars.

The same rule applies to a $45,000 contract in San Francisco for a single-unit orchestra, and the same at Portland and the same at Seattle. Those instruments take over six months to build. All of them have been contracted for. We are responsible both morally and financially, and we are going to build them. But we do not think those contracts which we entered into prior to even the inception or thought of this bill should be charged back with what is going to be an absolute loss to us.

Prior to the war about 75 per cent of all band instruments and similar smaller musical instruments were made abroad, very largely in France. Now, under the protection which the war has given to us I would say that at the present time it is reversed and that 75 per cent of those goods are being made in this country. France alone of all the nations at war is endeavoring hard to hold that business, and the French Government is encouraging the manufacture and production of musical instruments and encouraging their export in some small degree in the hope that the French manufacturers may be able to hold that business after the war. We have gone so far that we are going to be enabled in a few weeks to turn out 1,000 cornets a week, and when the war is ended one great benefit that is going to come to the American people is that we are going to be able to hold that business.

To do that, however, we must have an export trade, an export trade to Cuba and South America. We are about to send Sousa's Band on a trip to South America to exploit American music and American band instruments, with the idea that now is our time, while our German and French friends are engaged otherwise, to get that South American business. It would seem, therefore, fair to us, in developing that great business, in keeping our great factories and our hundreds of employees at work home here, that upon those instruments, upon that business which we export, we should not pay this tax of 5 per cent. Having to pay that tax of 5 per cent, we could not, of course, meet any foreign competition; we could not meet the French competition there is now, which is about 25 per cent of the market.

Senator THOMAS. They have put a heavy tax upon the French manufacturers, have they not?

Mr. POUND. They pay an import duty.

Senator THOMAS. I know, but a war tax?

Mr. POUND. Not on musical instruments. Neither England, France, nor Canada, as I am informed, taxes any form of music. They started to do it, but they have changed and encouraged it and fostered the musical business rather than checked it, believing that it is one of those things which tends to keep the people in humor and to keep them happy and contented.

There is another element, of course, which enters here, and that is the large cancellations of business which we are receiving. It is considered in our business that we can not stand cancellations on a volume of business to exceed 25 per cent. Our cancellations and the checking of business within the last few weeks have varied from 12 to 35 per cent, dependent upon the particular portion of the country in which the business is drawn from. Our overhead continues.

Our business is a specialized business. We can not go out and pick the men from the street. We can not take the mechanic, no matter how skilled he is in his particular line of work; he must be trained and educated to the particular needs of a specialized business.

Therefore, any checking of our business, any scattering of our men, any scattering of our organization is difficult, because it takes at least two years to rebuild any such element of loss. The present condition is this: We are going to try not only to make as many instruments as we are making now, but the policy of the particular companies for whom I am speaking here is to now endeavor to increase the output by every possible effort. We are going to employ every man; we are advertising now all over the country for men, for skilled men, for the highest class of labor. We are going to put our whole business to its fullest output, at whatever cost it may be to us. We are going to do that, not only from patriotic motives, from sound business principles, we believe, but we are going to do it to endeavor to hold this business, to hold this export business, which we hope to build up for this American industry, create this business here, and to be able to hold it after the war, when we must expect to be swamped with an immense amount of goods which will pour in.

I offer as an amendment the following: Amend section 600 (p. 26) by adding:

> Provided that no tax shall be required or levied upon any article enumerated in subdivision (b) of section 600, contracted for at a definite and fixed price prior to May 15, 1917, nor upon any of said articles intended for and actually exported beyond the limits of the United States during the pendency of this act.

Senator JONES. I would like to ask a question to clear up a statement you made a while ago. You said you were under contract to furnish the Government with musical instruments at a profit of 10 per cent.

Mr. POUND. Yes, sir.

Senator JONES. The profit on what? What is the cost on which you figure the profit?

Mr. POUND. Material and labor entered into that, Senator. The Government guaranteed to us the price of brass only, and no outside charges whatsoever.

Senator JONES. The cost does not include overhead charges or investment in plant?

Mr. POUND. No, sir; not as I am informed.

Senator SMOOT. Overhead charges must be a part of the cost. If they were not, you would lose your money.

Mr. POUND. It is generally, of course.

Senator JONES. I think it is important for us to know about that.

Mr. POUND. I shall be pleased to file a brief stating the actual facts with this committee.

Senator JONES. I should personally like to have you do that.

(Subsequently Mr. Pound stated that the cost did include a low allowance of overhead but not sufficient to meet this reduction of 5 per cent.)

Mr. POUND. The matter was largely fixed by the Government.

Senator JONES. Let me ask you again: How often do you turn over your capital during the year? In other words, how long does it

take you to manufacture the product which you deliver at a profit of 10 per cent?

Mr. POUND. On the average, from six to eight months, but the larger instruments usually require a year. I have filed a brief on the general question involved.

The CHAIRMAN. It will be printed in the hearings.

(The brief referred to by Mr. Pound was subsequently submitted and is here printed in full, as follows:)

STATEMENT FILED BY MR. GEORGE W. POUND, BUFFALO, N. Y., GENERAL COUNSEL IN BEHALF OF THE RUDOLPH WURLITZER CO., OF CINCINNATI, CHICAGO AND NEW YORK, AND THE RUDOLPH WURLITZER MANUFACTURING CO., OF NORTH TONAWANDA, N. Y., MANUFACTURERS, IMPORTERS, EXPORTERS, AND DEALERS GENERALLY IN ALL KINDS OF MUSICAL INSTRUMENTS.

This tax is on the theory that music is a luxury—luxuries are among the proper subjects of taxation. Music is not a luxury. It is a necessity, a comfort. In war time it is indispensable to the creation and maintenance of martial spirit. Music to-day is a national blessing and a necessity to be subsidized rather than penalized.

At the beginning of the European war England, Canada, and France showed a disposition to discourage the manufacture and sale of musical instruments, classing these as a luxury not necessary to the welfare of the people. But they soon found otherwise. Economists class music as the fourth necessity of mankind, the first necessity after the three prime necessities—food, raiment, and shelter.

At the outset of the war the Canadian and English Governments denied allowance for regimental bands. But the absolute necessity of music, not only in recruiting but also at the front, became so apparent that the Government withdrew its order and within six months every regiment had again its band and music was everywhere favored: the men were encouraged to take their instruments to the front and the terrible life and strain of the trenches was relieved with music and so made endurable.

I might quote from many great writers and thinkers in support of music as an essential: Dr. Harvey W. Wiley, Daniel Frohman, David Starr Jordan, C. N. Bovee, Ralph Waldo Emerson, Waldo Pondray Warren, and Arthur Brisbane. H. Addington Bruce, author of "The Riddle of Personality," "Psychology and Parenthood," etc., says: "It is a salutary practice to have music in the home almost every evening after the evening meal. It does much more than give enjoyment to the mind. It aids digestion, it influences helpfully even the internal organs and processes of the body." Voltaire, that witty critic, said that going to the opera promoted digestion. Music is always and wholly beneficial: it tranquillizes the mind, it wards away worry, it chases care.

And further, all such special taxes tend to check industry. Prior to the war 75 per cent of all brass instruments used in this country were imported. Since the war, with the protection it afforded, we have been expanding along these lines and are now able to make most of the brass instruments here, and if the industry is not checked by this special legislation we will be able after the war to maintain our supremacy in the production of these instruments, another industrial benefit coming to us from the war. France realizes this and has not only encouraged the output of musical instruments and the use of music in the homes and trenches, but has exported instruments in an attempt to hold this trade. To supply the home market and to meet the French in export trade our manufacturers must enlarge their plants and increase their facilities. This is slow work because the industry is so specialized, and can not even be undertaken if the industry is to be checked.

There is about $200,000,000 invested in the manufacture of musical instruments in this country, with an annual output of about $150,000,000. This war tax would, therefore, amount to about $7,500,000, a very heavy tax and one sure to check the industry.

The CHAIRMAN. The next paragraph relates to talking machines. Mr. Brown, you may begin.

Sec. 600 (B). TALKING MACHINES AND GRAPHOPHONES.

STATEMENT OF MR. H. C. BROWN, REPRESENTING THE VICTOR TALKING MACHINE CO.

Mr. BROWN. Mr. Chairman and gentlemen, I realize that your time is very valuable, and I am going to be just as brief as possible.

Our situation is just the same as that of every other manufacturer here to-day and yesterday. You will all realize we are laboring under an increasing raw-material market and a vanishing raw-material market, and we have been absorbing that, because our goods are so well established in the retail prices that it would be almost impossible to say to the public that the price of the goods had increased, and that the public must stand it. We have carried these increasing costs, absorbed every cent of them, for the last 12 years. I might say, and I might add, in addition to increasing cost and goods at the same price to the public, we have at the same time been increasing very largely the value of our goods. I might cite, as a particular instance, our $50 instrument to-day is practically the equivalent of the $125 instrument of a few years ago.

As to our patriotism and our willingness to share in the tax which this committee deems well and advisable to impose, we are right in line, in the front ranks. We simply want to say that we consider that all manufacturers should be considered, not that our problems alone, because I do not believe there is going to be any very specific instances where men have made points that will enable them to enjoy certain privileges over others. I thank you.

The CHAIRMAN. Now we will hear Mr. Dorian.

STATEMENT OF MR. M. DORIAN, REPRESENTING THE AMERICAN GRAPHOPHONE CO.

Mr. DORIAN. Mr. Chairman, I represent the American Graphophone Co., which is the manufacturer of the talking-machine products known as Columbia Grafonolas and Columbia Double Disk Records. I have attended these hearings here and have been very much enlightened as to some industries. I have heard many things advanced to this committee which were points I had intended to present for your consideration. I can repeat those; I can enlarge upon them as they affect our company, but your time is valuable, and I do not want to do that. I want, however, to put our company on record as second to none in motives of patriotism and desire to do its full duty at all times, and especially now.

I want to indorse what Mr. Brown said, asking you gentlemen to consider carefully and wisely the needs not only of our industry but of all of these, because, as one gentleman said here the other day, this is but the beginning. You can not hope, if this trouble continues for any great length of time, to make provision by this one act for the needs of the Government. And that suggests to the mind of every wise legislator and business man caution at the start, care that no great damage is done to any industry.

I want to add this one feature: Some of the gentlemen here have very properly and very eloquently described to you the educational features of musical instruments. The talking machine has done a

wonderful work in that connection. But a few years ago it was an article to subject to great criticism, and, perhaps, ridiculed as being an unpleasant instrument, a toy. It was not recognized, really, as a musical instrument a few years ago. But, by the outlay of enormous capital, by the outlay of great genius, by the expenditure of great energy and labor that crude instrument of a few years ago has been brought to a state of perfection where it is no longer looked upon as a luxury, it really is a necessity, and its educational value to this Nation is beyond computation, because all of us have noticed the great strides the American people are making in the last few years in the understanding and the love for the most beautiful music of all the world, and we are bringing our children to a realization of the value and the importance of that, and we are doing it with the talking machine more than by any other musical instrument which finds its way into our homes.

A letter in the nature of a brief will be mailed to the committee for printing.

The CHAIRMAN. That will be done.

(The letter referred to by Mr. Dorian was subsequently submitted and is here printed in full as follows:)

RE WAR REVENUE BILL.

NEW YORK CITY, *May 14, 1917.*

To the honorable the Committee on Finance,
United States Senate, Washington, D. C.

SIR: In supplement of the oral representations made by our representative, Mr. M. Dorian, at the hearing on Saturday, May 12, we ask permission to file the following arguments which are advanced in the interest of and on behalf of the dealers throughout the country who handle talking machines and sound records therefor who were not able to be present at the hearings.

SECTION 602.

This section (p. 29 of the bill) proposes a tax of 5 per cent of the price for which sold by the manufacturer, producer, or importer as to all articles enumerated in subdivisions (*a*), (*b*), (*c*), and (*f*) of section 600 which are on the day this act is passed held by other than the manufacturer, producer, or importer.

It is respectfully urged that this is an extremely harsh and inequitable provision in itself and that it is also discriminatory as to articles coming under the subdivision (*b*).

It should be appreciated by your honorable committee that as to certain classes of sound records used on talking machines there is a large proportion of a more or less brief life—or popularity—and if not disposed of during their vogue can not subsequently be disposed of at all.

So-called popular songs are in great demand for a brief interval and then drop completely out of favor. Records of this character must be sold while the demand is current or not at all. A predominant part of the sound records are within this category.

Even under most careful and conservative estimating of his probable needs the dealer can not escape the accumulation in his stock of records of large quantities of this class of merchandise.

It will be a most unpopular, burdensome, and unfair tax which imposes upon the dealer payment of any sum on his dead stock—already an eyesore to him as representing capital irrevocably manacled and lost.

As to this class of merchandise it is urged no tax should be imposed as it is in effect a tax on capital, and not on profits actual or prospective.

It is urged also that there is discrimination against articles enumerated under subdivision (*b*) inasmuch as such articles as golf clubs, baseball bats, and other sporting goods are not covered by similar provisions by the bill.

These latter are surely as much entitled to be considered luxuries as talking machines and records therefor.

It is urged that the tax, if levied, should be upon the sale when it occurs and in urging this amendment it is believed that the Government will not be the loser: that honest returns from the dealer can be counted upon as to any and all sales made.

We therefore urge consideration of this highly improper feature of the proposed tax.

Respectfully submitted.

THE AMERICAN GRAPHOPHONE CO.

Mr. DORIAN. I hope the gentlemen will consider that feature of this really popular instrument. It is not a luxury. It is really a necessity. I want to impress that upon you. I want to thank you gentlemen for your attention.

The CHAIRMAN. The committee will now hear Mr. Blackman.

STATEMENT OF MR. J. NEWCOMB BLACKMAN, PRESIDENT OF THE BLACKMAN TALKING MACHINE CO., OF NEY YORK.

Mr. BLACKMAN. Mr. Chairman and gentlemen of the committee, I am president of the Blackman Talking Machine Co. and represent the National Association of Talking Machine Jobbers, as well as about 20,000 retail dealers of talking machines in the United States.

I desire to present our case without trespassing on your time, so I will omit references to my patriotism, except to say that I believe you will give me and the industry I represent credit for having as much as speakers who have made specific reference to it.

The manufacturers have presented many good arguments against the proposed 5 per cent tax on their goods, so it behooves me to stick to my case and talk about the wholesaler and retailer.

If the manufacturer must stand this 5 per cent, he may find it necessary in most cases to pass it on to the wholesaler and retailer. You can readily see that the retailer inherits the troubles of the manufacturer as well as the consumer and is in between. He therefore will get it going and coming.

Senator THOMAS. You do not know whether it is more blessed to give than to receive?

Mr. BLACKMAN. In this case I think it will be more popular to give than receive the 5 per cent tax.

The retailer may be able to pass it to the consumer, and he may not. It depends on conditions, but I am confident that if he must do so to get a living profit, his sales will suffer and you will have a sick commercial soldier.

We can't all fight this war in the trenches, and if merchants must show efficient commercial preparedness, both during and after the war, we must give them at least a fighting chance. We have no Red Cross for the sick and wounded United States merchant. He must pay liberally in taxes, if he succeeds, and he will do so willingly through other taxes provided, but if he is seriously injured because of an unwisely imposed tax and he fails, there will be no rebating of taxes to nurse him back to health.

The wholesaler and retailer of musical instruments, including talking machines, under the terms of this bill on page 29, section 602, faces a tax of 5 per cent for stock on hand, "the day this act is passed."

It makes no difference how old the stock is, or whether he will ever be able to sell it, or at what price. He must look up what it cost, and when he gets the grand total, write out a certified check for 5 per cent.

Suppose you had a stock that cost $100,000 and contained some heirlooms of former inventories. Would it help sales any to be taxed 5 per cent on the cost of these goods? Is it unreasonable to say that your net capital might be only $50,000 and yet you would be called upon to pay $5,000 cash, or 10 per cent of your capital, simply for being in business and having on hand a stock "intended for sale?"

When the manufacturer tries to add 5 per cent to former prices and offers me the goods at the new price I do not have to buy, and he does not have to pay his 5 per cent unless he sells—but, in the case of the stock on hand with the retailer, the retail buyer may refuse to buy because of the advanced price, the age of the goods, or many other reasons, but this bill says the retailer must pay 5 per cent tax cash whether he can raise the cash or sell the goods.

Gentlemen, I don't think you will fail to see the injustice of this, or refuse to correct it. If we must have a retroactive tax, reaching stock on hand, then make suitable allowances by exemptions for condition, length of time on hand, etc.

Then, again, would it not be well to consider the fairness of making the tax not more than one-half?

The House committee must have considered these exemptions to some extent, for on page 29, section 603, articles enumerated in subdivisions *g*, *h*, *i*, and *j* are taxed only if not on hand May 1, 1917.

I don't think you intend to deny such exemptions to articles enumerated in section 602, subdivision *b*, which are musical instruments, pianos, talking machines, etc., nor do I think the articles in the same section, *a*, *e*, and *f*, should be overlooked, although I do not represent that business. I am not trying to hand something to the other fellow or the other business, so if they are going to suffer in a like manner, and have as good a case, give them all they should get. I want you to be fair and let us share alike under similar classification.

Sporting goods, chewing gum, etc., I don't think should be favored with these exemptions, and talking machines and other articles of greater or equal necessity overlooked.

Please refer to page 18, line 19, section 403, and note the exemptions of stock on hand in the case of tobacco, cigarettes, and cigars.

This exempts 1,000 pounds of tobacco and 20,000 cigars or cigarettes, and then if there is any stock remaining to be taxed it will be only subject to a tax of one-half the regular tax provided.

Am I unfair if I say that tobacco and cigarettes are not entitled to this exemption as much as a stock of talking machines and records, and I don't say you should take it away from the cigar dealers?

I want my remarks to remain fresh in your minds and not become a burden by repetition, and I therefore close with this appeal to your sense of fairness by asking you to place no tax of the kind proposed on "stock on hand." If that is asking too much, then by exemptions suggested above, provide for old stock, etc., or at least give our line as much as others referred to by amending section 602 by striking out subdivision (b), and to amend section 603 by including in it subdivision (b), so that the exemptions allowed in section 603

will be included on goods represented by subdivision (b). If I was representing goods specified in subdivisions (a), (e), and (f) of section 602 I could, no doubt, just as consistently ask for the same amendment, and in that case section 602 would be amended by striking it out entirely and including in section 603 subdivisions (a), (b), (e), and (f). I leave to your good judgment the wisdom of providing for these, or suitable amendments, and complete my remarks, thanking you for this opportunity to address you and have your attention.

The CHAIRMAN. You may now proceed, Mr. Smith.

STATEMENT OF MR. WILLIAM WOLFF SMITH, REPRESENTING THE PHONOGRAPH CHAMBER OF COMMERCE OF THE UNITED STATES.

Mr. SMITH. Mr. Chairman, we want to indorse what the preceding speakers have said with respect to talking machines and present some resolutions that were adopted on Wednesday of this week.

The CHAIRMAN. The clerk will print the resolutions in the record.

(The resolutions referred to by Mr. Smith are here printed in full, as follows:)

RESOLUTIONS ADOPTED BY THE PHONOGRAPH CHAMBER OF COMMERCE OF THE UNITED STATES AT A MEETING HELD ON WEDNESDAY, MAY 9, 1917.

Whereas the Ways and Means Committee of the House of Representatives proposes the imposition of a tax of 5 per cent on the cost of manufacture of phonographs, phonograph records, and other musical instruments; and

Whereas the imposition of such tax upon the cost of manufacture would be a deterrent to the development of an industry which in this country is quite young; and

Whereas the imposition of such tax would entail an additional hardship upon the manufacturers because of complicating clerical work, so that the burden upon him would not be 5 per cent, but would be considerably in excess thereof; and

Whereas the phonograph has become an instrument of inestimable educational value; and

Whereas the imposition of such tax would necessitate an advance in the selling prices of phonographs and phonograph records which would materially injure sales: Therefore be it

Resolved, That the Phonograph Chamber of Commerce of the United States, through its committee, urge the Congress not to impose the proposed tax.

WM. E. HOSCHKE,
Chairman.
F. B. GUARNIER,
Secretary.

The CHAIRMAN. That finishes up the paragraph on musical instruments, photographs, etc. The next paragraph relates to motion pictures. We will first hear Mr. Brady.

Sec. 600 (C). MOTION-PICTURE FILMS.

STATEMENT OF MR. WILLIAM A. BRADY, PRESIDENT OF THE NATIONAL ASSOCIATION OF MOTION PICTURE INDUSTRIES, OF NEW YORK CITY.

Mr. BRADY. Mr. Chairman, I represent the motion-picture industry of the United States. I am president of an association entitled the National Association of Motion Picture Industries, which in its

membership includes at least 95 per cent of all the motion-picture industries. When I say that I refer to the manufacturing, the distributing, the exhibiting, the making of machines in connection with the same, and in fact, everything that pertains to the motion-picture industry.

I wish to say to the members of the committee that we do not wish to wave the American flag. We are not here to preach our patriotism. I believe we have proven that already to the National Government by turning our screens and our films over to all propaganda for recruiting, for gardening, and for farming. We spent hours on Saturday in New York consulting with one department of the United States Government, in which I, representing the industry, guaranteed that in every corner of the United States—places where even newspapers did not reach, places where they do not even have weekly newspapers—we would circulate free of cost any propaganda that the United States Government desired to have circulated. That must speak for our patriotism.

I do not want to put on a poor mouth. Facts speak for themselves. It is a public idea that the motion-picture business is an El Dorado. Perhaps it was once. The pioneers in the motion-picture business probably made a good deal of money. That came at the time when the industry or the "game," as we call it, was little known. They got their actors cheap, they got their film cheap, and they sold it cheap. But the industry grew, and it is growing at the present time. Our actors are expensive, as you probably read of in the newspapers. All material that we use is expensive.

We object, not to the tax as a whole, but as to the method, and our principal objection is this: You tax our film, our product. You tax what you call nonexposed film and exposed film. I must take up one moment to describe a motion picture. It comes to us first in the shape of a story. It goes to the studio, to the hands of the actors, the property men, the carpenters—perhaps thousands of people. It has been classed as the fifth industry in the United States. I do not believe it is the fifth industry in the United States at present, but I think its growth may bring it presently to the position of third industry in the United States if it is not strangled by overtaxation.

The negative film is purchased, the positive fiim is made, then turned into what you see in the motion-picture theaters throughout the country, in the schools throughout the country, in the colleges throughout the country, and in our educational institutions throughout the country. And I am safe in predicting that the day is not very far distant when the film may perhaps take the place of the schoolbooks, when, instead of having libraries of books, perhaps you may have libraries of the famous authors done in film. That is what we expect, and we only hope our National Representatives will not tax us out of existence.

We are perfectly willing to grant and accede and wish for what you have made as the admission tax. But we object to your taxing the stuff that we use in production. You put one cent and a half tax upon every foot of film we use. In the manufacture of a 5,000-foot reel after development, sometimes as much as 40,000 feet of raw film is taken for the production of the 5,000 feet. Scenes are taken over and over again. Scenes are taken and cut out. The result is

that fully 75 per cent of the film that is used in the production of a subject is thrown away.

Senator THOMAS. Is it a total loss?

Mr. BRADY. A total loss. Why, then, charge us for that? In other cases, and many, many cases, to use a slang phrase, since the "boobs" have forced their way into the motion-picture industry—and when I say "boobs". I mean this, that in no industry in the United States, and I challenge contradiction, has there been as much money lost in the last 12 years as there has been lost in the motion-picture business; many, many instances, and if you had given me the time I could quote them, but I will not ask you to give me the time—pictures are made in which 200,000 feet, aye, 300,000 feet, of raw film are used which never reach the public at all, because when the subject is completed it is found to be a failure and can not be sold. Is it justice, then, to charge the man who fails a cent and a half a foot for the film that he uses and never disposes of? You are charging us for speculative profits. We ask a withdrawal of that.

We call your attention to the fact, gentlemen, that all of our producing firms, all of our manufacturing firms, all of our exhibiting firms are incorporated, or are partnerships, and are aleady paying the excess-pofits tax. We call your attention to the fact that every theater in the United States, and every manufacturer in the United States pays a license tax. We call your attention to the fact that we pay local taxes. We call your attention to the fact—and, yes, we hope to bring up to you very seriously in the near future—that in every State of this Union we are forced to take our film and pay somebody from 25 cents to $2.50 a reel to look at our films and find out whether they are fit to use or not; and I say to you now that, as there is in every industry, perhaps there are certain films used that should not be used. But it is a very small percentage, and it is the object of this industry, as it is constituted now, to put some of these gentlemen who dare to put indecent subjects on the films in State's prison. The industry will do that themselves, and we pledge ourselves here we shall do it. But, nevertheless, with that good intention in view, we are forced in every State in the Union, and in many of the large cities, to pay a tax to have our product inspected. That amounts to, God knows how many, thousand of dollars a year.

In your present trouble, as patriots, we are willing to be taxed as much as any other industry in the country. But we do not want to be looked upon as we apparently are by a gentleman who spoke for an industry a moment ago, when he said, "Don't tax us; tax motion pictures and chewing gum." We resent that. We are a respectable industry. We have artists and we have authors. We have Sir Gilbert Parker, we have Sir Herbert Tree, and Sir George Alexander; we have the leading actresses of the United States, the leading actors of the United States, the leading newspaper men of the United States, the leading authors of the United States, writing for the screen. By what right does that gentleman say, "Tax chewing gum and motion pictures?" The motion-picture business is just as respectable as the automobile business. It has had fewer failures.

Senator SMITH. Do you not think they have tried to find everybody and everything and tax them in this bill?

Mr. BRADY. You are right, Senator Smith.

Senator SMITH. It is not just chewing gum; it is everything.

Mr. BRADY. But you do not tax them on the material that they use in their product. We are perfectly willing to pay a 10 per cent tax. The exhibitors have all agreed to more than you ask for in the bill.

But we disagree with one proposition. For instance, where a man makes a pair of shoes, you tax that pair of shoes, but you do not tax him for the leather he uses in the shoes. One of the gentlemen in another industry a moment ago said to me, "We are taxed 5 per cent." I said, "Yes; but are you taxed for the celluloid put in your disk? Suppose they taxed you a dollar a pound for the celluloid you put in your disk; would it be just?" That is what you propose to do to us.

We know what you want to raise. We know that we are the poor man's amusement: and get this, Senator Smith and Mr. Chairman, we represent the poor man's amusement, the man who gets into the theater for 5 cents, for 10 cents, or for 20 cents. He can go see a news reel, a play, a funny picture, or he can take his family to the theater, his whole group of children to the theater, for one-third of what he used to pay to go to a regular theater. Why tax us? Why not start with the big fellow? Why not start with the Metropolitan Opera House, which charges $6 a seat? And I say this not selfishly, because I am a legitimate theatrical manager, one of the first in the United States. I produced more American plays than any other man in my generation. I own two first-class theaters in New York now. I get $2 for my tickets. They are taken away from me and sold in the hotels for $6 or $7, if I chance to make a success. Why not tax those.

Why not tax the men in New York who are selling a seat at a table on a roof garden for $6, or the men who are selling a seat to hear Caruso for $10, or the men who are selling seats for the world-series baseball games for $20. Why start in and try to raise all your tax on the motion-picture industry, which stands as the poor man's entertainment, the entertainment that has brought more families together than any other class of entertainment that has ever been invented. Now, I say, start up with the $10 and the $6 and the $8 and the $2 and the $1.20, and when you get down to the poor man's amusement, make it a little bit easier. Do not read the newspapers and think that Mary Pickford gets a million dollars a year, and Douglas Fairbanks gets a million dollars a year, and Charlie Chaplin gets a million dollars a year. If they do, tax them.

Senator SMITH. I thought it was only $250,000 a year.

Mr. BRADY. Tax them. You are taxing them in your income bill and this very bill. If it is true that Mary Pickford is getting $1,000,000 a year, then Mary Pickford is going to pay $333,000 this year to the United States Government. If it is true that Douglas Fairbanks is making $1,000,000, he will pay $333,000 this year to the United States Government. That comes directly from the motion-picture business if you get it from the actors: and we hope you do, because the actors are getting it all. [Laughter.]

But do not tax us. Do not crush us. Do not strangle us. Do not put us out of business. You say, and very rightfully say, "Gentlemen, you must be making an awful lot of money, because we read so much about it in the newspapers." Showman's brag and bluster! The natural inclination of the showman is to exaggerate by 1,000 per

cent. We have a great national figure who indulges in that same practice, a natural-born showman. [Laughter.]

Senator THOMAS. We will tax him.

Mr. BRADY. Those are exaggerations; they are not facts. I listened to the gentleman, who spoke as the head of the National Automobile Association, telling about the numbers of the failures. I listened to him telling how much percentage had been paid by all the various automobile companies in the country. He cited the fact that they all paid something, and I declare right here and now that there have only been two companies in the United States producing motion pictures this year that have been able to declare any dividends, and I produce here the report of an investigation made by a committee sent to the city of New York by Gov. Whitman and the Republican legislature in an attempt to tax us out of existence, which, after spending about $30,000 of the money of the State of New York and paying Senator Hinman $12,000 counsel fee, and spending two months in the city, reported that the motion-picture business at the present time was not in condition to be taxed.

Now, we want to be taxed by the United States Government. We are glad to be taxed, and every one of our studios have a lot of men drilling now to go to the front if necessary. But we say, please do not tax us on what we put into our material. The man who sells this hat I have in my hand does not have to pay 50 cents a pound for the felt he uses in it. That is what we ask. Please do not tax the material we use; please do not tax something we never get a chance to sell, or sometimes do not get a chance to sell. Tax our profits, tax our admissions, tax anything you please, but do not put an impossible tax upon us. If you want to know anything about our business, we will tell you. We will tell you the method to raise the money you want to raise. But do not walk in blindly, as the legislators at Albany did. When they reported their bill for passage in Albany they had to define to the legislators what a negative meant, what a positive meant, what distribution meant. They had to give, in the first pages of the bill they introduced in Albany, definitions of the different words they used through their bill. That showed how much they knew about the motion-picture business.

Senator THOMAS. You might give us some information of that kind.

Mr. BRADY. Anything you ask me, Senator, I will answer. It is like the gold fields in Nevada. Somebody discovered gold; they rushed in and the gold gave out. It is exactly the same. The day will come when the motion picture is going to look forward to education. It was the thing which assisted Woodrow Wilson and Charles E. Hughes to talk in 10,000 places every day at the same time. That is what the motion picture is for. The day will come when the operations of a great surgeon on the eye or the tooth or for appendicitis will be preserved and used in the finest colleges in this land to teach surgery; when the inauguration of President Wilson, or the inauguration of President Roosevelt, or the latter's departure for France a few months hence, will be preserved for our boys to see and look at. Do not put us out of business. Treat us as men. Do not class us with the manufactures of chewing gum. We are not to be classed with them. We have big ideas, gentlemen. If you want any more facts about this, I have a gentleman here who can supply you with

any details you may care to be bothered with about the motion-picture business.

Senator McCUMBER. Is there not a possibility for you to recoup some of these taxes by cutting down the million-dollar salaries that are paid for $25,000 idlers?

Mr. BRADY. There are only three.

Senator McCUMBER. If you could cut them down perhaps you could afford to pay some taxes.

Mr. BRADY. There are only three of those creatures, and they have their own corporations. They have gotten so big that nobody can pay them the money. It is not true that any manufacturer pays the money. Mary Pickford owns her own corporation. Douglas Fairbanks owns his own corporation. Charlie Chaplin owns his own corporation. If that corporation pays them a million dollars, as is alleged, as I said a moment ago, it is going to be pretty will taken care of by this proposed legislation.

Senator McCUMBER. I would take it as far as I could, if anyone is foolish enough to pay that.

Mr. BRADY. The public is responsible for that, not the manufacturer.

Senator SMITH. The children like to see Charlie Chaplin.

Mr. BRADY. But there is another thing. There is one thing you forget. Children in Siam like to see him as well as the children in New York. The children in South America and Patagonia, if you could get as far as that, like to see him just as well. I will give you some facts, and this is what the Senator from Colorado asked me. His salary was paid outside of the United States. Great Britain and its dependencies paid his salary. Those are conditions you can not combat. Why make us suffer for that? Why make the industry as a whole suffer for that? We pay 10 per cent gladly, but do not make us pay for the raw material we put in our stuff, because it is an injustice.

I do not want to bother you any longer, and I thank you for allowing me this opportunity to be heard.

The CHAIRMAN. The committee will next hear Mr. Powers.

STATEMENT OF MR. PATRICK A. POWERS, PRESIDENT OF THE UNIVERSAL FILM CO.

Mr. POWERS. I just want to call your attention to a part of the bill which calls for a cent-a-foot tax on positive film and a half a cent a foot on film purchases. There is only one concern in the United States to-day that can furnish raw stock—that is, the raw material we use for our pictures. That concern sells 100 per cent of the film used in the making of pictures. Being only one concern in the business handling this situation, we have to pay the tax, because we will naturally add that on to our bill. We also have to pay on that same bill when released, when the picture is put on the film.

Film is not the item of value; it is the picture that is on the film. There are no two pictures of a like value, so you can not tax them alike. By taxing on the footage you tax the pictures alike. For instance, we produce in our concern a million and a half feet of positive film a week. That means that the day this tax goes into effect we stand a tax of $25,000 a week on footage, on material, on raw stock that we use to make our pictures.

We release this million and a half feet of film a week. We release 30 different subjects—news subjects—that circulate rapidly and widely and are out of existence inside of a week; we have put on small comedies, little, small stories, magazine stories, and pictures of that kind. We circulate a great amount of film. But the receipts from that class of film, that class of pictures, are not so very great. We furnish film service to the theater at a very low rate. The difference between that class of business, the footage business, and the picture which you have to bear in mind is what you have to put a value on, the picture on the film, because that is what attracts the money—that is what sells; not the film.

One picture was made here recently, probably 20 copies, made in the United States and circulated. They are circulating now in the United States, and have been for the past two years. That picture every week takes in as much money as our entire business takes in on a million and a half feet every week's output. That particular picture, that will take in millions of dollars, probably, before the life of the picture is used up, or before the people get tired going to see it, will not pay one-thousandth part of the tax we have to pay on a news reel, just one reel every week. So you see this particular tax will force us out of business. It will force us out of the circulation business, the business of distributing the films broadcast, or giving them wide circulation. We are the largest producers of films. That is, we produce a larger quantity of film, I think, than any concern in the business. But we will have to simply cut down our production, because we can not stand the cost. We can not stand this kind of a tax. I say that if any tax is going to be levied, levy it on the value, on the receipts of the picture, not on the material that is put in the picture. Levy it on the receipts, on what the picture itself sells for, not on the film.

We sell pictures, news reels, for as low as 4 cents a foot, the news reel that goes around and circulates very rapidly. The raw stock costs us about 3½ cents a foot printed. We sell it for 4 cents. You see, when you put a tax of a cent and a half on that, how many reels or how much film we can afford to release on that basis. We can not do it. We will just simply cut down the circulation. It is justice when you put a penny tax on a newspaper. I want to bring that point home to you, so that you can see the injustice of taxing a production like "The Birth of a Nation," and taxing a news reel maybe a hundred times as much as you tax "The Birth of a Nation." That "Birth of a Nation" picture has made over $3,000,000. The news reel may not make over a hundred dollars. We probably take in on a news reel about $3,000 a week—that is, gross sales. The other picture, which you also tax on the footage basis, just the same, will probably in that same week take in $200,000. But he gets away with the tax of 100 per cent of what we have to pay on a poor news reel. I just want to bring that thought home to you, and I have drawn an amendment along the line which would cover the point, and still enable the Government to get the same amount of money from the industry. I thank you.

The CHAIRMAN. Will you incorporate your amendment in your brief?

Mr. POWERS. Not in the brief that is submitted, but I will submit an amendment to the schedule.

(Subsequently the following explanatory letter, together with the amendment referred to by Mr. Powers, were submitted, and are here printed in full, as follows:)

PROPOSED AMENDMENT SUBMITTED FOR AND ON BEHALF OF MANUFACTURERS, PRODUCERS, DISTRIBUTORS, IMPORTERS OF MOTION PICTURES.

SECTION 600—SUBSECTIONS C AND D.

MAY 15, 1917.

CHAIRMAN THE SENATE FINANCE COMMITTEE,
Senate Chamber, Washington, D. C.

DEAR SIR: The writer spoke before your committee on Saturday last and endeavored to call your attention to a gross injustice and unfair method of levying the revenue tax, after which your chairman requested that I should submit an amendment to the schedule calling for a tax on the production of motion pictures. I am herewith inclosing an amendment which I feel will cover the matter and is submitted to you after a conference with the principal producers in the industry and also with the representatives of the Exhibitors League of America, who represent about 75 per cent of the motion-picture theaters in the country.

I stated before your committee, as levied in Schedules C and D, section 600 is a tax of practically 1¼ cents per foot on all film which is used by the manufacturer. The one-half cent per foot which the Schedule C provides for will also be paid by the producers of pictures, as there is only one source from which the manufacturer can secure film or raw stock (as it is known to the trade), so that the manufacturer of that stock will also increase the price one-half cent, making the tax 1¼ cents per foot or more on all pictures released by the producers.

I stated before your committee that film did not enter into the calculations as to the value of the picture, as all pictures are different—no two pictures being of equal value. I mentioned the fact that news, educational, industrial, magazine, and traveling pictures, of which the writer's company circulate a great number, are taxed the same as the very expensive productions and productions which take in a lot of money. For instance, our news reel: We distribute weekly 150,000 feet of film for which we receive about 4 cents per foot. The life of the subjects is very short—possibly 30 days. The total sum of receipts on the sale of these news reels is about $6,000, but on the basis of taxation in the Schedules C and D this particular news reel would be compelled to pay a larger tax than productions like "The Birth of a Nation," "The Battle Cry of Peace," etc., which productions will take in anywhere from $50 to $150,000 weekly for the same amount of footage, and will continue to do it until the films are worn out, at which time they may replace the film. So you see under this schedule productions of this kind, on which the bulk of the business is done, would absolutely escape the tax entirely, except the one of footage in every case, which would mean a very serious tax with a business like ours.

These large productions continue to take in revenue for possibly one or two years with the same films; in other words, 150,000 feet of film like "The Birth of a Nation" made in profit over $3,000,000 in two years, and the maximum margin which is on a news reel on the same amount of footage is $500. So you see from this that it is the picture and not the film that should be taxed. The tax should be levied on the receipts from the public exhibition of the picture. All pictures are made to be exhibited to the public for profit, and that is where the tax should be levied, because the greater amount of tax you put on a production the less the producer will have to put into the pictures.

A tax on production is unnecessary, as for instance: If a producer pays an actor $10,000 and an author $5,000, and other expenses which are necessary to complete a picture, which may cost him $30,000 in all, the production may or may not be a success. On the basis of the tax suggested, this amount of $30,000 would be levied on it whether or not the exhibitor of the picture made any profit.

My idea in submitting this amendment is to place the tax on the receipts of the picture from the public and in substituting this amendment to section 700. You will find that the additional revenue will be derived by this method of possibly 15 per cent greater than the tax as outlined in the bill and will have no ill effect on the business itself. Another advantage of this method of taxation is that it enables the producer to compete with foreign productions, and it

enables the American producer to market his goods in foreign countries as well as in the United States and to bring out better productions, therefore increasing the box-office receipts, consequently increasing the revenue and giving the public better value.

The State of New York has just completed an investigation appointed by the senate and assembly for the purpose of finding out if the motion-picture industry was a fit business for taxation.

I am inclosing a copy of the report which speaks for itself, from which you will see that my method of collecting the revenue required by the Government is the only way it can be done with the least possible dislocation of business.

The writer has been connected with the motion-picture industry for the past 15 years and has had experience in every branch of it; weathered all the ups and downs; and from my experience I shall be glad to assist the committee in any way in arranging the method of levying this tax and the collection of it, which will be both economical and effective.

If for any reason this amendment as submitted, does not meet with the entire approval of your committee, I would like an opportunity to explain the workings of it more fully, as I am sure after so doing your committee will see this matter in a proper light.

Very truly, yours,

C. A. COWERS.

PROPOSED AMENDMENT SUBMITTED FOR AND ON BEHALF OF MANUFACTURERS, PRODUCERS, DISTRIBUTORS, AND IMPORTERS OF MOTION PICTURES.

Strike out subsections C and D, section 600; also section 700, and substitute the following:

"From and after the 1st of June, 1917, there shall be levied and paid a tax equivalent to 1 cent for each 10 cents or a fraction thereof of the amount paid for admission to any place of amusement, to be paid by the person admitted; and a tax of 5 cents for each admission of each person (except in the case of a bona fide employee and children under 12 years of age) admitted free to any place for admission to which a charge is made, to be paid by the persons admitted: *Provided*, That the tax on admission of children under 12 years of age where an admission charge is made shall in every case be 1 cent. On all admission charges greater than $2 a tax of 25 per cent of the price of the ticket shall be paid. This shall apply to all places of entertainment and amusement and in places of entertainment where no direct charge is made a tax of 10 per cent of the gross receipts shall be levied.

"No tax shall be levied under this title in respect to any admissions all the proceeds of which inure exclusively to the benefit of religious or charitable institutions, societies, or organizations, or admissions to agricultural fairs all the proceeds of which inure exclusively for agricultural purposes.

"The term 'admission' as used in this title includes seats and tables, reserved or otherwise, and other similar accommodations and the charges made therefor."

The CHAIRMAN. Next we will hear Mr. Cromelin.

STATEMENT OF MR. PAUL H. CROMELIN, VICE PRESIDENT OF THE INTER-OCEAN FILM CORPORATION, NEW YORK CITY.

Mr. CROMELIN. Mr. Chairman, I am president of the Interocean Film Corporation. We are engaged exclusively in the export of films from the United States. I have had the misfortune, or the good fortune, either way you may look upon it, of having spent 9 of the last 18 years abroad. I just returned from England, after four and a half months over there in connection with the export of films.

I would like to call the attention of the members of the committee to the fact that there are certain unique features in connection with the motion-picture business which probably are not found in any other industry. After a negative is made, and the positives needed for the United States requirements have been printed, it has been

customary to ship the negatives to London and to print and market the films required for all the rest of the world from there. London has been the big open market, the clearing house, for the world for the export of films. The war is changing all this. On account of the restrictions which have been placed upon the business in England we find men who formerly were accustomed to going to London for their supplies—men from Russia, Scandinavia, South Africa, and the rest of the world—coming here, and now American manufacturers in this country are beginning to print films here which are intended for circulation in South America, Asia, and in other parts of the world.

This bill as it now reads proposes to add a tax of one-half a cent on the raw stock, the unexposed film, and on the finished product a cent a foot, which means 1 cent and a half before the film is ready to go to your customer in a foreign country. The same raw stock which is sold for $0.0265 per foot here is sold in England for an English penny ($0.02), and if we in our export trade are going to start off with a cent and a half handicap, and have a cent and a half burden added to our cost, where the English, French, or Italian manufacturer has no such charge and buys his raw stock at $0.0065 per foot less, we are going to be put at an awful disadvantage in attempting to compete in foreign markets. The idea seems to have gotten abroad that there was such a tax in England, a tax upon production. I want to let you know it is not so. There is a tax upon negatives imported, a tax upon positives imported, but there is no tax upon production. The tax proposed would put us out of the running in competition in all of the foreign markets of the world.

I wish to call the attention of the members of the committee to the fact that this is a business which is being gradually nursed and developed. It is not yet a large business. I believe you will agree with me that a tax upon exports can not be contemplated; that aside from other considerations the constitutional prohibitions make it impossible, and propose and wish to submit that after the word "importer," in subsections c and d of section 600, you add the words "for use within the United States," so that the section would read:

> Upon all moving picture films (which have not been exposed) sold by the manufacturer or importer for use within the United States a tax equivalent to one-half of 1 per cent per linear foot; and
>
> (*d*) Upon all positive moving-picture films (containing a picture ready for projection) sold or leased by the manufacturer, producer, or imported for use within the United States, a tax equivalent to 1 cent per linear foot.

The principle I am contending for would be applicable even in the event your committee in its wisdom decided to cut out the tax upon the films and tax us a percentage upon sales or leases. I wish, as forcibly as I can, to bring to your attention the fact that the American manufacturers are most desirous of retaining this business and not letting it go back to London. We want your assistance, and I believe when you give it careful consideration you will see our point and cut out any tax on films exported. I shall leave with the clerk a brief in support of this principle and ask that it be made part of the record. I thank you.

The CHAIRMAN. That will be done.

(The brief referred to by Mr. Cromelin is here printed in full, as follows:)

AMENDMENT TO SUBSECTIONS C AND D, SECTION 600.

[Brief in support of an amendment to subsections C and D of section 600 of House bill No. 4280, Sixty-fifth Congress, first session (Report 45), with particular reference to the proposed tax insofar as it may be deemed to cover moving pictures exported to foreign countries.]

Section 600, subsections C and D, imposes a tax equivalent to one-half of one cent per linear foot on all unexposed film, and 1 cent per linear foot upon all moving-picture film containing a picture ready for projection, sold or leased by the manufacturer, producer, or importer.

It was probably the intention of the famers of this section to have it apply to moving pictures sold or leased for use within the United States and not to be deemed to apply to films made solely for the purpose of supplying copies for use in foreign markets, i. e., for export.

The tax as proposed is a direct tax upon the article itself when sold or leased. It is not a tax upon manufacture. I submit that it could not have been the intention to have this tax apply to the article when sold or leased for export, in view of the prohibition in Article I, section 9, clause 5, of the Constitution of the United States, which reads, "No tax or duty shall be laid on articles exported from any State."

I do not propose to discuss here the broad question of the propriety, equity, or justice of singling out one industry of all those varied industries affected under section 600 of the bill and of imposing upon it a direct tax on the film itself, which is merely one of the component parts, though in fact the principal article required to secure a desired result—the finished production on a screen. It is sufficient to direct attention to the important point that what is secured by the various steps required in such a process of manufacture should not be considered, for the purposes of taxation, as a film.

What is sold or leased is the right to use a production which, when shown upon a screen, pleases the eye and conveys a lesson to the person who sees it. To obtain such a result in one case may have cost but a trifling sum; in another the film, which, considered as a physical thing, resembles in appearance, length, weight, and general characteristics thousands of little or no value, might represent a fortune to produce, and when thrown on the screen would be infinitely more valuable.

The bill imposes a direct tax, first, upon the unexposed film of one-half of 1 cent per linear foot, and, secondly, a tax upon the very same and identical film of 1 cent per linear foot when it contains a finished picture ready for projection. All that has happaned is that it meanwhile has been exposed to a beam of light and had a picture printed upon it by an ordinary photographic printing process, by means of which the impression from a negative has been transferred and printed upon the previously unexposed strip of positive film. The picture may be of little or no commercial value. The owner may be willing and glad to sell it at cost or less in order to recoup his losses. On the other hand, another film of exactly the same length may contain a subject of great value. In each instance, however, you propose to tax the finished film exactly the same amount—1 cent per linear foot. You do not differentiate between the fact that in taxing at a per foot rate you make no distinction between the man who is selling cotton at 10 or 15 cents a yard and the one who is disposing of silk at from $2 to $10 per yard.

These points will doubtless be presented and enlarged upon by others. The purpose of this brief is to confine your attention solely and exclusively to the question of the tax which it is proposed to levy upon moving pictures sold or leased for export. The matter is not one which impugns or involves in any manner one's patriotism or willingness at thi: critical juncture in the Nation's affairs to contribute a fair, just, and proper share toward the huge sums which must necessarily be raised. The great motion-picture industry of the United States will be found second to none in its readiness to respond willingly and generously to the demands which will have to be met. All that it asks is that the method of taxation be considered from the particular needs of this new and specialized industry, so that the tax, when made, shall be placed where it properly belongs; and if, after careful consideration, a tax is finally placed upon the sale or lease of moving-picture films, there should be no ques-

tion that such a tax must be only upon films sold or leased for use within the United States.

Section 601 provides for monthly returns under oath, and for the payment to the collector of internal revenue in the respective districts of such taxes as may become due. It is reasonable to suppose that manufacturers will be advised not to make any such return and not to pay the 1 cent per linear foot tax on the copies of such moving-picture films as may be exported by them, on the ground that the attempt to enforce the collection of such a tax on the sale or lease for export of any article is in direct contravention of the Constitution of the United States.

The tax proposed to be laid is a direct tax upon the article itself. It is not a tax upon its manufacture, but upon sales or leases of the article as made.

If a manufacturer sells or leases a moving-picture film to a customer in Russia, for example, and forwards it to Russia, any tax upon such a sale or lease is a tax on the export of the article itself and a violation of Article I, section 9, clause 5, of the Constitution.

If by any possibility the position maintained above should not be sustained in an action to determine the matter, there can be no possible doubt that such a tax, if demanded and collected, would be a gross violation of the spirit of the Constitution and a perverssion of the intent of the framers thereof to jealously guard and protect each and every individual citizen from any law which would, by the imposition of a tax or a duty, hamper or interfere in any manner whatsoever with his unrestricted right to export from any State any article tax and duty free.

In order that there shall be no doubt as to the meaning, I have taken the liberty to suggest that after the word "importer," where it appears in sections C and D, these words be added, "for use within the United States," making the respective sections read:

(C) "Upon all moving-picture films (which have not been exposed) sold by the manufacturer or importer for use within the United States, a tax equivalent to one-half of 1 per cent per linear foot."

(D) "Upon all positive moving-picture films (containing a picture for projection) sold or leased by the manufacture, producer, or importer, for use within the United States, a tax equivalent to 1 per cent per linear foot."

The reasons indicated for clearing up any doubt which may exist as to the intention of the framers of the bill, because of the constitutional prohibitions are believed to be of sufficient importance to warrant the adoption of the amendment proposed, but there are other and equally important, in fact determining, economic reasons why from the standpoint of expediency and of national policy no such tax should be levied upon moving pictures exported from the [illegible]ited States.

Until about a year and one-half ago London was the greatest export market for moving pictures. There being until then no duty upon films imported, it had become the great clearing house for the world. Even the American manufacturers, after they had printed from their negatives those copies needed to supply United States requirements, were accustomed to have their negatives sent to London, and from that point most of the balance of the world was supplied.

To a great extent the war has altered this. The British authorities have not only placed a duty upon the importation, but as a war measure they have for reasons of their own placed many onerous and burdensome restrictions upon the industry. Moving pictures can not be shipped out of England now without a special license, and each and every film so shipped has to be inspected by the censors and sealed by them, and when finally shipped be dispatched with an unbroken seal. This is only one of many other such new restrictions, all of which have contributed to drive foreign buyers heretofore accustomed to having their wants supplied from London over to the United States; and to-day New York is rapidly becoming, if it has not already become, the greatest distributing center for the export trade in moving picture films. Buyers are coming to this country from all over the world who heretofore bought principally in London. On account of the present difficulties in shipping the business is not yet of a great volume, but it is growing and we are nursing it with the thought and idea that when we once control the export trade to the various foreign countries and show our ability to intelligently handle and meet the intricate requirements of each market in respect to translating the titles into their own language and changing the films as must frequently be done in this very complex and specialized branch of the industry,

we will never permit it to get away, but can, if the business is fostered, build up a vast export trade in moving picture films.

Not only was London the great export distributing point, but it was and is possible to print films in England more cheaply than in the United States.

The unexposed film, which is sold in this country usually at $0.0265 per foot, is sold, on account of competitive conditions, for 1d. (about $0.02) per foot abroad. An English manufacturer, in addition to the cheaper cost of labor, thus starts his printing operation at a cost of $0.0065 per foot less than the American manufacturer. The price for printing films in England to-day is 1½d. (about $0.03) per foot. In the United States it is $0.04 per foot.

If you impose an additional tax of one-half cent per foot on our manufacturers for the raw stock (unexposed film) and an additional 1 cent on the finished picture, ready for projection (1½ cents in all), the American manufacturer starts with a cost of 5½ cents per foot, as against a 3-cent per foot cost to print in England. This handicap of 2½ cents per foot would absolutely put the American manufacturer out of the running if he was competing with an English, French, or Italian manufacturer, for example, in the markets of South America. After the American manufacturer has paid the large expense incident to developing these foreign markets, he will not make an average of 2½ cents per foot, the handicap which he must first overcome before making any profit, if the sections of the bill as now drawn are enacted into law.

Although America has become and now is the greatest producing country in the moving-picture industry, and the war has given a temporary setback to some of the foreign producers, it must not be supposed that this is going to continue. After the war of arms which is now going on we are in for the greatest war for commercial supremacy the world has ever known. Already plans are being made by combinations of certain financial and manufacturing interests in groups of foreign countries with a view to controlling the world's markets in various industries after peace is declared. It is a notorious fact that in those countries now in the midst of the greatest conflict the world has ever known bankers, manufacturers, merchants, and shippers are finding the time to calmly survey the situation and, with governmental approval and support, have been completing and perfecting the machinery which will be required in the coming struggle for business supremacy. The undersigned has spent 9 years during the past 18 in Europe in the development of the foreign trade of American manufacturers. Four of these were spent with headquarters in Berlin and four in London, and he has had more than an ordinarily good opportunity to personally observe the manner and methods employed in those countries to foster, develop, and encourage their export trade. He has just returned to the United States after a four months' visit to England in connection with the export of moving pictures, and the facts related are of his personal knowledge, not gossip or hearsay. At such a time and under such conditions it would ill become our legislators to place a handicap upon any branch of our varied industries which would make it more difficult for it to compete successfully against the merchants and manufacturers of other nations in any of the great markets of the world.

England is our greatest foreign customer for moving-picture films. Because of the new import duty only the best are sent there now. Formerly it was the great dumping ground. You could always find a customer in London for your moving pictures for use in some foreign field.

British manufacturers have only in recent years become producers of films which could compare with the American product. One or two companies have made notable progress in the excellence of their productions. It is only because of the difficulties arising out of the war that they have not been able to furnish an ever-increasing percentage of those pictures needed to supply the demands of the British theaters. It costs to-day 2½ cents per foot to cover freight, duty and insurance on a motion picture shipped to England. The bill proposes to add to this cost an export tax or duty of 1½ cents. As I have before shown, the British manufacturer starts with a cost of manufacture 1 cent less than we do, due principally to the fact that he can buy his raw stock (unexposed film) more cheaply. The American manufacturer in order to compete in England under such conditions, selling or leasing films printed in America in competition with films printed in England, would have to overcome a handicap of 5 cents per foot, which is utterly and absolutely impossible. If the tax proposed was on films exported, it could only result in checking the normal growth and expansion of our export business, build up and strengthen our foreign competitors and not add in the net $1 to our national revenue.

If American manufacturers have to pay a tax at the rate of 1¼ cents per foot on all films exported, the Government would not obtain the revenue anticipated, for finding themselves unable to compete when saddled with this charge, manufacturers would ship their negatives across the border into either Canada or Lower California, or over the Rio Grande, and print for the rest of the world from those points. Already serious proposals have been made for printing in Holland on a large scale from negatives of manufacturers from all over the world as soon as the war ends, in order to avoid the difficulties confronting the industry in England and on the theory that England will retain and increase her duties or imports instead of going back to free trade after the war. We want that business to come to and remain in the United States, and to keep and control the export trade in moving-picture films, and with that end in view we ask you to accept and embody into the language of your bill the amendment proposed.

Finally, there is another feature of the export business which makes the proposed tax, insofar as it may by any possibility be deemed to cover films exported, of gravest concern to American manufacturers.

The very nature of the business requires that contracts for a constant supply of moving-picture films be made covering a number of months. These are usually for one year, and the prices secured in many markets would not yield the manufacturer net, after cost of distribution, a sum per foot equal to or in excess of the proposed added cost of 1¼ cents per foot.

Our company has entered into contracts to deliver weekly at a fixed price for a period of one year, moving-picture films which are to be sent to Russia, Scandinavia, United Kingdom, France, Switzerland, Brazil, Argentine, Chile, Paraguay, Uruguay, Australia, and other countries, the originals or copies of which contracts are at your disposal should you wish to verify any of the statements made. Without a doubt, other American companies are in the same position. Under no circumstances, in our opinion, should a new tax be imposed without taking into consideration in framing such legislation existing and bona fide enforceable contracts, and especially is this so when the imposition of such a tax can only result in large losses to the manufacturers concerned, with no chance or opportunity of being relieved of the liability previously incurred.

If in the course of your future consideration of the subject you decide to alter the method of placing upon the moving-picture industry its just proportion of the burdens which all business men share at this time, we respectfully place before you for your earnest consideration the above reasons why your bill, as finally drafted, should not include a tax upon moving pictures exported to foreign countries.

PAUL H. CROMELIN,
Vice President Inter-Ocean Film Corporation,
220 West Forty-second Street, New York.

WASHINGTON, D. C., *May 12, 1917.*

The CHAIRMAN. Now we will hear Mr. Thornton.

STATEMENT OF MR. F. W. THORNTON, REPRESENTING PRICE, WATERHOUSE & CO., NEW YORK.

Mr. THORNTON. Mr. Chairman, you already know there have been very large profits made in cash in years gone by; you already know that the cost of film is very largely increased. You perhaps do not know it has been the custom of all the companies who have been making this expensive film to divide their cost as between the amount to be applied on American use and the amount to be applied to foreign use. They have done that. For a time they realized from the foreign use enough to cover the amount so set aside, but since the end of 1914, they have not, and they have upon their books very great assets that will be values for foreign use that they hope at sometime to get. Whether they will ever get it or not, I do not know; certainly not while the war continues.

During the last year there have been no dividends paid in cash, practically no cash profits made by any company, and the amount of

money that has been put into the business, borrowed from banks and note brokers, is very much greater than the total amount of money that has been drawn out. The condition at present is such that I am called upon every week to meet bankers and brokers to tell them whether reputable firms can be allowed further financial assistance, because not because they have not made book profits—they have; but their book profits are tied up entirely in these foreign rights, which they can not now use. That is the general division of the trade to-day.

Senator GORE. Does that apply to the concern that made "The Battle Cry of Peace"?

Mr. THORNTON. The company that produced "The Battle Cry of Peace" owes to-day $1,250,000 more than it owed a year and a half ago, and in that time has not paid 1 cent of dividends. I can give you the same information about almost any company you choose to ask about. I have one company, whose accounts passed through my hands yesterday, which carries its rights to films at $2,090,000, and its income in the United States from that particular body of film is only at the present time $35,000 a week. Obviously, over $2,000,000 of that represents money that they hope at sometime to get from foreign use. I do not know whether they will get it. But the companies are in the position where they have no cash money, and if they are taxed, unfortunately they will hand it on to the exhibitor. They have no money to pay it with, not real cash, and you can not pay the Government with film for use abroad. That is the condition.

Several of the exhibitors have agreed that this will be passed on to them, and they would rather pay it in one lump than receive it through the manufacturers, paying, in addition, an additional amount that the manufacturer would have to put on for the extra cost of selling, etc., proportionate to the amount of the increased charges that he would make.

The CHAIRMAN. This concludes the hearing on motion-picture films.

ADDITIONAL BRIEFS RELATING TO MOTION-PICTURE FILMS FILED WITH COMMITTEE.

Brief on behalf of Pathé Exchange (Inc.), respectfully suggesting that proposed method of taxation will ruin industry, while Canadian system (one tax on entire industry at box office) will yield a larger revenue than now demanded, enable the industry to meet future levies, and yet not halt the growth of the industry, which promises to soon monopolize all markets of the world—Motion Picture Exhibitors' League of America has submitted brief urging it.

The motion picture gives great, big values to the public by manufacturing in enormous quantities and operating on a very small margin of profit. Big profits are the rare exception and are often wiped out by rapidly changing conditions. It is doubtful if in the past few years or in the years to come the producers have made or will make 5 per cent on the total yearly sales. Yet this big-distribution-small-profit method gives the industry enormous ability to pay taxes if your method of taxation takes money out of our purse instead of blood out of our hearts.

The Canadian tax system—a single tax on the entire industry at the box office—will enable the industry to pay the amount weekly you now ask and six months hence pay you double this amount. Any other system will not yield you the amount you now ask, because it will limit or stop production. Therefore 90 per cent of the industry to-day favors the Canadian system, and,

because it gives you more revenue, we respectfully suggest you adopt this system.

Everyone in the industry with any knowledge of facts and figures agrees that the tax of 1¼ cents per foot would put most producers out of business and bankrupt the industry.

Mr. Thornton, who appeared before you and who represents the accountants, Price, Waterhouse & Co., and who has audited the books of practically all the great film companies, states Pathé is making more actual money than any company. Yet Pathé is making only 5 per cent on its yearly sales. The 1¼ cents per foot tax would equal 20 per cent of our sales.

The 1¼-cent tax is founded on the fallacy that footage determines the value of film.

The Birth of a Nation is reputed to have made a million dollars in profits. Yet probably not more than 400 reels were issued. This picture therefore would pay under such a tax only about $6,000, or one-half of 1 per cent. On the other hand, in Pathé News, which has a camera man in your territory every day, and in every other territory—which is the one great newspaper of the screen—which plays in a theater in every community every week—which 20,000,000 people see every week—which one of America's greatest statemen has said could elect or defeat any presidential candidate, but has never even been accused of being partisan—which in the 10 years of its existence has never made one cent of profit—which without one cent of cost to the Government since the declaration of war has devoted its entire issues to the exclusion of everything else to pictures departmental heads wanted taken to help sell liberty-loan bonds, stimulate recruiting, food economy, gardening, and farming—this news reel alone would be taxed $4,500 per week, or 30 per cent, which would make it necessary to discontinue the news.

Under the footage tax the big-profit pictures would practically escape taxation, but the films which depend on enormous circulation at a very small margin of profit would be eliminated, and the industry depends on the latter kind of films almost entirely.

The price of raw stock is fixed by one company, which has a 90 per cent monopoly. The cost of making average pictures is already as low as possible. The big exhibitor will not pay high prices, because producers need his theater more than he needs their film, and the little exhibitor is already paying more than he can afford.

The principle of this tax is as wrong as it would be to tax the poor man's calico and let the rich man's silk go free.

Yet on the basis of the present footage issued this tax would yield the Government only $7,000,000 per year, and the footage would necessarily decrease so quickly because the tax falls on the day-laborer films instead of the Rockefeller kind of films that the Government would probably receive only $2,000,000 the first year and practically nothing hereafter.

A TAX OF 5 PER CENT ON ALL FILMS RENTED TO THE EXHIBITOR HAS BEEN SUGGESTED INSTEAD OF THE DESTRUCTIVE FOOTAGE TAX.

The exhibitors pay for film rental about $140,000,000 per year. Five per cent of this amount would yield the seven million that the Government wishes from the producers.

But Mr. Thornton states that all the producers of the country are not making a total of $7,000,000 annual profit.

Therefore the producers must pass this amount along to the exhibitor.

Some producers object to this 5 per cent tax on the grounds that they deal with big exhibitors who control the situation in their territories and will not pay higher prices and who will not realize the harm they are doing their theaters by bankrupting the producers until the producers are out of business and the theaters are giving inferior shows and the public have forsaken picture theaters as an amusement.

Other producers object to the 5 per cent tax because their business is with the small theaters which simply can not pay more film rental, but to whom the entire seven million dollar burden will be passed if the producer is to live. Producers of this class sell the greatest number of reels, do the greatest percentage of the total business, but are making a very small margin of profit, if any.

However, the greatest objection to both the 5 per cent tax, as well as the footage tax or any other tax whatsoever on producers, is raised by the most

farseeing class of exhibitors. These exhibitors are the most influential men in the entire industry. They own great big picture palaces; they only charge 15 to 25 cents admission, but their theaters have so many seats that they can afford to give the finest pictures, music, and service to the public. These men buy page space in the newspapers. Their ads and publicity not only help support the greatest newspapers but they also make and unmake stars. These exhibitors tell the producers what kind of pictures the public want; on the other hand they educate their public to demand certain kind of pictures. All the other exhibitors follow the leadership of these exhibitors. What they decide to-day other exhibitors indorse to-morrow. And these powerful exhibitors are utterly opposed to the 5 per cent tax and all taxes on producers because they say that it either will cripple producers, which will cripple their shows, or that this $7,000,000 will be passed on to the poor class of exhibitors, not as seven millions but as seven millions plus distribution overhead which means ten millions, and then the exhibitor must pass these ten millions on to the public as ten millions plus theater expenses, which means that the public must pay fourteen millions.

In other words, it costs 100 per cent to distribute from producer to public. A film that costs the producer $1 costs the public at least $2, and to cover a tax of $1 on the producer the exhibitor must collect $2. If you doubt that it costs 100 per cent to distribute in this country, consider the "dollar" watch, which experts agree is manufactured and marketed with rare ability and which gives the public exceptional value. It cost 45 cents to make the "dollar watch" and 55 cents to carry it from the factory door to the public. If you put a 5-cent tax on each of these watches at the factory door, each probably would cost the public, not $1.05 but at least $1.10 and probably $1.25. So in the film business also a tax of $7,000,000 will make it necessary to collect $14,000,000 from the public. The men who wield the enormous influence of the industry—an influence at least as great as that of the press—do not want $7,000,000 wasted in distribution, because it will hurt producers and small exhibitors and decrease public patronage, and, most important of all, if the wrong method of taxation is adopted on this levy the same wasteful method will probably be used for future levies, and the industry will be unable to meet them.

ONE TAX AT THE BOX OFFICE IS THE ONE METHOD.

There is one form of taxation which will yield more revenue than the Government asks from the present levy, which will enable the industry to pay its share of all future levies, and which will still enable the industry to build up still greater public patronage and American producers to conquer the film markets of the world. This method of taxation is favored by 90 per cent of the industry to-day, and when it is explained—as it will be within a week—100 per cent of the entire industry will favor it, because it is right. It will enable the industry to pay its share during a long war and still be in shape to do greater things after the war.

This method is one tax at the box office. Remove all other taxes from the industry. Remove import taxes, export taxes, footage taxes, taxes on producers and far more revenue will be derived than by any other method and the industry will be developed instead of killed. If you think that producers who are not making money to-day might make money if untaxed, levy an income tax on all producers' profits over a small per cent—maybe this should apply to big theaters' profits also and to actors' salaries. We do not think this will yield any revenue, however, because the theater, being taxed, is going to pay the producer less, and the producer will pay the actor less, while the big theater will be under more operating expense.

Ninety per cent of the industry want the Canadian system to-day. All will want it to-morrow. It will give the Government more revenue. Now, that was has been declared, military needs will absorb much of the money formerly spent on nonessentials. The public will have less money to spend, so will not spend so easily. The exhibitor must give better shows than ever before or business will fall off. If foreign films are admitted duty free, the exhibitor is helped to give better shows; and the fact that the exhibitor can get foreign films if he wants them will prevent him from being overcharged, therefore he will use American films, and the amount that a duty would yield on imports to-day or later would be practically nothing, because America makes practically all the films in the world. If the American producer is not taxed on his footage or American sales and is not handicapped by an export tax he can get a larger percentage of his production cost from abroad and so can charge the

American exhibitor less than would be necessary if the entire cost of production had to be extracted from this country alone. It is no more possible to divide the picture industry into separate branches than to dismember a man and have him still live. The American motion-picture industry is like a giant bee, which ranges over the whole world gathering honey. If you clip his wings or pull off his legs he'll die; but take some of the honey as he stores it away (at the box office), and he'll be proud that he can produce not only enough for himself but enough also to help the Government.

The proposed bill would tax producers and imports and exports, but not tax the 5-cent house. Tax the 5-cent house, and do not tax the producers and imports and exports, and more revenue will be derived, and the industry will not be hurt. All 5-cent houses either favor a 1-cent tax at their box office or will favor it when they understand the ultimate results of the present bill.

The 5-cent theater owner when told that producers are to be taxed $7,000,000 soon figures out that this means he must pay the $7,000,000, plus overhead—or, in other words, he figures his film rental will be increased 25 to 50 per cent by the producers. He knows the producers can not make the big theaters pay their share; that he will have to pay it all. Therefore he decides the public will pay 1 cent Government tax with each ticket, and that this costs him nothing except the effort of counting the pennies, while if he goes tax free it will cost him $10,000,000 in increased rentals, which means that he must collect $14,000,000 from the public. So, though the framers of the bill tried to help him, he finds that being taxed 1 cent will cost him nothing and not being taxed will certainly hurt him.

The good 5-cent theater gives too good a show for the money, because the public will not waste the time to see a show worth only 5 cents, so the good 5-cent theaters can collect an additional penny for Uncle Sam without losing patronage, whereas often they can not afford increased film rental. Probably the ease with which they can get the extra penny will cause them to charge 10 cents admission soon.

Practically all the low-grade 5-cent houses have already been forced out of business. They started the industry but have gone to join the first locomotive and the stage coach. The few survivors will probably close now. The good 5-cent house can easily go to 10. This is proven by the fact that west of Kansas City, where the industry is most prosperous, the 5-cent house is practically extinct; that in even the small towns of North Dakota, Ohio, Illinois, Texas, and practically all States the price of admission has been raised to 10 cents and even 20 cents admission; that the Jake Wells circuit of theaters from Richmond to Atlanta are charging 10 cents; and just as practically all the theaters of Michigan raised prices two years ago when the Majestic Theater, of Detroit, showed them how, so will all the towns of the South follow the lead of these southern cities.

The exhibitors have been selling too cheap to their public. This is one of the reasons all the producers are not making money.

Any way you look at it, the tax on 5-cent theaters is best for the industry and will yield the Government more than the $7,000,000 expected from the producers.

The Motion Picture Exhibitors' League of America suggests—and we believe they are correct—a tax of 1 cent on tickets from 5 cents to 15 cents, and 2 cents on tickets of 20 cents and 25 cents, etc. If the industry gets busy and works and gives shows worth this extra amount, I'm sure the public will pay double this tax if later the Government needs more money, because to-day all theaters except the antiquated 5-cent houses give the public more value for the money than the public gets anywhere else.

Pathé Exchange (Inc.) is an American company, run by Americans. Pathé is the oldest film company in America—has never been involved in any scandals, financial or otherwise—and has advertised no million dollar salaries or extravagant ideas. Through our affiliations we are an international company, with branches in every country. Pathé business in Germany and Belgium was confiscated in 1914. From our business experience in the allied countries we realize that soon every American industry must turn over to the Government all profits, not as little but as much money as possible. This brief is submitted solely to try and point out the best method whereby the Government can make the industry yield the maximum amount.

All of which is respectfully submitted.

C. R. SEELYE,
Business Manager Pathé Exchange (Inc.),
25 West Forty-fifth Street, New York, N. Y.

Letter from Lincoln & Parker Co. (Inc.) addressed to Senator John W. Weeks, of Massachusetts.

NEW YORK, *May 14, 1917.*

Hon. JOHN W. WEEKS,
Washington, D. C.

MY DEAR SENATOR WEEKS: As per your suggestion, we are putting in writing a change in the proposed bill concerning the taxation on motion pictures (raw film, one-half cent; finished film, 1 cent).

To page 26, line 18, of H. R. 4280 we beg to add, after the word "films," "except films produced solely for schools and colleges."

The reasons for this proposed exemption are as follows:

1. As it now reads, the present item does not differentiate between amusement films, which are wholly luxuries, and purely educational films. The plan being to tax manufactures of luxuries, "films produced solely for schools and colleges" do not come under this head, but are in the same category as schoolbooks and school supplies—things generally exempt from taxation.

2. Without this exemption the proposed bill would place a tax of from 18¾ per cent to 25 per cent upon this class of films, the selling price of which is from 6 cents to 8 cents per foot.

3. By exempting films produced solely for schools and colleges there could be no possibility that films produced for entertainment and amusement purposes might escape the tax proposed.

If our position is fair and just will you kindly bring this to the attention of the committee which passes on such matters.

Very truly, yours.

LINCOLN & PARKER CO. (INC.),
By F. H. LINCOLN, *Treasurer.*

WORCESTER, MASS.

Letter from Mr. George N. Shorey, manager and owner Queen's Theater, Knoxville, Tenn.

MAY 15, 1917.

To the Finance Committee, United States Senate,
Washington, D. C.

GENTLEMEN: Learning this (Tuesday) morning that I may file a brief covering what seems to me extremely important points in respect to the proposed theater tax, provided my brief is received for your consideration Wednesday morning, I am, as thoroughly as I can in limited time and with no opportunity to submit exact statistics, complying with your request.

The object of your committee is, for war purposes, to raise by taxation every possible dollar that will not impose too heavy a burden on any one individual or business.

This purpose is patriotic, necessary, and concurred in by all fair-minded persons who approach the enormous task offered with right minds. The peoples' amusements are regarded as more easily open to curtailment than necessities, hence amusements are asked to pay perhaps a higher tax than other industries.

It is proposed to tax the person seeking amusement, and it is not proposed to make this tax prohibitive of amusement.

It is proposed to select by this means the persons who can pay the tax—the persons who have an excess of money after meeting other necessities, including other taxation.

In taxing theaters a field of business is encountered so different from other business that the ordinary intelligent person has no idea whatever what it all means. I will try to point out as essential premises to any argument on the subject, some points not appearing on the surface, which I believe will throw great light on the subject under consideration.

First, the income of the theater is all of one kind, considered with reference to its source. The retail merchant stocks his shelves with salable goods, he pays a rent for his store and clerks to make the sales. Each of these expenses is but a part of what he must meet through the income received from his sales. The goods themselves are as salable to-morrow as they were to-day. The rent of his store and the hire of his clerks varies with the volume of business done.

How now with the theater? Here is a business done in a fixed location; even the building itself, with the patron's peculiar likes and dislikes for his favorite house, is part of the consideration given for the admission price. The clerks must be so many according to the size of this building. The show is an advertised product, advertised for one day or few performances only, valueless if not sold, whether the failure to receive income is due to weather or smallpox, due to the showman's failure to select goods wanted, or due to any cause reducing patronage.

The retail merchant, if his goods are not sold, gets a new store, or closes his present store, and in any event cuts expenses all the way from clerk hire to advertising, but he can not cut the cost of his product. He would no more think of cheapening the quality of goods offered than he would of committing bodily suicide. His business can live without any curtailment except of expenses proportionate to the business done.

The retail merchant may temporarily have to carry a too great overhead or store-selling cost. He has to live himself. But these expenses are only a small part of the total amount he pays for the goods he sells per diem. All the rest of his expense stops when the goods cease to move from his shelves. He stops buying goods. But those he has are worth 100 per cent what they cost him—and in these war times really more.

The theater loses all. When its day is done, its shelves are clean of merchandise, and a loss of 10 per cent in gross business is a loss of the full 10 per cent in net profit. In other words a theater whose show, rent, and salaries amounts to $90 a day, with receipts from ticket sales of $100, makes $10 profit. A reduction of $10 gross, means the loss of all this profit, and this is true of no other business.

We know that there are theaters, as well as interests which fall under this class in similarity to the above, which make abnormal profits. For example the hotels of New York City are alleged to gain from ten to twenty-five thousand dollars pure graft from hat privilege and like extortions. Taxing such places an amount sufficient to take all this part of their income would not even cripple them, simply because they receive so much in excess of a fair and equitable profit this factor does not count.

I understand there are theater men who wish this tax so assessed that they may pay 10 per cent from their gross receipts and not to be bothered with extra ticket selling, because their patrons would be offended by the nuisance of collection.

But with the above statements in mind and knowing, as can be very quickly ascertained by investigation, that the majority of theaters do not make anything like 10 per cent of their gross receipts for themselves as net profit, your committee has indeed a serious problem before you.

I ask you to disregard absolutely any theater man who says the 10 per cent tax can be assessed on gross receipts and paid by the theater. I believe you have too many instances pointed out to you proving this not to be a fact, to be deceived in this matter. I operate the Queen Theater in Knoxville, Tenn. This is the only first-class moving-picture theater in this city of 40,000 people, part colored (which patronage the Queen does not serve). In nearly three years, on an investment of $25,000, this theater has not cleared $2,500 annually. Without competition the pictures could be cheapened, 10 per cent tax paid, and perhaps another 10 per cent profit made. With the competition of four 5-cent theaters running, shows of almost the same quality as the Queen Theater, the collection of such a tax from gross receipts would be impossible. Yet I would run the theater at a loss and pay the tax, because my lease runs 14 years, and I consider my Paramount pictures worth many thousand dollars to keep before the public as my special quality show.

The above is not an argument against a 10 per cent tax. It is a statement of the facts. The argument will now follow. It is the duty of your committee to solve the above problem. You must assess a tax upon theaters which will not close the theaters. You must assess this tax upon the public and in such a way that the theater patronage will not diminish more than 3 to 5 per cent. It may be a 20 per cent tax or a hundred per cent tax, but it must not decrease the theater patronage more than 3 to 5 per cent. This applies to picture shows, which is as far as my personal knowledge of the business goes. Last summer the Southern Paramount Picture Co. reduced my film rental for the Queen Theater in Knoxville, believing I was telling them the truth about the smallness of my profits, because, they said, it was very unusual for a theater to admit making any profit whatever. They stated it to be their belief that not 5

per cent of the theaters then operating in the South could claim a profit balance during the long southern summer of six months.

Such conditions do not exist in the North, East, or West, I hope. They do illustrate the delicate balance, however, between profit and loss in the picture theater business. And they point to the crucial test which I outlined above, showing the difference between this and any other business. The merchant has his goods, his loss is merely the fraction which reduced volume adds to his overhead expense. The theater has nothing left if its balance of profit is assailed even in a small percentage.

The thought I wish to fix is that however the tax is imposed, and whatever its percentage, it must result in reducing gross only a very small per cent. The tax must be on the patron direct. And if a tax on patrons reduces patronage, it must be very cautiously applied.

The greatest care should be given to the equities of the various taxations of different groups. The picture theater, whether 5 cents or 25 cents is charged, is in the same taxation class.

It has been suggested that the tax be eliminated from the cheaper theater—the 5-cent house. The 5-cent house represents decadent conditions one way or another. In my own city of Knoxville, Tenn., all my competitors are 5-cent theaters. Combined they do a gross business perhaps ten times my own. Such a condition as this exists in no other city of my experience to-day. In Knoxville a house better located than my own charges 5 cents for a longer program than I offer. All first run pictures of the highest class. They want volume. They are able to compete because the same class of pictures can be bought for less, on account of the fact that none of these houses can live at 5 cents and show inferior pictures, any more that the Woolworth stores could sell useless merchandise and continue to exist. There is no real difference, either in cost of operation, or in class of pictures, between the 5 and 10 cent house. Practically all neighborhood theaters, and theaters in small towns, have long since abandoned the 5-cent price. In a few localities, such as Knoxville, Tenn., no one will attempt to operate an absolutely first-class house, because the low price of admission gives no hope of profit. My own theater with Paramount, Artcraft, and Clara Kimball Young productions, charges 10 cents and offers no orchestra or other feature besides pictures. Every other 10-cent enterprise in this town has failed to live in competition with my theater, simply because the nickel price keeps every theater from raising its standard to a strength where they can weaken the steady patronage of my theater.

An exemption by your committee of the 5-cent theaters would in every case put a premium on either "hoggish" competition, by which I mean cases where one theater has so outstripped its competitors that mere bulk of business alone enables it to cow all endeavor to enter the ring against it, or unprogressive management, which is willing to "hang on" in business at a price recognized as inadequate for present-day picture standards.

The well-managed typical family theater of to-day charges 10 cents. This committee knows this to be true from statistics in the home towns of its members. The theater tax should be distributed fairly and equally upon all places of amusement, and as far as possible upon all proprietors of establishments where luxury in any form is dispensed.

If the theater catering to the average American family, at the minimum price of clean first-class entertainment, is for reasons of public policy to be encouraged, this means the 10-cent ("dime") show, housed in a well-ventilated, attractive, up-to-date American standardized auditorium. Exemption or lower tax could conceivably be recommended for this class of theater, but I know of no theater man who has questioned the policy of taxing every person attending any form of amusement. To tax the same citizen when he attends a 10-cent show and exempt him if he chooses to patronize exactly the same kind of a show for 5 cents is, I believe, un-American. I know it is unfair to the careful management that caters to the entire family, charging 5 cents to children and 10 cents to adults, because I am in that class, and the exemption of competing theaters in the city where I operate would mean:

Putting a premium on a theater seating several hundred more persons than my theater, which is enabled to operate at the cheaper price by using pictures that theaters in other towns pay twice as much for, exempting seven-eighths of the picture-show patrons of Knoxville, Tenn., a city of 40,000 persons; obliging me to operate probably at a loss, while practically not changing present conditions for other theaters; or else compelling me to demand a reduction in film rental to a figure far below the fair market value to the film-producing companies whom it is presumed you will tax.

I trust I have not failed to make clear at least two points in this discussion:

First. That to cause the least appreciable falling off in theater patronage will be ruinous to the theaters.

Second. That the object of the tax should be to assess every theater goer a just proportion of the tax, individually and rated according to his means, which may be judged by the class of theater he attends.

Classifying the theaters, there are really only a few principal groups:

(*a*) The 5 and 10 cent, in some cases 15-cent, "family" theaters.

(*b*) The theaters offering pictures and music, or other special attractions, at from 25 to 50 cents.

(*c*) All more costly amusements.

The persons attending class (*a*) are everybody. Those attending class (*b*) only the more prosperous middle class. Those attending class (*c*) the luxury class and occasional members of the middle class. The middle-class support is quite necessary to even class (*c*).

Respectfully submitted.

Geo. N. Shorey,
Manager and Owner Queen Theater, Knoxville, Tenn.;
Editor "With the Exhibitor" Department, Motion Picture News.

Addenda.—A point which I will not take the space to discuss fully is the very serious menace the number of small theaters in the average city will have of unfair competition from the big house or circuit, which would crush them but for individual good management.

These large theaters control pictures for several territories in circuit, and if permitted to do so are liable to include the tax payment for their patrons, making it appear that they are practically liberal.

It is to be admitted that these large circuits, some of them, are making enormous profits, and maintaining the fabulous and unreasonable salaries of film stars, which the small individual exhibitor is forced to pass on to his patronage, because if he does not trade on the terms of the film company his competitor will.

The film companies themselves, similary preyed upon by the stars, whose popularity guarantees a ready market in the theaters, are, many of them, losing money in a blind hope of other companies similarly losing going to the wall first and leaving them a clear market.

Geo. N. Shorey.

The Chairman. The next paragraph is jewelry. Mr. Rothschild, we will hear you first.

Sec. 600 (E). JEWELRY.

STATEMENT OF MR. MEYER D. ROTHSCHILD, OF NEW YORK CITY.

Mr. Rothschild. Mr. Chairman, I am speaking for the entire jewelry trade in the United States. I get my mandate from a mass meeting called several days ago, at which representatives of all our trade organizations and representatives of most of the large branches and bodies of jewelers were present—retailers, jobbers, importers, producers, and manufacturers—and I will read a few brief resolutions which were passed, which will give you an idea where the jewelers of the United States stand on this tax question [reading]:

Whereas the Ways and Means Committee of the House of Representatives has presented a tax measure containing paragraphs taxing manufacturers of jewelry 5 per cent when sold by manufacturers, producers, or importers, and taxing all jewelry in the hands of other dealers 5 per cent when the bill becomes a law: Be it

Resolved, That this mass meeting, representing every branch of the jewelry trade in the United States, patriotically affirm our willingness to pay any and all equitable taxes which may be levied by Congress to meet the requirements of the war.

Resolved further, That we approve the tax of 5 per cent on jewelry when sold by manufacturers, producers, or importers, and offer our hearty cooperation with the Government in the working out of the details of this law.

Resolved further, That the tax on jewelry in the hands of jobbers and retailers be so amended as to impose no heavier burden on this branch of our trade than on the producing branch.

Resolved further, That a committee of 10, of which the Chair shall be one, be appointed by the Chair to go to Washington at the expense of the Jewelers' vigilance committee and appear before the Finance Committee of the Senate to fully represent this meeting before that committee.

I wish to again say that we will pay the tax, the manufacturers, producers, and importers will pay the tax, and the retailers and jobbers are prepared to pay the tax.

There are two things we wish to call attention to in regard to jobbers and retailers. There has been an error made, we think, by the Committee on Ways and Means in arranging the method of payment by this branch of our trade in such manner that it differs from the method by which the producers and manufacturers and importers will pay. The payment of the tax, when the merchandise is sold, a tax on the transfer or the sale of the article, we consider perfectly just, and as long as we are troubled with other industries, we have no objection at all to that tax Our only suggestion is that perhaps there ought to be more industries in the group. The immediate payment of the tax by 30,000 retailers of this country, many of whom have stocks on hand aggregating from 150 to 200 per cent, and even more, of their actual net cash capital, would be something like a shock, and probably in case of a great many of these merchants a calamity. In other words, we are quite sure that neither this committee nor the Ways and Means Committee would want to discriminate in the method of the collection of a tax between these two branches of our business. The manufacturers will pay the tax as they sell the goods from stock, and on all the other goods they manufacture and market. We ask for the retailers the same privilege in paying the tax to make their return as they market the goods. That would not be too great a burden. It would give a larger return to the Government than the present proposed method, because the present proposed method contemplates a tax on the manufacturers' cost, or, rather, the cost to the retailer from the manufacturer.

The suggestion we make embodies a tax on the selling price, which contains the profit of the retailer, besides his heavy overhead expense, which will return in the case of the retailer possibly 50 per cent more tax than the tax on the same article as it leaves the hands of the manufacturer as a new proposition after this tax becomes a law.

We ask that and ask it seriously. We are not coming to you as calamity howlers, because we will pay the tax. We do not ask for any higher privilege than to do our share to help the county at this time of need. We do not believe that the Senate Finance Committee has the slightest desire to rock the boat, to disturb any trade. It is necessary that our trade should go on and sell as many goods as possible in order to meet their obligations. The jewelry business is a peculiar business. It shrinks at the first sign of calamity, and it is the last business to recover. The very fact that the cry has gone throughout the length and breadth of the land that people must be economical in their purchases has already had a very visible effect on the business. You gentlemen know these things happen.

Now, many of these jewelers are men with small stocks, who have one season—around the holidays. The rest of the year they simply

eke out a living by watch repairs and jewelry repairs. If they were called upon to pay 5 per cent in cash upon their present holdings, with very slight bank accommodations—for some of them are not good merchants—no doubt many of them would go to the wall. The Government would not benefit, the trade would be hurt all the way down, and the manufacturer from whom must come the bulk of this tax, would be injured through the failure of his customers. We want to pay the tax, and you want the utmost tax you can get out of the business, and therefore we suggest that that part of the tax law which provides for the tax on jewelry in the hands of the retailer, section 602, on page 29, fifth line, the small letter "e" be eliminated so as to take jewelry out of that grade. Then, to go back to section 600, subdivision (e), line 25, the following page, and after the word "sold" add "or for sale of other jewelry which, on the day this act is passed, is held by other than the manufacturer, producer, or importer, and intended for sale, 5 per centum of the price for which sold." That puts the manufacturer, the producer, the importer, the jobber, and the retailer in the same class. It ought to be absolutely satisfactory to the Government, and would be entirely satisfactory to the jewelry business.

There is just one other point I would like to call the attention of the committee to, that under some conditions there may be a possibility of double taxation. There are some of our manufacturers who have more skill than others in some particular lines. They make some jewelry, which they sell to other manufacturers, and then these other manufacturers add something to that piece of jewelry, and it is then sold as a finished product to the retailer or to the jobber. The manufacturer who thus assembles the work of another manufacturer and his own work under this present law, or the proposed law as it now stands, would have a situation where the first man would pay 5 per cent tax on his piece when he sells it to his brother manufacturer, then the brother manufacturer would take the piece so taxed and add his own work, and give in the finished piece at the value when finished. That is, of course, double taxation.

Senator SMOOT. That oftens happens.

Mr. ROTHSCHILD. There may be very little of it, but it will be confusing in making returns, giving the revenue office a great deal of trouble. That the words of the act, beginning page 26, line 1, or something like these words shall be added as an amendment which I suggest as follows: "*Provided*, That from the tax, which otherwise would be imposed upon a manufacturer, producer, or importer of jewelry, whether real or imitation, there shall be deducted the amount of any tax paid under this subdivision upon any part of such jewelry."

That, gentlemen, may not seem to be a very important thing, but it might be an important thing for many of our manufacturers.

In conclusion, gentlemen, I will not take any more of your time except to state that we have not come to you making a poor mouth, although our business has suffered like all other business of the like nature lately. We hope business will be better again in the near future. If this proposed law, which takes in other industries than the jewelry business, is put on the statute books, we want to go with the rest of those industries. If the arguments which have been brought before you to-day, and other like arguments, should convince

you that it is economically unsound to tax industries, to tax merchandise in the hands of the distributor, or to tax merchandise in the hands of the manufacturer, and you make up your minds that, because it is economically unsound, or for any other reason, you are going to let out some of these industries, we want to be let out also. We are not offering ourselves particularly as an example of men who are aching to be taxed. We believe and recognize, however, this is a fair war tax as the bill is presented, grouping us with other merchants, and we want to pay our share of the war bill.

There is just one other point: If, on the other hand, you keep in manufacturers and you are going to collect your tax at the source, which, I venture to say is the surest way of collecting a tax of this kind, and decide to let the distributer out, that, I think, will have a splendid effect on the public mind. That will do a good deal to do away with the feeling that people must economize and must therefore disrupt many businesses upon which this country will eventually depend for its prosperity. If you come to that conclusion, we ask you also to remember that the retail jewelers and the jobbers of jewelry and the distributors of jewelry ought also to be put in the exempted class.

I thank you.

Within a short time I shall cause to be filed with the committee a brief on behalf of the jewelry industry of the United States, which I trust may be printed.

The CHAIRMAN. Your brief will be printed with the hearings before this committee.

(The brief referred to by Mr. Rothschild was subsequently submitted and is here printed in full as follows:)

BRIEF ON BEHALF OF THE JEWELRY INDUSTRY OF THE UNITED STATES IN RELATION TO THE WAR-REVENUE TAX BILL.

The jewelry trade welcomes this opportunity to aid in the collection of revenues for the prosecution of the present war. As in the past, we are now solidly behind the Government and do not intend to even discuss the amount of the financial burden which the proposed legislation will place upon our industry. To bear a fair and equitable share of the Nation's finances in this period of stress is considered by us to be not only a duty but a privilege. We are confident, however, that certain details of small importance in the entire bill, but of great moment to our industry, have been unintentionally overlooked. To these we wish to direct your attention and respectfully submit this brief.

THE FACTS.

Section 600, paragraph (e), of the proposed war-revenue bill subjects the jewelry industry to the following tax: A tax is levied on articles commonly or commercially known as jewelry, whether real or imitation, if sold by manufacturer, producer, or importer thereof. This tax, amounting to 5 per cent of the selling price, is to be collected only if, and after, said jewelry is sold.

Section 602 of the proposed war revenue bill subjects the distributing branch of the jewelry trade to the following tax: A tax is levied on jewelry held by others than those included in section 600, paragraph (e), at the time the proposed act is passed. Such tax also is computed on the 5 per cent basis, but instead of being levied and collectible at the time the jewelry is sold by those "others" who in the jewelry trade are jobbers or retailers, it is assessed as soon as the act is passed and presumably is collectible immediately thereafter. Under this provision every holder of jewelry intended for sale, other than a manufacturer, producer, or importer, will be compelled to pay a tax at once of 5 per cent on the entire stock on hand at the time the act goes into effect.

POINT I.

The proposed revenue measure should place the retailer and jobber of jewelry in the same position as the manufacturer, producer, or importer, in so far as it relates to the time and manner of payment of the proposed tax. The retailer and jobber should also be allowed to pay the tax as and when he sells the merchandise.

To enact legislation that jewelry retailers and jobbers must immediately pay a tax based upon the merchandise on hand at the time of the passage of the act, would be inequitable, unfair, and partly ineffective. We urge your most careful consideration of the following arguments against such a scheme:

I. In the first place, there is no logical reason for this proposed distinction between the producing and distributing classes. In theory and in practice, we are confident that the principle of levying taxes at the time of sale can be applied as well to the distributing class as to the producing class.

II. The average length of time which it takes a distributor of jewelry to turn over his merchandise is from one to two years. In consequence, a tax as proposed in section 602 would constitute a levy on great quantities of merchandise long previous to their time of sale. Surely Congress can not intend to place in the form of taxes additional burdens upon articles of merchandise which may still be laying dormant on the shelves of the distributors long after the life of the proposed revenue bill. It seems most clear that such a course is inconsistent with the avowed intent of the entire revenue bill, in that throughout all other provisions of the measure the merchandise taxes are to be collected only as and when the commodities move to the consumer. In the case of the producer of jewelry, no taxes would be levied under the proposed measure unless the article so to be taxed is sold, whereas it is proposed to tax the retailer and jobber on merchandise which may not be sold for years to come, or sold at all, and which when sold may not, in many cases, bring half of the present assessable values.

III. The average retail and jobbing jeweler or distributor, and there are more than 30,000 of such in this country, carries a stock far in excess of the net capital invested. For example: A distributing jeweler's statement showing merchandise on hand at cost price, amounting to $10,000, upon which he owed $5,000, would naturally show a net capital of not more than $5,000. Under such circumstances the tax as proposed in section 602, if computed at 5 per cent of the merchandise cost, would actually equal 10 per cent of the capital invested. We feel that the statement that merchandise on hand will often be double the amount of capital invested is a most conservative estimate of the conditions that exist. Even though willing to share a fair burden of the proposed tax measure, the great majority of the distributing jewelers of this country would be absolutely unable to pay, at one time, a tax amounting to 10 per cent of the net capital invested. A cash reserve to this extent is not the common practice in the business of retailing or jobbing of jewelry. A tax levied to this extent would place on the distributors so large a demand for cash that there would be created a trade condition which, besides being dangerous to the jewelry trade, might react upon the Government in its desire for increased future revenues from producers and distributors of merchandise. The average distributor, whether retailer or jobber, could only pay the tax levied in this fashion by combining the cash he had on hand with such sums as could be raised by receiving additional credit from the producing branches of the industry, and it would follow as a matter of course that the producing branch of the trade would be seriously involved in such resulting extension of credit. Thus the entire business structure of the industry would be thoroughly disturbed by the cash withdrawal from the industry of a substantial part of the total capital now invested by retailers and jobbers of jewelry.

This could have but one effect—the prompt curtailment of an industry, which at all events, is the first to feel and the last to recover from any business depression, and the taxes to be derived by the Government from the producing branch of the industry in the future, under section 600 of this act, would be automatically diminished by the aforementioned conditions. We assert with all confidence, that there is no industry in this country that can stand such an immediate depletion of its capital account. Congress can not seriously propose to levy such a tax on the distributing branch of the jewelry industry.

In order to avoid this injustice to the distributing branch of the jewelry trade, and at the same time not to diminish the revenues anticipated by the

measure in question, we respectfully urge that the revenue bill as now drafted, be amended so that the distributor will have to pay a tax of 5 per cent on the stock on hand at the time that the act takes effect; but said tax to be payable only at the time when said merchandise is sold. Under such a course the distributing branch of the industry would be placed in the same position as the producing branch. The Government's revenue would not be diminished and the distributor of jewelry would be placed in a more equitable position in that his share of the taxes would be payable only after merchandise has been sold. The most uneconomic principle of taxing large quantities of merchandise, which might not be sold during the life of this act, would be destroyed, and in lieu thereof, without unnecessarily crippling the industry, the distributor would be able to accumulate cash for taxes from income received upon sales. It hardly seems necessary to call further attention to the advantages and justice of such a change, as we feel confident that the present wording of section 602 was incorporated into the measure without consideration of the above circumstances merely through inadvertance on the part of the drafters of the proposed bill. The suggested amendment is attached hereto.

POINT II.

A provision should be made in section 600, paragraph (e), so that under that particular section no single article of merchandise could be subjected to double or triple taxation.

We wish to call to the attention of Congress the following fact, which is doubtless well known to some of the Members thereof: Jewelry is often sold by so-called manufacturers who are little more than assemblers of articles manufactured by others. Under the present draft of the revenue bill a particular article manufactured by A and sold to B, another manufacturer, who merely makes a small addition to the article purchased from A, will be subjected to double taxation in so far and to the extent of the article originally manufactured by A. For example, a pendant is manufactured by A. He is subjected to a tax of 5 per cent of the selling price of the pendant, which is sold to B, who merely adds workmanship or attaches it to a chain. The said work is a small part of the value of the article when completed, and the chain is generally worth less than the pendant. B, however, would be subjected to another tax of 5 per cent to the extent of the entire sale price of the combined article. By thus levying more than one tax on a specific article, such as referred to, the eventual cost to the consumer will be unduly and unnecessarily high, a condition which will automatically react so as to lessen the volume of business and in consequence diminish the income under this act. It appears to be clearly the intention of the framers of this war-revenue bill to avoid double taxation. We call specific attention to the exemption of double taxation of automobile tires (sec. 600, par. a) and certain drugs (sec. 600, par. i), etc. Doubtless this double taxation which would result in many cases, affecting the sale of jewelry, was only an oversight in the drafting of the measure. We submit herewith a proposed amendment, which is similar in wording to that used in the case of automobile tires above-mentioned, and under the operation of which only a single tax will be collected on each article of jewelry manufactured after the enactment of the measure.

POINT III.

Every branch of the jewelry trade wishes to register a serious protest to any singling out of the jewelry industry.

Whereas the jewelry trade, as has been stated in the introduction to this memorandum, is ready to serve the Government in furnishing war revenues, we feel that the scope of Title VI, referring to war tax on manufactures, should be broadened so as to include other articles in addition to those already mentioned therein. To single out, as has been done, only a handful of industries to be subjected to such tax is a policy of doubtful value as the segregation of certain industries as luxuries is bound to decrease their sale and thus in a measure defeat the purpose of the tax levy. The public as a whole will not fail to realize that the Government is pointing its finger at certain specific industries, and for that reason we wish to place ourselves on record as most emphatically objecting to any elimination from the war tax on manufactures of any of the industries mentioned in the present draft of Title VI, and if Congress in its wisdom should decide to strike out from section 600 any single

article of merchandise mentioned therein, we respectfully request to have our line stricken out also, as we believe that the moral effect upon the remaining industries would be most disastrous.

CONCLUSION.

We respectfully urge that the suggestions made in this memorandum be incorporated in the war-revenue act.

We submit herewith the following proposed amendments to the war-revenue measure now before Congress.

NOTE.—Old matter to be omitted is marked [ ]; new matter inserted is in italics, or in parentheses ( ).

TITLE VI. WAR TAX ON MANUFACTURERS.

SEC. 600. That there shall be levied, assessed, collected, and paid—

(e) Upon any article commonly or commercially known as jewelry, whether real or imitation, sold by the manufacturer, producer, or importer thereof, a tax equivalent to five per centum of the price for which so sold [; and] (:) *Provided, That from the tax which would be imposed upon a manufacturer, producer, or importer of jewelry, whether real or imitation, there shall be deducted the amount of any tax paid under this subdivision upon any part or parts for such jewelry.*

SEC. 601. That each manufacturer, producer, or importer of any of the articles enumerated in section six hundred shall make monthly returns under oath in duplicate and pay the taxes imposed on such articles by this title to the collector of internal revenue for the district in which is located the principal place of business. Such return shall contain such information and be made at such times and in such manner as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may by regulations prescribe.

SEC. 602. (N. B. Eliminate from first paragraph the letter (e) and add the following subdivision:)

Sec. 602 (a). That upon all articles enumerated in subdivision (e) of section six hundred which are on the day this act is passed held by other than the manufacturer, producer, or importer thereof, and intended for sale, there shall be levied, assessed, collected, and paid a tax equivalent to five per centum of the price for which bought from the manufacturer, producer, or importer. This tax shall be paid at the time of the sale of such articles by the person, corporation, partnership, or association so holding such articles, and all of the provisions enumerated in section 601 shall apply in like manner to the holder of any of the articles enumerated in this subdivision.

With sincere offers of assistance in the further drafting of this act and in the subsequent administration of the same, this brief is respectfully submitted by the

JEWELERS VIGILANCE COMMITTEE,
MEYER D. ROTHSCHILD,
Chairman of Legislative Committee of Jewelers Vigilance Committee.

Charles T. Evans, president of the National American Retail Jewelers Association; Rolland G. Monroe, president American Jewelers Protective Association; Harry M. Mays, former president of New England Manufacturing Jewelers & Silversmiths Association; George A. Brock, California Gold & Silversmiths Association; Robert B. Steele, secretary Platinumsmiths Association; Jonas Koch, president New York Wholesale Jewelers Association; Laurence Gardner, secretary of the National Jewelers Board Board of Trade; T. Edgar Willson, editor of the Jewelers Circular; Harry C. Larter, chairman Jewelers Vigilance Committee; Harry F. Dickinson, secretary Jewelers Vigilance Committee; Louis Sickles, former president of National Wholesale Jewelers Association; David Belais, president National Federation of Manufacturing Jewelers Associations of U. S. A.; Morris L. Ernst, counsel to Jewelers Vigilance Committee.

Mr. ROTHSCHILD. In conclusion, gentlemen, I will not take any more of your time except to state that we have come to you, not making a poor mouth, although our business has suffered like all other

business of the like nature lately. We hope business will be better again in the near future. If this proposed law, which takes in other industries than the jewelry business, is put on the statute books, we want to go with the rest of the industries. If the arguments which have been brought before you to-day, and other like arguments, should convince you that it is economically unsound to tax industries, to tax merchandise in the hands of the distributor, or to tax merchandise in the hands of the manufacturer, and you make up your minds that, because it is economically unsound, or for any other reason, you are going to let out some of those industries, we want to be let out also. We are not offering ourselves particularly as an example of men who are aching to be taxed. We believe and recognize this is a fair tax, as the bill is presented, with other merchants, and we want to pay our share of the bill.

There is just one other point. If, on the other hand, you keep in manufacturers and you are going to collect your tax at the source, which I venture to say is not the best way of collecting a tax of this kind, and decide to let the distributor out, that, I think, will have a splendid effect on the public mind. That will do a good deal to do away with this feeling that people must economize and must therefore disrupt many businesses upon which this country will eventually depend for its prosperity. If you come to that conclusion, we ask you also to remember that the retail jewelers and the jobbers of jewelry and the distributors of jewelry ought to be put in the exempted class. I thank you.

The CHAIRMAN. We next come to the sporting goods paragraph. Mr. Spalding desires to be heard.

Sec. 600 (G). SPORTING GOODS.

STATEMENT OF MR. H. BOARDMAN SPALDING, REPRESENTING A. G. SPALDING & BROS.

Mr. SPALDING. Mr. Chairman, I want to say at the outset that there are some items in paragraph G in which we are not interested—fishing rods and billiards and chess. We are interested principally in golf balls, golf clubs, tennis rackets, tennis balls, baseball bats, baseballs, footballs, and other balls for athletic games.

I have prepared a brief here, which consists of five points, and the first two are directed against the tax. The other three points are directed rather to administrative features of the law, rather than to the principle of the tax itself.

The CHAIRMAN. The brief will be printed.

(The brief referred to by Mr. Spalding is here printed in full, as follows:)

A. G. SPALDING & BROS.,
126 Nassau Street, New York, May 11, 1917.

SENATE FINANCE COMMITTEE,
Washington, D. C.

SIRS: I beg to hereby submit the following brief opposing the proposed 5 per cent tax imposed by paragraph G of section 600, Title VI, of the war-revenue bill adopted by the Ways and Means Committee of the House of Representatives:

I. THE TAX WILL PRODUCE LITTLE REVENUE.

There is a very popular misconception of the quantities of athletic goods used in this country. So far as I know, there are no authoritative reports which show either the quantities of such goods consumed, or their value. From the

long experience of the company which I represent in the athletic-goods business, the officers of our company are probably in a position to form as accurate judgment on the quantities of the goods enumerated in paragraph 6 of section 600, which are sold annually in this country, as it would be possible to obtain in the absence of an authoritative census. In their opinion, the annual sales do not exceed the following amounts:

Tennis rackets	$1,000,000
Golf clubs	600,000
Baseball bats	300,000
Baseballs	3,000,000
Footballs	500,000
Tennis balls	1,500,000
Golf balls	3,000,000
Total	9,900,000

If this estimate is in error it is probably too large rather than too small. Moreover, the experience of England, Canada, and Australia, to which I will refer more in detail later, indicates that during the war there will be a smaller consumption of the above kinds of merchandise than has prevailed during the past few years. The total revenue, therefore, which would be derived from this class of goods will not, at the very outside, exceed $500,000, and the probabilities are that it will be very much less.

II. IT IS NOT FAIR TO IMPOSE A HEAVY EXCISE TAX UPON A PRODUCT THE CONSUMPTION OF WHICH WILL BE VERY GREATLY REDUCED AS A RESULT OF THE WAR.

In the case of our business our fiscal year ends on July 31, so that in August, 1914, we started a new fiscal year practically simultaneously with the outbreak of the European war. I have appended to this brief a statement showing the sales and net profits of our English business for the fiscal year ending July 31, 1914, and fiscal year ending July 31, 1915, the first year of the war. I have also included a statement of the sales of our Canadian and Australian business for the three fiscal years ending, respectively, July 31, 1914, July 31, 1915, and July 31, 1916. These figures speak practically for themselves and show the serious contraction of an athletic-goods business which may be expected as a result of the war. It is particularly interesting, as it shows that in England the falling off in sales was immediate, while in Canada and Australia the falling off was not so much in the first year of the war as it was in the second. A very large percentage of the expenses of a business, as, for instance, rents, interest on plants and machinery, and expenses of a similar character, are fixed charges which continue even though the business falls off. Charges such as these it takes several years to readjust. Other expenses can be curtailed more rapidly, but never as rapidly as sales can fall off. It is not fair, nor does it conform to sound principles of taxation, to subject a business confronted with the necessity of readjusting itself to very greatly decreased sales to a special excise tax which imposes a very heavy additional expense. It is, of course, true that taxations of this kind are, in theory, supposed to be added to the price of merchandise on which they are imposed and thus passed on to the consumer, and, naturally, an effort will be made to add the amount of the tax to the price of the merchandise. The difficulty with the business to-day, however, is that the increased costs of raw materials and other increased expenses of carrying on business have made it necessary already to increase prices, and we all know that it is a fundamental law of economics that higher prices mean less consumption, and this seems, of all times, the worst to artificially increase prices in order to meet a special excise tax.

III. THE TAX, BASED ON THE PRICES FOR WHICH GOODS WERE SOLD, WOULD FALL UNEQUALLY UPON DIFFERENT MANUFACTURERS, PRODUCERS, OR IMPORTERS.

The law as reported reads as follows: "Upon all tennis rackets * * * sold by a manufacturer, producer, or importer a tax equivalent to 5 per centum of the price for which so sold." The same merchandise may be said in general to have at one time and place three prices: First, what may be called the jobber's price; that is, the price at which the manufacturer sells to the jobber; second, what may be called the wholesale price; that is, the price at which the manufacturer or jobber sells to the retail merchant; third, what may be called the

retail price, namely, the price at which the goods are sold to the consumer, either by the retail merchant, the jobber, or the manufacturer himself. Taking our own line of business as an example, we do not sell to jobbers, but deal direct, either with retail dealers or with the consumer. For our goods we therefore have for outsiders only two prices, namely, the wholesale price at which goods are sold to the retail merchant, and the retail price at which goods are sold to the consumer. If this statute is interpreted literally it would mean that we would have to pay a tax of 5 per cent on the wholesale price of all goods sold to retail merchants and a tax of 5 per cent on the retail price for goods sold direct to consumers. I might say, in passing, that we probably would find it an impossibility to render reports which the Treasury Department would have to require if this law is enacted, because it would call for a classification of wholesale and retail sales of which we do not now keep a classified record and which would be a very costly and difficult record to keep. However, the point which I wish to make here is that it is obviously unfair for goods which we are selling at wholesale and retail to pay a tax of 5 per cent on those prices, where goods sold by our competitors to jobbers would pay the tax only on the jobbing price. A number of other practical difficulties also present themselves on this phase of the question. It is usually customary to allow various quantity and cash discounts, and another difficulty would arise under the law as to whether the price on which the tax is to be passed would be the price before or after the discount was taken off.

IV. STOCKS IN THE HANDS OF JOBBERS AND RETAILERS SHOULD BE SUBJECTED TO THE TAX.

Unless the stocks in the hands of jobbers and retailers at the time this act goes into effect are subjected to the tax it would put them at an unfair advantage over the manufacturer, producer, or importer who might be selling to the same class of trade as the jobber or retailer who has stocks of goods on hand at the time the law goes into effect.

V. IF THE LAW IS ENACTED, A REASONABLE TIME SHOULD BE ALLOWED TO ADJUST PRICES AND ACCOUNTING METHODS.

As the law now stands it is apparently intended to take effect on the day following the passage of the act. It should be perfectly obvious that a tax of this size can only be met by correspondingly increasing the prices of all merchandise upon which it is assessed. Most business concerns have outstanding catalogues in which their prices are quoted, and many have also sold goods for future delivery at contract prices, and to subject all such sales to a 5 per cent tax will come very closely to taking all the net profit out of such sales from the manufacturer, producer, and importer. A law of this kind should not go into effect earlier than six months after its passage, in order to give the business affected time to adjust itself to the new conditions. Moreover, in many cases it will require adding new accounting methods in order to collect the information necessary to prepare the reports which will be required. To put this law into effect immediately upon the passage of the act would be a gross injustice and work a very severe hardship, besides inevitably resulting in a great deal of confusion between the business affected and the Treasury Department in assessing the tax for the first few months.

Respectfully submitted.

A. G. SPALDING & BROS.,
By H. BOARDMAN SPALDING,
General Counsel.

ENGLISH BUSINESS.

Net sales:	
Aug. 1, 1913, to July 31, 1914	$1,158,209.08
Aug. 1, 1914, to July 31, 1915	630,315.01
Net profit:	
Aug. 1, 1913, to July 31, 1914	128,964.93
Aug. 1, 1914, to July 31, 1915	19,369.09

CANADIAN BUSINESS.

Net sales:

Aug. 1, 1913, to July 31, 1914	$242,387.22
Aug. 1, 1914, to July 31, 1915	221,941.26
Aug. 1, 1915, to July 31, 1916	182,497.93

AUSTRALIAN BUSINESS.

Net sales:

Aug. 1, 1913, to July 31, 1914	73,584.11
Aug. 1, 1914, to July 31, 1915	73,020.22
Aug. 1, 1915, to July 31, 1916	36,392.83

Mr. SPALDING. The first point is that the law will not produce the revenue which the newspaper reports indicate is expected on the part of the House. I do not think there are any authoritative census reports on the volume of athletic-goods business. I have had something personally to do with the preparation of reports submitted by the Federal Trade Commission and also census reports submitted by the Census Bureau, and I am very sure that no very accurate statement of the volume of the business would be brought forth in those reports. There would be a great deal of duplication, due to the consolidation of companies which were not generally known, and also due very often to the carelessness with which those reports would be prepared by the manufacturers.

The athletic goods which are enumerated in that subsection G, when computed on outside sales at wholesale prices, which would probably be the basis of the tax which would be imposed, annually amount to about $10,000,000. That is an overestimate rather than an underestimate. So that your tax would produce about $500,000.

The next point I want to take up is the effect of the war on our business. I am not coming here particularly as a calamity howler. I do not expect conditions to be as bad in this country as they have proven to be in England, in Canada, and in Australia. But we have branches of our business in all three of those countries. Our fiscal year ends with July 31, so that we started a new fiscal year with the outbreak of the European war and were in a pretty good condition to make a comparison of the two years. Our English business dropped in the first year of the war 15 per cent in volume, and the profits of the English business dropped about $120,000 for the year to a loss of $10,000. It was not quite as bad as that, because we happened to have the good fortune to purchase a tannery in England at a bankrupt sale just as the war broke out, and the profits of that rather made up the loss on the athletic goods. But that is an entirely different type of business.

Canada and Australia present a rather different condition. The first year of the war there was practically no falling off in volume. But the second year of the war the sales in Canada fell off 25 per cent and the sales in Australia fell off 50 per cent. I have not attempted to give the profits of these two countries, and Canadian and Australian businesses are so tied up with our American business that it is difficult to separate the profits so as to give any help to the committee.

You gentlemen all know what a difficult thing it is, with fixed charges, rent, interest on plant, and equipment that can not be reduced suddenly, to contract your expenses to a reducing business, a contracted business. We are confronted with that problem, and on

top of that if a 5 per cent tax is added on, that means simply so much heavier burden which we will have to bear.

Senator THOMAS. How has the war affected your domestic business?

Mr. SPALDING. Up to date it has not been affected at all, Senator, although I was told by the general manager of our eastern division yesterday, just before coming down, that dealers were commencing to want to cancel orders and return goods which they had on hand. I do not think we will consent to that, but it seems to me it is an indication of what we will have to expect.

I do not know that we are very different in that respect from a lot of the other business that comes under this section 600, and we will have to take our medicine along with the others, whatever Congress decides.

I want to speak on one other point. This tax is based on the price at which goods are sold. There are three prices for goods at any given time. One is the job price—that is, the price that the manufacturer sells to the jobber for; second is the wholesale price, the price at which the jobber sells to the retail merchant; and, third, there is the retail price. We are in rather a peculiar condition. We do not in our business sell to jobbers at all. We sell direct to wholesalers, and in our retail stores direct to retail merchants. I assume we have to pay a tax based on the price at which we sell those goods, namely, the price at which we sell at wholesale to the wholesaler and the price at which we sell those goods at retail to the retailer. That puts us at a very unfair disadvantage with our competitors, who may be selling to jobbers the same class of goods. In other words, a tennis racket which retails for $8 and is sold by the manufacturer to the jobber at, perhaps, $4.50, will pay a tax of 5 per cent on $4.50, whereas if we sold it over the counter at retail, it would pay a tax of 5 per cent on $8. That could be equalized by reducing the rate of tax and imposing it on the retail price, because most manufacturers of athletic goods issue catalogues in which they list retail prices.

I disagree with the gentleman who argued for the jewelers, on the question of stocks in the hands of jobbers and retail merchants. I think those should be subject to the same tax that we would have to pay on goods which we have in stock. Much of our manufactured goods are really in the same class as goods which our competitors may have sold to jobbers. We are a big jobbing concern ourselves, and have these stocks and stores located all around the country, and why we should have to pay a tax on those goods which are already there—why the Simmons Hardware Co., who have bought from a manufacturer, should not pay on their goods—I do not quite see the fairness of.

Another point I would like to make is that if this law is passed it should not go into effect 24 hours after the bill is enacted. We ought to have a reasonable time; we ought to have at least 30 days, really longer, but at least that time, to readjust our prices to cover these taxes, and also to put into effect the accounting methods which will be necessary to keep track of it. I would say frankly to you that if this law went into effect in 24 hours, we would be in an awful pickle with the Treasury Department to render the reports

which they would require. We do not keep our records in such shape that we can pick out these different departments and give the exact sales in any one of them. We could, if it was from our factory to our stores. There they keep it classified. We do not keep it classified in our branch store sales.

I think it is fair to say that in England, while they have a very excess-profit tax, we are paying very heavy taxes on profits we are making there now—that is, on tannery, which is the principle source of profit at the present time—they have not put a tax on athletic goods, I presume realizing that the sales were dropping off. There is another feature that I want to call attention to which will make a great deal of administrative difficulty if the tax is imposed on golf clubs, and also to a more limited extent on tennis rackets and baseball bats. The bulk of the golf clubs are sold by professionals, and are manufactured to a limited extent by them. We do a large business with professionals, selling them rough golf club shafts and rough golf club heads, and they put those together, finish them, give them the shape they desire, and then sell them at sometimes very large profits to the members of the clubs, and people who come to their shops to purchase. If any member of the committee knows any of the golf professionals, they know they are rather a peculiar class of people to deal with, and we have our difficulties with them and the Treasury Department would certainly have an enormous lot of difficulty with them if they attempted to collect a tax from golf club professionals. They would probably find themselves in the situation where these men did not know what the sales were.

Senator JONES. Can you give us any secret as to those peculiarities? Some of us may be interested.

Mr. SPALDING. I don't know whether I can or not. We have to have men in our business who make a specialty of doing nothing but dealing with golf professionals, because they can not be handled by ordinary salesmen.

The same thing is true to a more limited extent of tennis rackets and baseball bats. Of course you can realize that baseball bats can be turned out by any wood-turning mill, and I have no doubt that a great quantity of baseball bats which are made up and used throughout the country may be turned out in quantities of a few dozen each out of some mill just for local use. If that law goes into effect at all, I think it will be much easier for the Treasury Department, and certainly for us, if the tax were imposed only on tennis balls and golf balls, and I may say also those two branches of our business are the most profitable, and they could best stand the tax. They have been less affected by the rise of raw materials. Labor has not gone up to any such extent as leather has, which enters into footballs, for instance. Of course the golf-club business is in a class by itself. The price of raw material has not gone up so much, but it would be an awfully difficult business from an administrative standpoint to figure out the tax.

Senator MCCUMBER. You do not claim that an increase in your charges for a golf club or a baseball bat of 5 per cent would diminish your sales, do you?

Mr. SPALDING. Usually any increase will diminish sales somewhat.

Senator MCCUMBER. Do you mean to say that any man who has

been bitten by the golf bug will ever have his mania lessened because of a 5 per cent increase?

Mr. SPALDING. No; I am not going to howl calamity that way. I think the additional 5 per cent could be put on, and I do not think you would affect the business very heavily; that is, in golf or tennis. In baseball you are dealing with a different proposition. You remember that baseballs sell down as low as 5 cents apiece, and also you are dealing with a poorer class of trade. The average man who plays baseball is not as wealthy as the average man who plays golf.

Senator JONES. There are two sorts of golf clubs; there is the stick and there is the organization. Do you not think we ought to tax both of them, both sorts of golf clubs?

Mr. SPALDING. I am not holding any brief for golf clubs or social clubs. In fact, I am a member of two or three, and I will probably have to pay a tax, but I am rather in favor of that. I think it is a luxury at the most. If you were dealing with peace times and our volume of trade was going to continue the way it has in the past year or two, I do not know that I would be down here arguing against the tax on athletic goods. They are more or less of a luxury, and I do not know but what we are an industry that could stand perhaps that tax. But we are pretty surely going to be confronted with greatly decreased sales, and all you gentlemen who are familiar with business enterprises know that deceased sales usually means decreased profits at even a greater rate of per cent.

One of the Senators raised a point with the last speaker about profits. The athletic goods business is not a very good business.

Senator THOMAS. I was trying to get at the basis on which the profits were calculated.

Mr. SPALDING. Our sales last year were about $15,000,000 and our profits about $1,200,000. I should say in explanation those sales are rather inflated; that is, they include sales from a manufacturing branch and the selling branch. Actual sales to outsiders would be probably under ten million, and the capital which we have invested in the business generally on our own books is between eight and nine million dollars; and, figured on the basis layed down by Congress in the excess-profits tax, so far as it can work—personally I do not think it is a workable proposition—I think our capital will figure up something higher than that. Of course, we have been rather conservative in our capitalization. Our business probably earns between 12 and 15 per cent on the capital invested, and that in its most profitable period.

The CHAIRMAN. We will now hear Mr. Chapple.

STATEMENT OF MR. WILLIAM D. CHAPPLE, OF SALEM, MASS., ATTORNEY FOR PARKER BROS.

Mr. CHAPPLE. Mr. Chairman, section G is commonly known as the sporting-goods section. I think it is intended to apply to sporting goods and games of skill, because it puts a tax upon baseballs, billiards, and so forth, and then comes on and puts in the general clause, "games and parts of games." That hits a number of children's games manufactured by Parker Bros., and you will understand that there is no tax upon toys in this bill, and these things are merely children's playthings, and we feel that you do not intend to tax this class of children's playthings any more than you do to

tax toys, because there is no tax upon toys. I will not go into further detail, but will submit my argument in a brief.

The CHAIRMAN. Your brief will be printed.

(The brief referred to by Mr. Chapple, was subsequently submitted and is here printed in full, as follows:)

BRIEF IN BEHALF OF PARKER BROS. (INC.), MANUFACTURERS OF GAMES, TOYS, AND SPORTING GOODS, SALEM, MASS., AND NEW YORK CITY.

In reference to the words "games and parts of games," section 600, paragraph G, line 9, page 27, of the new war-tax bill, from the context of paragraph G and allusions to this paragraph in debate, it undoubtedly is intended to tax sporting and athletic goods and adult games of skill and not playthings and games for little children, but this simple expression "games and parts of games" is so broadly comprehensive that it goes beyond what we believe to be the intention of the bill and would tax children's games, such as "jackstraws," "old maid," "snap," "marbles," "tiddledy winks," and numerous other simple childhood games which circulate in large quantities and at low prices.

The bill does not tax toys at all, neither the luxurious nor the cheap kind. It does not tax even the most expensive dolls, rocking horses, steel toys, express wagons, air guns, drums, etc., which is evidence that childhood toys and games were not intended to be taxed by this bill, and that the only intent of inserting the words "games" was to tax other athletic and sporting games, such as croquet, quoits, ping-pong, cricket, and similar games which were not itemized in paragraph G.

If toys are not to be taxed, then certainly children's games should not be. We therefore ask that the five words "games and parts of games," line 9, paragraph G, section 600, be stricken out and the words "sporting and athletic games and parts of such games" be substituted, so that the section as amended shall read as follows:

"(g) Upon all tennis rackets, golf clubs, baseball bats, lacrosse sticks, balls of all kinds, including baseballs, footballs, tennis, golf, lacrosse, billiard and pool balls, fishing rods, reels and lines, billiard and pool tables, chess and checker boards and pieces, dice, sporting and athletic games and parts of such games, except playing cards, sold by the manufacturer, producer, or importer, a tax equivalent to five per centum of the price for which so sold."

All of the articles mentioned in paragraph G are sold by sporting goods stores, whereas children's games sell in juvenile sections, such as in toy and game departments and toy and game shops.

We are makers of a large amount of sporting and athletic games and adult games of skill and are entirely willing to pay the tax imposed in this bill on such games, but it is evidently accidental and plainly unfair discrimination that children's games should receive other treatment than children's toys.

We request most earnestly that this error in the bill be corrected by the adoption of the amendment above submitted.

Respectfully submitted.

PARKER BROS. (INC.),
GEORGE S. PARKER,
President.

WM. D. CHAPPLE,
Salem, Mass., Attorney.

BELOW IS SUGGESTED ANOTHER WAY OF MAKING THE CORRECTION.

"(g) Upon all tennis rackets, golf clubs, baseball bats, lacrosse sticks, balls of all kinds, including baseballs, footballs, tennis, lacrosse, billiard and pool balls, fishing rods, reels and lines, billiard and pool tables, chess and checker boards and pieces, dice, games and parts of games, except playing cards and children's games, sold by the manufacturer, producer, or importer, a tax equivalent to five per centum of the price for which so sold."

Mr. CHAPPLE. I will introduce Mr. George S. Parker, of Salem, Mass., president of Parker Bros., who will explain to you in more detail the effect of this wording. I think it is unintentional on the part of the committee. I do not believe you intend to tax anything

there except games that are similar to golf, baseball, or other skillful games.

The CHAIRMAN. Now we will hear Mr. Parker.

STATEMENT OF MR. GEORGE S. PARKER, OF SALEM, MASS., PRESIDENT OF PARKER BROS.

Mr. PARKER. Mr. Chairman, there is no tax on toys, as Mr. Chapple said, no tax on dolls, no tax on children's goods of any description, no attempt to hit the children. This paragraph has been alluded to in the press as the sporting-goods clause. It has been spoken of by Mr. Chapple as the sporting-goods clause, and such must be its intention.

I would like to suggest that in place of "games and parts of games" you insert "sport and athletic games and parts of such games," which removes some toys and games for little children what now bears down upon that class of articles. I am sure what they intended to say was croquet and dominoes and games of skill which are used by adults, and not games for little children.

We are entirely ready to pay our tax upon any of these things here which are mentioned, upon any of the sporting-goods items that we make, entirely ready, and in that class are named a good many games or subjects which we do manufacture. But we are sure, from the omission to tax toys, that there was no intention to tax little children's games, like authors, tiddle-de-winks, old maid, snap, and such articles; and really if they were taxed, they being highly competitive goods, there would really be no profit left upon that large portion of the business. We are quite willing to pay on ping-pong, diabolo, checkers, backgammon, and croquet, and all the other articles which are named there.

That is all. I thank you, gentlemen.

The CHAIRMAN. That completes the schedule on playing cards. Now, we will take up surety bonds.

The CHAIRMAN. We will next hear Mr. McConnell on perfumes.

Sec. 600 (H). PERFUMES AND COSMETICS.

STATEMENT OF MR. D. H. McCONNELL, OF NEW YORK, REPRESENTING THE CALIFORNIA PERFUME COMPANY.

Mr. MCCONNELL. Mr. Chairman and gentlemen, I represent the industry of perfume. I believe I am the only one who is to speak for the perfumers before this committee.

I would just like to call your attention to the fact that the word "perfumery" does not in any sense correctly designate the line of business that we are in. I think among the members of our perfume industry there is not to exceed 15 per cent of our total sales that are in what we call liquid perfumes. We manufacture toilet waters and a large variety of toilet articles, such as dentrifices and powders and creams, and a number of articles that have been used more or less by the American people for a great many years, and which to many of us are as much necessities as many other things that we regard as real necessities to-day. So that I do not like to be classed exactly as the manufacturer of a real luxury, because I am not. We know of many of the things we manufacture which are advocated by our doctors and are attempted to be introduced through our public schools. I am

referring to dentrifices. It is only a short time since there was quite a propaganda carried on to get the children in our public schools to use the proper dentrifices and keep their teeth in good, healthy condition, as the teeth is somewhat a general index of the health of the boy or girl.

I would like to ask this: Is this tax on alcohol in title 3, page 8, supposed to cover the alcohol used in our industry, or is that alcohol used for beverages?

The CHAIRMAN. What is the section?

Mr. MCCONNELL. Title 3, on page 8, at the bottom of the page. It says "War tax on beverages." I have looked it over, and it seems to me that the idea here is to tax alcohol used in the manufacture of beverages, and to me there is a question whether it is intended to cover the alcohol used in the manufacture of our articles.

Senator MCCUMBER. Perfumes?

Mr. MCCONNELL. Perfumes, toilet waters, and hair tonic.

Senator MCCUMBER. I do not know of anybody who drinks them.

Mr. MCCONNELL. No; I do not.

The CHAIRMAN. Mr. McCoy, who represents the Treasury Department and, I suppose, had a great deal to do with drafting this, says it includes all distilled spirits which now pay a tax, and that seems to be the clear meaning of the reading.

Mr. MCCONNELL. I confess I did not get it from the reading whether it meant that, and, naturally, I was in hopes that it did not, because an additional tax of $1.10 per proof gallon upon the spirits that we use in our industry is going to be a very heavy tax upon the manufacture. We already have this tax of $1.10 per proof gallon. If it is made $2.20 per proof gallon, that is about $4.25, or nearly that, per wine gallon for our industry.

I am afraid, gentlemen, that the result of an increase of that kind for spirits used in this line is not going to increase the revenue to the Government from this particular source, because manufacturers can not raise the price of their goods to get the additional cost out of them. We can raise the price, but there is a point above which we can not go. We will raise the price of the goods out of the market: that is the difficulty. Most of that will come upon the cheap grades of perfume—perfumes which sell for 50 cents an ounce. There is just as much alcohol in a gallon of goods that sells for 50 cents an ounce as in goods that sell for $1 an ounce; and, you see, the heavy part of this burden comes upon the cheaper grade of the goods. It would please us very much if the alcohol used in our industry could be left as it is, to pay the tax we have been accustomed to pay—$1.10 per proof gallon. It would not interfere with the sales.

I would just like to call your attention, too, to the fact that nearly all other raw materials that enter into the manufacture of our goods comes from abroad. On account of the conditions brought about by the war the prices that we have to pay for those goods to-day are from 50 to 200 or 300 per cent higher than normal. We are already paying a duty on these high prices for this raw material, so that with the added 10 per cent duty which the bill also provides it just seems to us that it is grinding us down between the millstones pretty fine. We want to exist, and we want to help the Government. We want to pay every tax that anybody else pays. But unless we get income, unless we get profits, we will not have anything to pay.

We know the taxes that are paid. It is not necessary to enumerate them. We have our income taxes, and excess-profit taxes, and the duty that comes in on the goods that we purchase, and the internal-revenue taxes, corporations taxes—all of those taxes—and it just seems to us that in this case in our industry for some reason we have taxes that are not placed upon any other industry. Our internal-revenue tax will be one of the heaviest taxes we have. It will bring spirits, at our present rate, up to about $5.35 a wine gallon, and it is pretty hard for a manufacturer in our line of business to pay that price for spirits and make any money.

The CHAIRMAN. What per cent of your raw material cost is alcohol?

Mr. McCONNELL. Over one-third of the cost of the raw material is alcohol. That is, it has been. With this increase in the price it will be perhaps a half.

This will give you just an illustration. The selling price of extracts, toilet water, is about seven and a half to eight dollars a gallon. That is about the selling price of toilet water. A 5 per cent tax on that is from 30 to 40 cents. That would be the tax under the 5 per cent manufacturers' tax per gallon. The alcohol at 80 per cent is taxed $3.40 per gallon. There is about 80 per cent alcohol in toilet waters, and on that 80 per cent we pay $3.40 a gallon tax. So the interest of the Government in the alcohol tax is more than eleven times as great as the 5 per cent tax in the manufactured articles.

If we decrease our use of alcohol by these additional taxes, the Government is not getting from the industry what they should. We would like to have the alcohol remain as it is, and we would like to have the 5 per cent on manufactured goods eliminated, because we really believe it is necessary in our industry. We have perhaps 150 manufacturers. There are very few of those manufacturers who are wealthy. In fact, most of them are small people. I do not believe any of them made 10 per cent profit last year. We did not, and we are not one of the small people. But our profit was less than 10 per cent. According to this, we are taxed just 2 or 3 per cent of that, and if the alcohol is advanced in this way, our profits will be less this coming year than they were last year.

Senator THOMAS. How do you figure your profits on the par value of your capital stock, if you are a corporation?

Mr. McCONNELL. We figure it on the sales of the business.

Senator THOMAS. The cost of the actual sales?

Mr. McCONNELL. When we say we make less than 10 per cent, if we sell $500,000 worth of goods, we make less than 10 per cent of our sales. The concern that sells $100,000 worth of goods and makes 10 per cent has made $10,000.

Senator SMOOT. But the capital may be about $20,000.

Mr. McCONNELL. You can not do a hundred thousand dollar business to-day with a capital of $20,000.

Senator SMOOT. I am speaking relatively.

Mr. McCONNELL. Yes; that is right. This has nothing to do with the capital invested. The 5 per cent tax which is imposed in the bill here, as you will observe, is at least one-half of the net profits of not last year alone, but the last two or three years.

Senator JONES. How often do you turn your capital over in a year, about? What is your capital stock, I mean invested capital?

Mr. McCONNELL. Our capital is about $350,000.

Senator JONES. How much are your sales?

Mr. McCONNELL. About $700,000.

Senator JONES. Then you turn your capital over twice a year.

Mr. McCONNELL. We turn our capital over twice a year.

Senator JONES. And you make 10 per cent on the turnover, which is 20 per cent on your investment.

Mr. McCONNELL. We use more capital, of course, then we have in the business, because we are borrowers. There are a great many articles we use that we carry in stock one and two years before we use them. For instance, we will take muck. We never use muck until it is at least a year old. We carry it there a year before we use it.

Senator JONES. But your alcohol you do not carry a year, or even a month?

Mr. McCONNELL. The alcohol that is used in making this musk tincture we carry a year.

Senator JONES. But I mean the bulk—this 80 per cent of toilet water, and so on.

Mr. McCONNELL. No. We are making a lot of other things besides the perfumes. If you speak of the perfumes alone, you will see this; we get in our pomades in December. We wash them up, and we wash up those goods, and we have enough for the year. It is from those washings that we make our toilet waters. So that by the 1st of April we have bought all the spirits that we use in perfumes and toilet waters, or practically all that we use for the year. We wash those up during the winter, and we make one batch of it, and wash up enough to last during the balance of the year, because that is one of the ways in which perfume is improved—by washing it up and letting it stand and mellow.

I want to thank you gentleman. I do not think there is anything further I wish to say.

The CHAIRMAN. That concludes perfumes and cosmetics.

ADDITIONAL BRIEFS IN RELATION TO PERFUMES AND COSMETICS FILED WITH THE COMMITTEE.

Protest signed by Mr. A. M. Spiehler, president of the Manufacturing Perfumers' Association of the United States.

PROTEST AGAINST THE SPECIAL TAXATION OF AN OVERBURDENED INDUSTRY—MANUFACTURING PERFUMERS' ASSOCIATION OF THE UNITED STATES.

ROCHESTER, N. Y., *May 15, 1917.*

To the Finance Committee of the United States Senate:

On behalf of the Manufacturing Perfumers' Association we desire to place before your honorable committee a few plain business facts regarding the provisions of Title VI, section 600, subdivision h, of the war-revenue bill as framed by the Ways and Means Committee of the House of Representatives. This provision imposes a tax equal to 5 per cent of the manufacturers' selling price upon "all perfumes, essences, extracts, toilet waters, cosmetics, vaselines, petrolatums, hair oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes, dentrifices, tooth pastes, aromatic cachous, toilet soaps and powders, or any similar substance, article, or preparation by whatsoever name known or distinguished, used or applied for toilet purposes."

It is the avowed purpose of this feature of the bill to impose a tax on so-called luxuries, and it is therefore a fair proposition that conceding, for the sake of

argument, the propriety of taxing luxuries, there is neither justice nor fairness in placing an impost upon these products unless they are in fact articles of luxury. Yet it requires but the most cursory examination of this list to demonstrate that the great bulk of the articles named in it, and others heretofore held by the Treasury Department to be included in the phrase "or any similar substance, article, or preparation, by whatsoever name known or distinguished, used or applied for toilet purposes," are in no sense luxuries but actual necessaries of life, the use of which is recommended by medical authorities everywhere as important in the preservation of health.

Perfumery and toilet waters, to which we shall refer later, constitute but a very small percentage of the output of the industry represented by the Manufacturing Perfumers' Association. The leading products of the industry are soaps, tooth and mouth washes, dentifrices, tooth pastes, talcum powders, and other similar goods. Throughout the length and breadth of the land the use of these goods is being urged upon the people by the Federal Bureau of Public Health, by local boards of health, and by intelligent physicians, surgeons, and dentists.

The use of dentrifices, and tooth washes especially, is not only insisted upon by the highest medical authorities, but even the public schools in many communities are being utilized as channels through which to disseminate knowledge of the importance of the care of the teeth and the part that sound teeth play in the maintenance of health. Both the Army and Navy have recently become aroused to the necessity of looking after the teeth of enlisted men, and the toothbrush and tube of tooth paste go with the soldiers into the trenches.

It would hardly seem necessary to point out the absurdity of taxing as luxuries ordinary toilet soaps, which are absolutely necessary to personal cleanliness, and it is certainly a severe reflection upon the authors of this measure that they should have gone outside the category of the Spanish War revenue act and the emergency revenue act of 1914 for the purpose of including toilet soaps of all descriptions, which since the archaic revenue act of 1862 have never been subjected to any internal-revenue impost whatever. There is high authority for the statement that "cleanliness is next to godliness," and it is inconceivable that in the year of our Lord 1917 the Congress of the United States should tax soap as an article of luxury. Legislation requiring its use and contributing to its cheapness would be more in line with the world-wide movement for improved hygiene and better sanitation.

The taxing of "toilet powders," without discrimination as to kind, imposes a burden upon a very important product of our trade, 90 per cent of which is used in the nursery and in the hospital, namely, talcum powder, scented or unscented. The use of this article is absolutely necessary in the care of every infant from the day of its birth, while in hospitals it is employed in a hundred ways for the comfort of suffering humanity. In the treatment of patients by massage enormous quantities of talcum are consumed, and thousands of fever-racked patients are soothed to sleep by applications of this valuable agent. Yet in this bill talcum powders are not differentiated from face powders, though entirely distinct in material, method of manufacture, and purpose of application.

Turning now to the subject of perfumery, which appears to have occupied a large place in the minds of the framers of this section of the bill, although as a matter of fact it is a small factor in a small industry, a few figures will demonstrate the absurdity, from the Government's own standpoint, of imposing a tax thereon or of taking any action calculated to restrict in any way the sale of this article. As a matter of fact, the Government of the United States is in partnership with every manufacturer of perfumery, toilet waters, flavoring extracts, etc., and is interested to a far greater extent than the manufacturer himself in the largest possible consumption of these goods. In illustration of this point we would say that the chief material in the manufacture of these products is alcohol, which constitutes 80 per cent of medium-grade toilet waters and extracts. These goods sell at from $6 to $8 per gallon, and because of the doubling of the spirit tax, provided in another section of this bill, every gallon of these goods will pay to the Government a tax on the alcoholic contents thereof amounting to $3.40. The manufacturers' tax of 5 per cent provided by the perfumery and cosmetic section would amount to from 30 to 40 cents. This demonstrates beyond question that the interest of the Government in the tax on the alcohol contained in these goods is at least 10 times as great as in the manufacturers' tax. It is therefore the height of economic folly for Congress to impose the slightest burden upon the sale of these goods, which, in proportion to their price, are to-day enormous revenue producers. Any business man

who having an interest like that of the Government in the alcoholic tax on perfumery, extracts, etc., would place the burden of a feather upon the production and sale thereof would be regarded as a fit subject for an insane asylum, and would probably end his business career in the bankruptcy courts. It may be of interest to the committee in this connection to learn that under the act of 1914 a member of this association, who paid a Schedule B stamp tax on his products amounting to $12,000 per annum, paid a tax to the Government for the alcohol used in the perfumery, extracts, etc., which he produced and which constituted only a part of his output, amounting to $30,000 per annum. Under the proposed bill his contribution to the spirit tax would amount to $60,000.

It is submitted that the foregoing considerations should induce your committee to abandon the proposed tax on this small and struggling industry, especially in view of the fact that, if the use of any of the articles enumerated in the section under discussion can be dispensed with, the war crisis is already operating to restrict sales and cripple the manufacturers. The legislation embodied in this bill, aside from the 5 per cent tax on our industry, will force an increase in our prices amounting in many cases to 100 per cent, a practically prohibitory figure at a time when the Nation is ringing from one end to the other with demands for economy. Let Congress take the profits of our producers if it will, but let it spare the industry which employs American capital and American labor and already contributes far more than its share to the revenues of the Government and certainly its full share to the prosperity of the country.

The profits made in this small industry are grossly exaggerated in the public mind and evidently in the minds of the framers of this bill. We are in position to lay before your committee transcripts from the records of typical manufacturers of these goods showing that their net profits do not average 10 per cent. It follows, therefore, that a tax of 5 per cent on a manufacturer's price will amount to more than one-half of the net income of these producers. It must be borne in mind that this contribution must be made in addition to corporation, income, excess-profits, and all other taxes which those engaged in our industry must share with the other business men of the country.

But this does not tell the whole story regarding the situation now confronting this small body of manufacturers. War conditions have made it almost impossible for us to secure raw materials to carry on our business, and such as we are able to procure bring prices ranging from 200 to 3,000 per cent above normal. The bulk of our materials are imported. For years no import duty was imposed upon them, but under the Underwood-Simmons tariff law Congress placed an impost of 20 per cent on practically all these materials. The present bill increases this duty 10 per cent ad valorem, making a burden of 30 per cent on war-inflated prices, the duty amounting in many instances to more than the normal price of the article itself. For example, attar of roses from Bulgaria, which usually sells for $5 per ounce, now commands $21, upon which a duty of 30 per cent is equivalent to $6.30, or $1.30 more than the normal price of the oil itself. Freight rates are at present abnormally high and insurance rates amount to 25 per cent of the appraised value of the merchandise.

Another feature of the pending bill that will have serious consequences for those engaged in this industry imposes a tax of 10 per cent on passenger transportation. One of our members, who employs but 30 traveling salesmen, pays in railroad fares $900 per man per annum, or a total of $27,000. The proposed tax on this transportation, amounting to $2,700, will add an expense of one-half of one per cent on the gross sales of these travellers, which do not exceed $15,000 each.

We submit that, upon the showing we have made, our trade can not bear any further burdens. Should it be deemed necessary, however, to raise money by taxing our products, we suggest that much more revenue can be secured, and in a far more equitable manner, by imposing a stamp tax to be paid by the consumer, the stamps to be affixed by the retailer at the time of sale, as is now done in Canada. This tax, on a basis of 1 cent on each package selling for 25 cents or less, 2 cents on a 50-cent package, etc., would be equivalent to 4 per cent of the retail price and would net a very considerable sum.

In addition to the broad propositions above set forth there are certain details of the bill to which we would draw your special attention, which do not appear to have been accorded due consideration by its framers. The first of these is the heavy handicap placed on American manufacturers of goods containing alcohol by the failure of the bill to provide adequate compensatory duties on

competing imported articles. In all tariff schedules in the past Congress has provided duties on articles containing alcohol or in the manufacture of which alcohol is used which are designed to be compensatory of the internal-revenue tax paid by the American producer on the alcohol consumed. Whenever the spirit tax has been changed the tariff schedules have been modified accordingly. Yet in this instance with an increase of 100 per cent in the tax on our most important material—constituting in the case of bulk toilet waters or extracts, for example, no less than 65 per cent of the manufacturer's selling price—the only compensatory adjustment of the tariff is an ad valorem increase of 10 per cent, which is fully offset by an increase at the same rate in the duties on our imported raw materials. We feel confident that your committee, whatever action it may take with respect to the main features of this bill, will not suffer such an injustice to be perpetrated but that it will provide full compensation in the duties on finished products, not only to balance fairly the increased customs tax on our raw materials, but to remove the inequality growing out of the proposed increase in the internal-revenue tax on alcohol.

Another incongruity in the House bill should have your careful attention. In the classification of the products of our industry found in Title VI, section 600, subdivision b, the 5 per cent manufacturers' tax is levied upon "essences" as such, without discrimination between goods made and sold to the manufacturers of perfumery as materials for incorporation in finished products and those made by producers of perfumery for sale to the retail trade or the consumer. This will result in many instances in double taxation, and we are confident that the committee's sense of justice and fairness will dictate a proper amendment to guard against this danger.

Our trade is further menaced by a provision in section 603, which imposes a tax on goods on hand when the law becomes effective. We would respectfully urge that this feature of the bill be changed so that the tax shall become effective immediately upon the passage of the act instead of at a later date, and shall not apply to goods on hand. In our trade it is the custom to sell goods in January, February, and March for delivery during May and June. These goods are the property of our customers after their sale, but they are in our possession and would be subject to tax under section 603 of the bill. Owing to railroad embargoes this situation is more marked this year than ever before in the history of our trade, and the hardship would be very great if we were assessed with a tax on goods already sold, the price of which we can not possibly advance.

In conclusion we beg to assure your committee that our industry is animated by the same spirit of patriotism that is now being so strongly manifested throughout the country. To whatever extent Congress in its wisdom shall increase corporate and individual income taxes, excess profits, or any other impost bearing equally upon the producers of the whole country, we will cheerfully contribute our share; but we most earnestly urge you not to destroy our business, in the success of which the Government has so much at sake, as we believe we have shown. Conditions which neither we nor Congress can control promise to handicap us heavily, and we look confidently to you for an intelligent and statesmanlike handling of a problem that is vital to the welfare of the whole country.

Respectfully submitted.

MANUFACTURING PERFUMERS' ASSOCIATION,
A. M. SPIEHLER, *President*.

The CHAIRMAN. The next paragraph in this title relates to proprietary medicines. Mr. Thompson, the committee will now hear you.

Sec. 600 (I). PROPRIETARY MEDICINES.

STATEMENT OF MR. HARRY B. THOMPSON, GENERAL COUNSEL OF THE PROPRIETARY ASSOCIATION.

Mr. THOMPSON. This association is composed of something more than 200 manufacturers of proprietary medicines. Most of them are large manufacturers. Mr. Chairman and gentlemen of the committee, there are, besides my clients who are interested in this tax, about

4,000 manufacturers of proprietary medicines, approximately 55,000 retail druggists, approximately 150,000 general merchants in the United States, mostly in the rural communities, the cross-roads stores, who are handling proprietary remedies, approximately 450 jobbing druggists, approximately 1,500 to 1,600 jobbing grocers who handle proprietary medicines, and 10,000 wagon men who are engaged in the sale. An army, if you please, interested in the sale of these remedies.

In addition to them, there is a host of people in the United States that are interested, and they are the masses. We make the medicine of the masses, the poor man's remedies, an argument which three years ago appealed somewhat to the Finance Committee of the Senate of the United States when they deleted from the bill the stamp tax upon proprietary remedies.

They took the view then that the poor man's medicine ought not to be taxed.

We are engaged in a legitimate business, one which is compelled to be legitimate by the food and drugs act of the United States and the acts of the various States of the Union, so that we are unable, even if we willed, to make statements with reference to our medicines which are in any manner fraudulent or misleading.

I think there are but eight pages in this bill in which we are not somewhat interested.

We are patriotic; we want to pay our share of the taxes, and we are going to pay under any scheme of taxation more taxes proportionately than any other group of men. The only thing to which we object is an unjust and discriminating tax.

We pay our excise tax, our excess-profits tax: and about that I want to speak a little later. We use alcohol in the preparation of our medicines. All liquid medicines contain alcohol as a solvent or extractive. We are required to use alcohol to extract the medicinal qualities and to prevent freezing in winter and souring in summer. So, indirectly, the tax is going to fall very heavily on the manufacturers of medicines. In the event a manufacturer uses more alcohol than is necessary for a solvent or preservative then there is imposed upon him the tax collected by the Internal-Revenue Department upon "compound liquors." I desire to say that in my association there are none who are paying that special tax, but there are those who do have to pay it. But on the alcohol alone indirectly we will be paying a tremendous tax. In addition to that, if you are going to tax the advertising, then we will be paying indirectly an advertising tax; we will have an increase upon the postage tax, upon the telephone and telegraph tax, upon the freight, express, and transportation tax. We use sugar for making our sirups, and if you tax sugar we get another tax on that.

On account of the European war it is impossible to get many crude drugs, so that some men have been compelled to cease the manufacture of certain preparations because of inability to obtain drugs to make the preparations. Added to that we will have to pay a customs tax of 10 per cent on imported drugs. If you add to that another discriminating tax as provided in the House bill, we will be taxed additionally, more than most other groups of men, 8 per cent. The greatest asset we have, built up by conscientious effort, is our trade-mark and good will. When we return our cap-

italization tax the Internal Revenue Department insists that not only shall we pay a tax upon the actual capital invested, our surplus and undivided profits, but upon the value of our trade-marks, and they bill us, based upon our earnings for a period of several years, at the rate of about ten times the value of the trade-mark and good will.

Unless we are permitted to get an allowance for our trade-mark and good will which has been built up by years of conscientious work and the excellence of our preparation and by the expenditure of enormous sums in advertising, we will then pay an additional 8 per cent over other groups of people. Without this we will pay more taxes than anybody else in the United States, more than any other class in the Union, and then to that it is proposed to tax us 8 per cent upon trade-marks and good will and at 5 per cent specific tax upon our volume of business. This is unfair, unjust, and discriminating. It is a tax upon the poor man's medicines, the last thing which ought to be taxed, an argument which appealed to you three years ago.

Under the act of 1898 when you imposed a stamp tax, the sale of stamps for the first full year, for 1899, was in round numbers $5,170,000, the next year it fell off $700,000, the next year the sale fell off $300,000, notwithstanding the increasing prosperity of the country, a loss of approximately 40 millions of the retail prices.

Because so many members of the committee have been called from the room on account of a vote in the Senate I will conclude my oral argument and will file a brief as a part of this argument so that the committee will have it before them at the time they come to consider this subject.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Thompson is here printed in full, as follows:)

"X."

[Petition respecting the proposed tax on proprietary medicines. Submitted on behalf of the Proprietary Association. By Harry B. Thompson, counsel.]

BRIEF—OBJECTIONS TO THE PROPOSED WAR REVENUE BILL.

HON. F. M. SIMMONS,
Chairman Finance Committee, Senate of the United States:

The Proprietary Association protests against the provisions of the pending revenue bill in the following particulars:

1. Against the language of section 202, Title II, war excess-profits tax.
2. Against the specific-volume tax of 5 per cent upon proprietary medicines, section 600, subdivision (1), Title VI, war tax on manufactures.

EXCESS-PROFITS TAX.

The principal asset of the manufacturers of proprietary medicines lies in their trade-mark and good will, which has been built up by conscientious effort, good business judgment, the excellence of their preparations, and the expenditure of large sums of money in advertising.

Section 202, as written in the bill reported by the Ways and Means Committee of the House of Representatives, would not permit an old and established firm to include the value of its trade-mark and good will as a part of the "actual capital invested," upon which there would be an exemption of 8 per cent. This would require corporations engaged in the manufacture of medicines, most of whom are very conservatively capitalized, to pay as an excess-profit tax nearly 24 per cent upon their whole income.

Under a ruling of the Treasury Department, in making the return and payment upon the present excise or capitalization tax, these corporations are com-

pelled to take the value of the trade-mark and good will into account. It is unfair and discriminating to collect taxes from such corporations derived from one source upon the value of trade-mark and good will and to exclude the value of such trade-mark and good will in calculating the actual capital invested for the purpose of securing the exemption from payment.

For example, A, B, and C began business years ago. The business was incorporated and capitalized for a small sum. No occasion existed for increasing the capital stock inasmuch as each of them was receiving one-third of the profits of the business. D, E, and F began a like business at the same time. The three partners built it up in the same manner as their competitors until the profits of both concerns were the same. Many years later the latter organized a corporation and turned their entire property into it, specifically valuing their trade-mark and good will upon a basis of its earnings.

The earlier corporation will be required to pay a larger per cent upon their profits than the latter corporation, although both are engaged in a business of identical character, their products, methods of business the same, and their incomes are equal. This is manifestly an unjust, a discriminating, inequitable, and unfair classification.

The language of this section should be amended so that the arbitrary 8 per cent exemption should be made to apply equally to all corporations, based upon the value of the property, whether the assets be tangible or intangible.

Trade-marks and good will have a real value. They are assets of corporations, transmissible under a general assignment for the benefit of creditors, which, by its terms, transfers all the insolvent's property for the payment of his debts. (Hegeman *v.* Hegeman, 8 Daly, 1.)

"It is a property right for which damages may be recovered in an action at law, and the violation of which will be enjoined in a court of equity with compensation for infringement. This property and the exclusive right to its use were not created by act of Congress. The whole system of trade-marked property and the civil remedies for its protection existed long anterior to the act of Congress." (Trade-Mark Cases, 100 U. S., 82.)

"A trade-mark belonging to an insolvent corporation passes by assignment made by it for the benefit of creditors to the assignee as a part of its assets, and a person who purchases the assets from such assignee is entitled to its use." (Richmond Nervine Co. *v.* Richmond, 159 U. S., 239.)

Upon what theory then is an asset which may be administered as a part of a decedent's estate, which will go to a trustee in bankruptcy, which passes by assignment for the benefit of creditors, to which all creditors may look for the satisfaction of their claims, not included as a part of the capital invested, and for which actual money has been expended, although not specifically paid for as a part of a purchase price?

There are few classes who will feel the effect of this unjust classification, so much as will the group of manufacturers of proprietary remedies and these manufacturers under other provisions of the bill will be compelled to bear a vastly greater burden than any other group of manufacturers.

SPECIFIC VOLUME TAX OF 5 PER CENT.

The pending House revenue bill imposes an extraordinary and discriminating tax upon the manufacturers of proprietary medicines. These manufacturers will be required to pay, if this bill becomes a law:

1. An excise or capitalization tax.
2. A corporation income tax.
3. An excess profits tax.
4. Nearly all manufacturers use alcohol as a solvent and preservative. They will indirectly pay the alcohol tax.
5. They are large advertisers. They will be compelled indirectly to pay the increased tax upon advertising.
6. They will be compelled to pay the increased freight tax.
7. They will pay the increased express tax.
8. They employ traveling men. For these they will be compelled to pay the increased cost of transportation.
9. They will pay the electric light, telephone, and telegraph taxes.
10. They will pay the increased fire-insurance tax.
11. They will be required under the express provisions, Title VI of the bill, to pay the 5 per cent volume or production tax.
12. Many of the drugs which are used in the manufacture of medicines are imported. Upon these they will pay the customs tax.

13. In addition to the above, they are taxed, as are others, by the States, counties, and municipalities in which they are located.

14. Generally there are but few stockholders in any of the corporations engaged in the manufacture of proprietary remedies, and therefore the distribution of profits is limited to a few persons. In this manner the Government gets proportionately a larger revenue from these shareholders than from any other group of manufacturers.

I submit that without the inequality in taxation resulting from the definition in section 202, under the title of "Excess profits," and without the imposition of the specific tax of 5 per cent, the proprietary medicine manufacturers will be compelled to pay proportionately more taxes under any law that may be written than any other group of manufacturers.

These manufacturers are good citizens and patriotic, and are willing to pay even more than their share of the war-revenue required to be raised.

They are engaged in a legitimate business. The public is protected against even those who might desire to do an illegitimate business by the food and drugs act. There are interested in the specific tax approximately 4,000 manufacturers of proprietary medicines, 55,000 retail druggists, 150,000 retail merchants, mostly in the rural districts, the village centers, and at the cross roads, approximately 450 jobbing druggists, 1,500 to 1,600 jobbing grocers who handle proprietary medicines, and 10,000 wagon men, who visit yearly probably 5,000,000 families.

We make medicines for the masses. To place this tax upon proprietary medicines is to place a tax upon millions of consumers in the United States. Our products are consumed, in the main, by those unable to employ professional services. Our preparations are the poor man's medicine.

We submit that such an industry should not be singled out and taxed far beyond any other group of manufacturers.

Our products are as necessary as are food and drink. There are more people interested in the tax upon them than in any other possible product than food.

This business is already bearing, by reason of conditions brought on by the war in Europe, nearly all the burden it can bear. Crude drugs have risen enormously in price. For example, from 1914 to the present time the following increases in price have occurred:

Caffein, from	$3.75 to	$12.75
Quinine, from	.24 to	.75
Glycerine, from	.20 to	.58
Benzoic acid, from	.27 to	6.50
Citric acid, from	.53 to	.72
Phenolphthalene, from	1.10 to	8.50

Most other drugs have risen proportionately.

The imposition of these extraordinary taxes will bring about peculiar trade irritations, which will result in a loss of business. These laws necessarily will be followed by a loss in revenue. A study of the conditions of the Spanish War stamp tax will disclose this. In round numbers, the volume of stamps sold the first year of the operation of that act, I am informed, was $5,190,000. The next year it fell off $700,000. The following year it fell off $300,000. We can partially account for the falling off from the first to the second year by reason of the stamping of the large stocks in trade the first year. We can not so account for the falling off from the second to the third year. In other words, the decrease in the sale of stamps in 1901 from 1900 represented a loss of $6,000,000 retail sales.

The taxes proposed in the House bill are more than the trade can possibly bear.

It is a common idea that the manufacturers of proprietary medicines are all large earners. This is not true. Some succeed. Many fail. It is only the very successful who are conspicuous. The bill, if adopted in the form suggested by the Ways and Means Committee, spells serious disturbance to the trade and loss of revenue to the Government.

We respectfully ask, therefore, that when your honorable committee shall come to the consideration of this subject that we may be relieved, not of our full share but that we shall be relieved of extraordinary and specific burdens.

Respectfully submitted.

H. B. THOMPSON,
General Counsel the Proprietary Association.

(Senator McCumber took the chair.)

Senator McCUMBER. What other gentlemen desire to discuss this?

STATEMENT OF MR. CHARLES M. WOODRUFF, REPRESENTING THE AMERICAN DRUG MANUFACTURERS' ASSOCIATION.

Mr. WOODRUFF. I represent the American Drug Manufacturers' Association, which before its last meeting was known as the National Association of Manufacturers of Medicinal Products. The former name was rather cumbersome, so the new name was adopted, though there is no other change in the organization, either as to character or composition. The American Drug Manufacturers' Association is composed of those houses which make the pharmaceuticals prescribed by physicians and dispensed upon their prescriptions. In other words, we may call ourselves manufacturers to the medical profession. I shall file a brief, and with it shall also file a list of our members.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Woodruff was subsequently submitted and is here printed in full, as follows:)

PETITION RESPECTING H. R. 4280, SUBMITTED ON BEHALF OF THE AMERICAN DRUG MANUFACTURERS' ASSOCIATION.

To the honorable the Finance Committee of the Senate of the Congress of the United States of America:

The American Drug Manufacturers' Association hereby respectfully petitions that the following amendments be made to H. R. 4280, being a "bill to provide revenue to defray war expenses, and for other purposes":

1. At the end of sections 300 and 301, pages 8 and 9, substitute semicolons for the periods and add: "*Provided*, That ethyl alcohol not produced from any cereal, grain, or sugar, and not used in the manufacture of any beverage, shall pay a tax of 25 cents per wine gallon in lieu of the above tax, and in addition to the tax now imposed by law."

2a. In section 600, pages 27 and 28, strike out all of paragraph (i).

2b. Make paragraph (j) section 600, page 28, line 17, paragraph (i).

2c. In section 603, page 29, line 11, make "(g), (h), (i), and (j)" read "(g), (h), and (i)."

In making this request your petitioner respectfully urges—

1. The abnormal conditions resulting from the European war have taxed the resources of manufacturing pharmacy and chemistry to the limit. For the last three years nearly it has been a serious problem to keep the drug trade of the whole country supplied with many pharmaceutical and medicinal chemicals required by the medical profession in the treatment of disease. To the difficulty of obtaining crude materials for these requirements has been added the speculative tendency of irregular brokers to corner such of our products as we could not hope to replenish stocks of. The problem has not been one of selling all the preparations we could make, but of conserving stocks, cutting orders, and doling out small quantities to the end that all might be supplied.

2. Added to this came the emergency revenue act of October 22, 1914, and later the still more burdensome law of September 8, 1916, both of which the members of this association have borne without complaint.

3. Because of the unavoidable entry of the United States into the war the drug manufacturers of the country have now not only to meet the normal demand of the trade and profession but the abnormal demands of the Army and Navy, which must be filled at a profit so close that actual loss can only be prevented by the most careful calculation and the immediate purchase of crude material to insure against natural and speculative advances, as well as the forfeiture of bonds given to secure the performance of contracts with the Government. This must be accomplished without obstructing the stream of supply to the medical profession upon which the general health of the public depends.

4. Special consideration is for the following: If the amendments to the bill above suggested are made the members of this association and the drug trade generally will still be taxed the following enormous sums:

(*a*) An additional tax of 25 cents per wine gallon on alcohol. The present tax is from $2.07 to $2.09 per wine gallon.

(*b*) Corporation profits tax. 2 per cent plus 2 per cent equals 4 per cent. Before September 15 next one-third of the tax imposed for 1916 must be paid.

(*c*) Corporation excess-profits tax. 8 per cent plus 8 per cent equals 16 per cent.

(*d*) Corporation excise tax. 50 cents per $1,000 on capitalization above $5,000.

(*e*) Three per cent on freight expenditures.

(*f*) Ten per cent on express charges.

(*g*) Ten per cent of amount paid by traveling salesmen for passenger and sleeping-car fares.

(*h*) Five per cent on electric power, light, and heat.

(*i*) Five cents on each telegram and long-distance telephone message.

(*j*) All articles which must necessarily be imported because not obtainable in America are taxed 10 per cent ad valorem, whether dutiable under existing law or not.

Can the committee realize what the tax on freight, express, passenger fares, power, light and heat, telegrams, and telephone messages will mean to the average manufacturer in the course of a year?

Then, we have forgotten the increase of 50 per cent in the cost of postage, which is a very large item of annual expense.

The American Drug Manufacturers' Association is a scientific rather than a commercial body. Many of its members individually expend large sums annually in research work and have investments exclusively devoted to study and experiment, employing scores of experts in nonproductive work. Practically all of the progress in pharmacy of the last 50 years is due to the individual initiative of one or another of its members. Without effort on its part it has been mentioned by its former name (the National Association of Manufacturers of Medicinal Products) in a complimentary way in a report of a committee of the House and in debates on both the floor of the Senate and House. The association of these concerns in an organization in 1912 was hailed with approval by the medical and pharmaceutical press of both continents. This is not circus buncombe, but scientific fact. To-day, under its patronage, between 30 and 40 experts are engaged in a work of collaboration in determining proper standards for many drugs for which we now have no workable standards; also ascertaining possible methods of preventing deterioration in certain preparations which are now considered nonpermanent.

Because of the language of section 600, paragraph (i), many pharmaceuticals manufactured by one or another of the members of the association will be subject to the 5 per cent tax, although they are not what are properly and judicially recognized as "proprietary medicines."

This association simply wants to continue its work unabated, individually and collectively. Some of the members have a large list of stockholders, many of whom depend, in part of wholly, upon their dividends for their livings. Such companies want to continue to pay those dividends.

Wherefore, expressing the willingness to bear the extra burden of war taxation imposed upon all corporations alike, we earnestly petition your honorable committee, and Congress as well, to save us the special taxes imposed upon our business, so essential to the public health, by making the amendments to the bill suggested at the beginning of this petition.

The American Drug Manufacturers' Association,
By Charles M. Woodruff, *Counsel*.

Statement submitted on behalf of the American Drug Manufacturers' Association.

TAX ON ALCOHOL USED IN PHARMACY SHOULD NOT BE INCREASED.

To the honorable Committee on Ways and Means,
House of Representatives, Washington, D. C.:

The undersigned desires to lay before you on behalf of the American Drug Manufacturers' Association some facts relating to the rôle of alcohol in the manufacture of pharmaceuticals such as fluid, solid, and powdered extracts, tinctures, concentrations, solutions, medicinal chemicals, and allied products used by the medical profession in the treatment of disease; also in the manufacture of pills, tablets, and mixtures and compounds likewise used and prescribed by the medical profession.

It should be borne in mind that few botanic or organic drugs are adapted to modern medicine in their crude state, and that the primary office of manufacturing pharmacy is to separate the active ingredient, whatever it may be, from the inert constituents. This is accomplished by first reducing the drug to a powder of suitable fineness and then percolating through it a liquid in which the active ingredient is soluble, the resulting product being known in pharmacy as the fluid extract and representing the crude drug minim for grain. There are in round numbers some 600 fluid extracts thus prepared. With very few exceptions the only available solvent is alcohol, sometimes undiluted and sometimes diluted to whatever degree experience has determined to be proper. The essential feature is that alcohol is necessary in the first extraction of the active principle of the crude drug, whether that active principle remains suspended in liquid form as in the case of fluid extracts, or whether by evaporating the alcohol the active principle is presented in the form of a solid extract or (by powdering the solid extract) in the form of the powdered extract.

In whatever form the isolated active medicinal ingredients are presented alcohol enters into the manufacturing operation.

This is likewise true with respect to chemicals, chemical compounds, alkaloids, resins, etc. Indeed, without alcohol it would be impossible to supply scarcely any of the many medicinal requirements of the Army and Navy.

Such being the case, it must appear to your honorable committee that the cost of alcohol is an important element in the final cost of medicine to the sick; wherefore it seems to be in the interest of the public health not to increase the tax on such alcohol, at least, as is consumed in pharmacy and chemistry

An increased tax on alcohol would be a burden upon an industry already severely taxed not only by the Government, in common with other industries, but by the natural results of the world-wide war which have increased the price of crude materials in many cases several hundred per cent.

Your honorable committee is respectfully asked to consider that the alcohol used in pharmacy and chemistry is 188 per cent proof, which makes the present tax of $1.10 per gallon 100 per cent proof $2.07 per gallon. If the tax is increased, as has been suggested, to $2 per gallon 100 per cent proof the tax on alcohol used in pharmacy and chemistry will be $3.76 per gallon. The requirements of the medical profession as a whole are so varied that it is necessary for the manufacturing pharmacist to list and keep in stock several thousand different items, the cost of most of which would be so materially affected by such an increase in the tax on alcohol that it would be necessary to rearrange prices all along the line, to the very great disadvantage of both the trade and the public.

This matter is, indeed, one that should be settled soon and equitably, for while it is pending manufacturers will be at a loss to bid upon the large medical requirements of the Government, specifications of which are expected to be issued soon.

Your committee is respectfully asked to consider whether or not the situation facing the country can not be met without any increase in the already large tax on alcohol used in pharmaceutical operations and other industries of more importance than ever to the Government in a state of war. There is always a point beyond which an increased tax fails to yield an increased revenue. It seems to us that this point has already been reached, and for this reason, as well as for the considerations above advanced, your committee is earnestly urged not to provide any increase on the present tax on alcohol in the revenue bill it is now framing.

Respectfully submitted.

AMERICAN DRUG MANUFACTURERS' ASSOCIATION,
By CHARLES M. WOODRUFF, *Counsel*.

Statement submitted on behalf of the American Drug Manufacturers' Association.

To the honorable COMMITTEE ON WAYS AND MEANS,
House of Representatives, Washington, D. C.

GENTLEMEN: Among the many sources of revenue suggested by the honorable secretary of the Treasury is the reenactment of Schedule B of the emergency

revenue act approved October 22, 1914, amended so as to include patent and proprietary medicines. The following protest on behalf of the pharmaceutical manufacturers generally, and especially on behalf of the older and larger concerns comprising the membership of the American Drug Manufacturers' Association, is respectfully submitted:

An extended statement of the situation is scarcely necessary, since the honorable Committee on Ways and Means has during the last sessions of the Sixty-third and Sixty-fourth Congress considered the whole matter. The bill reported by your honorable committee in the Sixty-third Congress, which, as amended in the Senate and in conference, was approved October 22, 1914, and is generally known as emergency revenue bill, did not contain Schedule B found in the act, although it had been fully considered by your committee. Said schedule afterwards was added in the Senate.

The act of October 22, 1914, was repealed by the act approved September 8, 1916 (public, No. 271, 64th Cong.). The latter measure was fully considered by your committee, and for good reasons both Schedule A and Schedule B were omitted in the new bill.

It therefore appears that your committee has twice fully considered the matter of raising revenue by stamps upon retail packets, boxes, bottles, pots, and vials, and both times arrived at the conclusion that this system of taxation was not desirable.

The following are possibly some of the considerations which influenced your honorable committee:

1. The stamp tax does not yield revenue commensurate with the trouble and expense of collecting it. Doubtless the experience of the revenue department, available to your committee, will have greater weight upon this point than any argument that could come to you from another source.

2. The difficulty of drawing a line between articles subject to the tax and those exempt has always led to misunderstandings, considerable confusion, much annoyance, and some litigation.

3. The stamp tax, seemingly very light, has indeed been a serious one for the manufacturer or proprietor. It has always been based upon the selling price of the individual package to the ultimate purchaser. Take, for instance, an article selling for 25 cents. Five-eighths of 1 cent seems insignificant, but this tax is equivalent to a tax of 2½ per cent of the retail value. Under the operation of the law the manufacturer or proprietor paid the tax. Few manufacturers receive more than 50 cents for an article that retails at $1. The difference is absorbed by the margins the jobber and retailer must enjoy to cover overhead and reasonable profits. This tax then is therefore equivalent to a tax of 5 per cent, and in many cases more, of the manufacturers' gross price. Few manufacturers realize as much as 20 per cent profit on such articles. This in recent years has been reduced by the increased cost of material. It should be considered that it is not always practical for the manufacturer to change his prices to the jobbing and retail trade to correspond with the fluctuation of prices in crude material. This 2½ per cent on the price to the consumer, equivalent to 5 per cent on the gross price realized by the manufacturer, is therefore at least 10 and more often 15 per cent of the manufacturer's profit.

But this is not all, for the expense of affixing the stamp to the package must be considered. This seems an insignificant item, yet it is one that enters into the calculations of the manufacturer's cost department.

4. The stamp tax is not an economic tax. It is no exaggeration to say that for every dollar of revenue it yields to the Government it costs the taxpayer two. Such a tax has heretofore not found favor with your committee, and it is respectfully submitted that no new reason exists why it should be reimposed.

We therefore humbly pray that the stamp act be not reimposed, fully believing there are very many sources from which revenue may be more expeditiously and more justly obtained.

AMERICAN DRUG MANUFACTURER'S ASSOCIATION,
Per CHARLES M. WOODRUFF, *Counsel.*

(The list of members referred to by Mr. Woodruff follow, printed in full.)

THE NATIONAL ASSOCIATION OF MANUFACTURERS OF MEDICINAL PRODUCTS.[1]

ORGANIZED FEBRUARY 7, 1912.

PURPOSE, NATURE, AND BENEFITS OF THE ASSOCIATION.

[From the Constitution and By-Laws.]

Whereas for mutual advancement and protection there is a national organization of every branch of the drug trade of America excepting that engaged in the manufacture and production of pharmaceuticals, chemicals, biological, and other products ultimately employed by the medical and allied professions for the cure, mitigation, and prevention of disease, than which no department of the drug trade is of higher or more vital importance to the public; and

Whereas it is desirable, in the manufacture and marketing of such products, to maintain the high standards generally observed by manufacturers individually during many years past; to encourage and promote still greater achievement; to insure to individual members the just and proper reward of initiative, discovery, and invention; to prevent fraudulent practices in the drug trade; to encourage the lawful enforcement of sound drug legislation, and effect official observance of the fundamental law of the land; to prevent the subversion of law to factional purposes; to amicably adjust differences; to advance uniform and just drug legislation; and in other lawful ways to promote the welfare of and fraternity among those engaged in the manufacture of therapeutic agents for the use of the medical and allied professions: Therefore,

We do form ourselves into an association and agree to be governed by the following constitution and by-laws:

[From the New York Medical Journal.]

The organization of an association of the manufacturers of pharmaceutical, chemical, and biological preparations and surgical supplies, which was effected this week, brings together a group of manufacturers whose products are in constant daily use in medicine. It is to these manufacturers that physicians must look for remedies for use in the prevention and treatment of disease. The fluid extracts, the tinctures, the elixirs, the chemicals, the serums, and the plasters of American manufacture compare favorably with those produced anywhere else in the world, and the fact that these manufacturers can lay aside their commercial jealousies and combine for the elevation and improvement of their important calling gives us reason to expect that the high standards of the American manufacturers will be even more jealously guarded in the future than in the past.

[From the American Druggist and Pharmaceutical Record.]

The revolution which has taken place in the making of medicine during the past half century was made most manifest by a gathering held at the Waldorf-Astoria Hotel on February 6 and 7. Never before in the history of medicine has there been such an agregation of vast interests affecting the makers of medicines gathered in one small room. Fifty years ago such a gathering would have been impossible. Then the individual pharmacist made his own fluid extracts, his tinctures, his pills, and even his plasters. Then there were no biological products used in medicine, except vaccine virus. Serums were undreamt of. Galenical preparations, made direct from the drug by the individual retailer, had not been replaced to the extent they now have been by alkaloids and active principles extracted by chemical manufacturers. Then every pharmacist was a manufacturer, even if he did no more than make tinctures and pills. Now the pneumatic-pill machine makes and coats with gelatin a million pills in less time than it took the old-time pharmacist to make a hundred. And it does the work on the whole better. The workman who makes quinine pills in the modern laboratory does nothing else. He becomes a highly specialized expert. The product is uniform, and niceties of composition and manipulation are worked out in a way which could only be done under the modern method of specialization.

We feel that this new organization will prove an influence for good in the important field which it covers, and we wish for it an abundant success in its efforts to place the making of medicines on a still higher plane.

---

[1] Now "American Drug Manufacturers Association."

NATIONAL ASSOCIATION OF MANUFACTURERS OF MEDICINAL PRODUCTS.

OFFICERS AND COMMITTEES FOR THE YEAR ENDING FEBRUARY 7, 1917.

President, Charles J. Lynn, of Eli Lilly & Co., Indianapolis, Ind.; vice president, R. C. Stofer, of Norwich Pharmacal Co., Norwich, N. Y.; treasurer, Franklin Black, of Charles Pfizer & Co., New York; secretary, Charles M. Woodruff, of Detroit, Mich.

Executive committee.—The president, treasurer, and secretary, ex officio; Dr. Alfred R. L. Dohme, of Sharp & Dohme, Baltimore, Md.; B. L. Murray, of Merck & Co., Rahway, N. J.

Committee on membership.—Dwight T. Scott, of the National Vaccine and Antitoxin Institute, Washington, D. C.; Ralph R. Patch, of E. L. Patch & Co., Boston, Mass.; Frank G. Ryan, of Parke, Davis & Co., Detroit, Mich.; Henry C. Lovis, of Seabury & Johnson, New York, N. Y.

Committee on legislation.—Charles M. Woodruff, of Parke, Davis & Co., Detroit, Mich.; A. G. Rosengarten, of Powers-Weightman-Rosengarten Co., Philadelphia, Pa.; Dr. A. R. L. Dohme, of Sharp & Dohme, Baltimore, Md.; John F. Queeny, of the Monsanto Chemical Works, St. Louis, Mo.; Fred B. Kilmer, of Johnson & Johnson, New Brunswick, N. J.

Committee on memorials to deceased members.—S. R. Light, of the Upjohn Co., Kalamazoo, Mich.; J. H. Cox, of the Tilden Co., New Lebanon, N. Y.; Willard Ohliger, of Frederick Stearns & Co., Detroit, Mich.

Special committee on standards and deterioration.—Dr. A. R. L. Dohme, of Sharp & Dohme, Baltimore, Md.; A. G. Rosengarten, of Powers-Weightman-Rosengarten Co., Philadelphia, Pa.; Theo. Weicker, of E. R. Squibb & Sons, New York, N. Y.; Frank G. Ryan, of Parke, Davis & Co., Detroit, Mich.; J. K. Lilly, of Eli Lilly & Co., Indianapolis, Ind.

Special committee on tariff.—J. F. Queeny, of Monsanto Chemical Works, St. Louis, Mo.; George Simon, of Heyden Chemical Works, New York, N. Y.; J. H. Cox, of the Tilden Co., New Lebanon, N. Y.; E. G. Swift, of Parke, Davis & Co., Detroit, Mich.; Dr. Fred B. Kilmer, of Johnson & Johnson, New Brunswick, N. J.

MEMBERS OF THE NATIONAL ASSOCIATION OF MANUFACTURERS OF MEDICINAL PRODUCTS, ARRANGED BY CITIES.

Baltimore, Md.: Sharp & Dohme; Hynson, Wescott & Dunning.[1]

Berkeley, Cal.: The Cutter Laboratory.

Boston, Mass.: Patch & Co., E. L.; Thayer & Co., Henry; Davis, Rose & Co.; Tailby-Nason Co.[1]

Chicago, Ill.: The Abbott Laboratories; Armour & Co.; Bauer & Black.

Cincinnati, Ohio: Wm. S. Merrell Chemical Co.

Cleveland, Ohio: Harshaw, Fuller & Goodwin Co.[1]

Detroit, Mich.: Nelson, Baker & Co; Parke, Davis & Co.; Stearns & Co., Frederick; Dr. George H. Sherman; Digestive Ferments Co.[1]

Indianapolis, Ind.: Lilly & Co., Pitman-Moore Co.

Kalamazoo, Mich.: Upjohn Co.

Maywood, N. J.: Citro-Chemical Co.; Schaefer Alkaloid Works.

Newark, N. J.: Maltbie Chemical Co.

New Brunswick, N. J.: Johnson & Johnson.

New Lebanon, N. Y.: The Tilden Co.

New York, N. Y.: Heyden Chemical Works; Lederle Laboratories; Merck & Co.; Charles Pfizer & Co.; Roessler & Hasslacher Chemical Co.; Seabury & Johnson; E. R. Squibb & Son; New York Quinine & Chemical Works.[1]

Norwich, N. Y.: Norwich Pharmacol Co.

Peoria, Ill.: Allaire, Woodward & Co.

Philadelphia, Pa.: H. K. Mulford Co.; Powers-Weightman-Rosengarten Co.; Henry K. Wampole Co.

St. Louis, Mo.: Mallinckrodt Chemical Works; Monsanto Chemical Works; The Tilden Co.

Swiftwater, Pa.: Dr. Richard Slee.

Washington, D. C.: National Vaccine and Antitoxin Institute.

Mr. WOODRUFF. I will also present several letters in the nature of arguments for insertion in the record.

The CHAIRMAN. They will be printed.

---

[1] Joined since this was printed.

(The letters referred to by Mr. Woodruff are here printed in full, as follows:)

THE MALBIE CHEMICAL CO.,
Newark, N. J., May 11, 1917.

GEORGE M. WOODRUFF, Esq.,
Care of Continental Hotel, Washington, D. C.

DEAR SIR: We acknowledge receipt of your letter stating that you will arrive in Washington to-day to attend the hearings on the war-revenue legislation and asking for our views in regard to this proposed bill.

First, let us state that we are not opposed to a revenue-producing bill, even though it should be framed with the idea of raising large amounts, which is claimed for the bill under discussion. If we were asked, however, for our opinion as to the amount that we would be in favor of raising by tax, we would put the figure at about one-half of this amount or, at least, not to exceed $1,000,000,000, the balance to be raised by bond issues. If, however, the administration believes in raising a larger amount we would cheerfully fall into line. Regarding the provisions of the proposed measure, which affect directly our particular line of trade, we are opposed to the following:

Abolishing the free list and taxing all imports that are now free 10 per cent ad valorem and an additional 10 per cent on goods that are now subject to the import tax. We are opposed to this feature, not because we object to higher tariff rates, but because a blanket rate of this kind is unjust, unscientific, and unnecessary for reasons which are too numerous to mention. Nothing disturbs business conditions more seriously than a change in tariff. In our opinion this feature should be put over until the next session when a new tariff schedule could be prepared if found necessary. A few items might be included in the present law, sugar, for instance, which would produce a large amount of revenue. Regarding sugar, however, we would be in favor of an excise tax as well as the import duty, or perhaps a tax on refined sugar.

We are opposed to the increased tax on alcohol, as we believe it places an unjust burden on the sick and unfortunate. Furthermore, so far as medicinal preparations are concerned, we believe that so large a tax as has been proposed would cause a falling off in the consumption of preparations containing alcohol, and it is doubtful if any additional revenue would be derived.

We are opposed to the proposed war tax on advertising, as the law as drawn is, to our mind, indefinite and unjust. If there is to be a tax on advertising it should apply to newspapers and periodicals as well as other forms of advertising. Why exempt the particular class that is best able to carry the burden?

We are opposed to the stamp tax principally because it is a nuisance, and the amount of revenue derived does not warrant the trouble, expense, and annoyance of using the stamps.

Yours, respectfully,

THE MALBIE CHEMICAL CO.,
J. H. FAY, *Treasurer.*

BAUER & BLACK,
Chicago, May 10, 1917.

MR. CHARLES M. WOODRUFF,
Continental Hotel, Washington, D. C.

DEAR SIR: We believe that under the circumstances we can not consistently oppose any specific tax on patent medicines.

So far as the plaster manufacturers are concerned, the stamp-tax act of 1898 imposed taxes on certain lines that it was not the intention of Congress to impose. That perhaps can not be avoided now any more than it could then.

The disagreeable feature of the whole matter is the annoyance and expense of affixing the stamps, keeping records, and the avoidance of stolen stamps. Then comes the disagreeable feature of the stamps required on goods in the hands of retailers and wholesalers.

It would simplify matters very much if the law could be framed so that manufacturers would make periodical statements under oath of the amount of goods sold subject to the stamp tax.

They, the manufacturers, to keep a record of such goods sold.

If this can be done it would obviate the necessity of fixing stamps and permit the retailer and wholesaler to dispose of the goods they have in stock without affixing stamps thereon.

No doubt this tax is levied with the intention of taxing the manufacturers, but as you know in nearly all instances the amount of this tax is added to the

selling price of the goods, and wherever possible the retailer passes the tax on to the consumer.

Without question the framers of the bill have proprietary medicines in mind on which they feel large profits are made, but the facts are that the tax will apply largely to competitive goods upon which a tax of 5 per cent makes it imperative that the selling price be increased in accordance with the amount of the tax.

Yours, very truly,

BAUER & BLACK.

AMERICAN DRUG MANUFACTURERS' ASSOCIATION,
Detroit, Mich., May 11, 1917.

Mr. C. M. WOODRUFF,
Care Continental Hotel, Washington, D. C.

MY DEAR MR. WOODRUFF: In compliance with the request made in your circular letter E-22, we sincerely trust that the medicines referred to as to taxes in the war-revenue bill refer only to such proprietary medicines and articles as were stamped taxed in 1898. In this case I think the 5 per cent specific tax is preferable in every way to a stamp tax. As I read the statement published in the papers, this read "cosmetics, perfumes, and all proprietary medicines will be taxed 5 per cent," and as I interpret this, this does not include all medicines.

I presume we can not successfully protest against taxing the proprietary medicines which are not sold in competition, as a rule, and can therefore stand some taxes and stand it better than standard pharmaceutical preparations, which are sold in competition and on which the profit is only the normal manufacturer's profit, which, as you know, does not materially exceed and usually averages about 10 per cent, and in which consequence a 5 per cent tax would practically cut the profit in half, which is excessive and unjustifiable in our opinion. It seems to me that the strongest argument that can be made against such a tax on all medicines, striking as it does the entire industry, is the fact that the manufacturer has been, as a class, hit sufficiently hard enough by the excess-profits tax, without adding any specific tax to his share, while the farmer, who has been getting as much benefit himself as the munitions manufacturers from the extreme high cost of food products, due to the war largely, practically escapes taxation in this war-revenue measure. Due to granges and farmer organizations all over the country, the farmer has been withholding supplies from the market and thereby forcing this up and getting the benefit, to a large extent, of these advances prices, so that, as a class, the farmer is very well off; in fact, better than he ever has been and in a position to stand a share of these taxes and expenses of war. Therefore, it seems to us that because a 10 per cent earning business can not afford to lose half of this, especially as it has not benefited in any way from the war as the many other businesses have, and because the manufacturer is already sufficiently taxed, and the farmer not, you should be able to advance a fairly convincing line of argument against the placing of this 5 per cent tax on all medicines.

Very truly, yours,

A. R. L. DOHME.

P. S.—I am inclosing herewith carbon copy of letters sent to members of the unanimity legislation committee of the conference, and I would like to have you send me at your earliest convenience the dates at which the six national associations comprising the conference hold their next annual meetings.

THE TILDEN CO.,
New Lebanon, N. Y., May 12, 1917.

CHARLES M. WOODRUFF, Esq.,
Continental Hotel, Washington, D. C.

DEAR SIR: We only received this morning your legislation report No. E-22.

The war revenue bill making specific tax of 5 per cent on manufacturer's selling price applies only to proprietary articles; at least that is the way we read the bill. So far as we are concerned we would much prefer a stamp tax equal to the 5 per cent tax. There are too many laws being passed calling for monthly and annual reports.

All pharmaceutical houses deliver goods; therefore we are very much concerned over the 3 per cent tax on all freight bills and 10 per cent tax on all

express bills. The result will be that all customers will deduct transportation charges and the revenue tax as well.

Doubling the internal-revenue tax on alcohol will cause an enormous advance in prices. In view of the tremendous increase in prices previous to this war revenue bill we feel that further burdens on the drug business is a rank injustice to the sick; indeed, owing to the high prices, no one but the rich may afford ill health, and if the scarcity of material continues Christian Science must, perforce, take the place of medicine.

Sincerely,

THE TILDEN CO.,
J. H. COX, *Treasurer.*

P. S.—Regarding percentage tax on freight and express bills we recommend an amendment stating the purchaser or party receiving the goods must pay the tax, thus distributing the tax evenly.

T. T. Co.

Mr. WOODRUFF. I may be pardoned for saying one word that may not seem germane at first to the subject before us. At our annual meeting a year ago last February we passed a series of resolutions urging with great force upon the Government the necessity of industrial preparedness in the way of furnishing the medicinals that are required in the Army and Navy, and later when the matter was seriously taken up it was found that so far as medical supplies were concerned the industry had already mobilized, and quite recently all the manufacturers in our line were called to Washington and presented with a problem that under its existing organization the Government did not seem equal to. A committee was appointed to assist the advisory committee to the committee of the national defense.

(Senator Simmons resumed the chair.)

Mr. WOODRUFF. The first work assigned to this committee, composed entirely of members of our organization, was to go over the schedules that the Army and Navy have been using for years, and equivalents for certain things that under present conditions are absolutely unobtainable—that is, what we, from the pharmaceutical point of view, might consider equivalents—to be submitted to the physicians connected with the Army and Navy to see whether, from the therapeutic point of view, they could be considered as equivalents. The greatest problem the pharmaceutical industry I represent has to meet to-day is not the problem of business. Every one of our members has doubtless more business than they can attend to. I know that is the case with the immediate industry I represent. The problem is how to get the medicinal preparations that will be required in case of emergency without disturbing the drug trade at large. Now, Mr. Chairman, I am here to ask you to eliminate from this bill section I, although under conditions that previously existed I have advocated just such a provision as a means to save us the annoyance and the expense of attaching stamps to medicinal preparations coming under the definition in this provision. We are not interested not because we are proprietary medicine men—and I say that with no intention of disparagement—but because by reason of the definition some of our specialities are included in the tax. Under ordinary conditions I would not be here to ask relief from this 5 per cent provision, but—and Mr. Thompson has covered some of my ground—we are now met with this condition: First, a natural inability to get some of our raw material; second, the fact that a great many of the crude drugs are not indigenous in this country. Some are indigenous in enemy countries. We can not obtain them in those countries under any consideration and have to depend upon stocks wherever

they may be found outside of the enemy countries. Some of them are indigenous in friendly countries. We have obtained crude drugs from Russia by filing a bond with the Russian consul at New York that we would use them exclusively for our own and that none of the preparations made from them would get to the enemy countries. This immense natural difficulty is added to in this bill by a duty tax of 10 per cent, and that is going to be a very serious matter to us with respect to those materials which we necessarily have to import.

The alcohol tax is a most serious tax. I have sent to the members of the committee a brief filed with the Committee on Ways and Means upon that subject. Alcohol from 188 proof up to 190, and if you can get it 192 proof, is a sine qua non in all pharmaceutical and medicinal chemical operations. It remains in the fluid extract. It is necessary to the manufacturer of the solid extracts. Of fluid extracts there are between 500 and 600; of solid extracts the number is not so many. Almost all medicinal chemicals in manufacture require alcohol in some way. In some cases where alcohol does not remain in the drug, denatured alcohol may be used, but that is a small item compared with the great bulk of alcohol that it is necessary for us to employ, upon which under this bill we have to pay a tax that now amounts to $2.07 to $2.09 a gallon. In consideration of these other taxes contained in the bill—the duty tax, the alcohol tax, the excess-profits tax, and others that I will not take time to mention, but will take the liberty of setting forth in my brief—we do ask that this specific 5 per cent tax on such preparations of the manufacturing pharmaceutical as come within this definition be not laid, or if it must be laid, we ask a recasting of the provision so that the definition will be between competitive and noncompetitive items. Upon noncompetitive items—that is, an item upon which the manufacturer has the exclusive right of sale—he controls the price and can protect himself, but on competitive articles he can not.

That leads me to make a suggestion to the committee with which I think I will close. The suggestion I make is, why not tax all patented articles on the ground that the Government has granted a monopoly which enables the manufacturer to protect himself against loss by reason of the tax?

Another reason why this tax may be eliminated is that the revenue it produces is comparatively unimportant, but as a matter of justice to us under the present situation, I ask what I would not have asked with respect to the situation in 1898, when a similar law providing for stamps was passed. In 1898, remember we did not have the income tax; we did not have the excise tax, the excess profits' tax; we did not have the 10 per cent on all our imported material that can be obtained only from abroad, and therefore the situation was entirely different. This tax is in lieu of the stamp tax, and in that respect it is much better than the stamp tax, for it is collected with less cost to the manufacturer.

The CHAIRMAN. Now, Mr. Liggett, you may proceed.

STATEMENT OF MR. LOUIS K. LIGGETT, PRESIDENT OF THE UNITED DRUG CO. AND AFFILIATED COMPANIES.

Mr. LIGGETT. As the preceding speakers have covered the reason why the tax should not be imposed, I am not here, representing as I do larger manufacturing and retail interests of our own, to complain

of the tax. If we have to have it, we are perfectly willing to take it, but I am here to suggest a different manner of assessing the tax, and I have three reasons for suggesting that.

I shall not take much time of the committee, but will file a brief within a day or so which will cover the greater portion of my argument.

The CHAIRMAN. When it is filed it will be printed in these proceedings.

(The brief referred to by Mr. Liggett was subsequently submitted and is here printed in full, as follows:)

A SUBSTITUTE FOR THE PROPOSED TAX OF 5 PER CENT ON PROPRIETARY MEDICINES, TOILET ARTICLES, ETC.

Should the present proposed tax be enacted into a law it will impose a 5 per cent tax on manufacturers, who in turn will pass this tax on to the jobber, and the jobber will pass it to the retailer, the retailer will pass it to the consumer. Each one of these participants will add not only the tax but will add his profit on top of the tax. As a result of this the consumer will be forced to pay considerably more than the revenue received by the Government in addition to the regular price. The effect is bad for the reason that it will disturb the general drug and toilet-goods business. Ten-cent items will be retailed at 15 cents, 25-cent items at 30 cents, 50-cent items will no doubt be sold at 60 cents, and $1 items probably as high as a dollar and a quarter.

This will occur because the increased cost of raw materials since the beginning of the European war has been so great that already the majority of manufacturers have been compelled to advance their prices to an amount that does not permit of any further advance on their part and yet allow the retailer sufficient profit to pay his expenses. Thus our industry is at the point where any additional load placed upon us compels the advance of the retail price as I have suggested above. Such advance will curtail volume. That has been demonstrated in my personal experience by attempting to raise a very large selling item from 10 to 15 cents, and being forced in the end to bring it back to 10 cents and cut the amount originally sold in half. And even to sell it at this price under those conditions we have been compelled to force the retailer to take but a 25 per cent gross profit on the article, whereas the average retail merchant is spending from 27 per cent to 30 per cent to do business.

It is also a fact that when the war-revenue tax was placed on this same line of merchandise during the Spanish-American War—that is, in 1899, 1900, and 1901—although these were prosperous years in the country as a whole, the business on proprietary medicines and toilet articles suffered to the extent of $40,000,000 less sales in the year 1901 than in the year 1898. The war tax at that time compelled increases in prices that reduced consumption.

I assume that what the Government wants is revenue. I suggest in order to obtain that revenue and yet that business may not be disturbed; that volume may continue to increase with prosperity in this country; in fact, so that the Government may receive a larger revenue than it will under the proposed act, that you adopt the plan that has been in existence in Canada for the past two years and more, of taxing the consumer at the time of purchase only to the amount that goes to the Government.

In place of the 5 per cent wholesale tax, impose a tax of 4 per cent on the retailer, who will apply a 1-cent tax on all items retailing at 25 cents and under, and 1 cent additional for each additional 25 cents or fraction thereof.

The advantages to this plan are as follows:

The retail price of merchandise will not be changed, which has the tendency to hold business staple. The additional 1 cent on a 10-cent item is readily collected from the people when it is collected for the Government. It would be impossible for the retail merchant to ask 11 cents for an item labeled 10 cents. The Government could immediately begin to collect taxes on all stocks in the retail merchants' hands, and under this plan the Government will receive at least 25 per cent, and in my judgment 30 per cent, more direct income than it will under the plan as proposed of 5 per cent wholesale.

The objections to this plan are three in number:

1. It is said that Congress does not want to tax the people directly. Politically it is right but these are war times; price conditions must be held to the

minimum: Congress must not enact any bill by which it knows the people are going to pay a higher revenue indirectly than they will pay directly. If the people have to they will reduce consumption.

2. The second objection to it is that it is a poor way of collecting a tax. It is easier for the Government to get its revenue from a few manufacurers than from the many retailers. The answer to this is that it is no more difficult of collection than the present sale of stamps, as these stamps will be bought at every post office and applied by the retailer. That the Government will not be cheated in its revenue, is my opinion, because no merchant would dare to sell an article without applying the tax stamp. It would be too easy of detection and besides the people are honest.

3. The third objection is the one that has been spread through Congress that this was not a success in Canada. As the largest retail druggist in Canada, operating as I do more stores than anyone in the Dominion, I maintain it has worked successfully. It is true that the Canadian Government did not have special stamps and therefore does not know its direct revenue, but on the other hand, our experience in handling it has shown us that it is the proper way of taxation. We say so because we have been through the war-revenue tax of 1898, and the recent emergency war-revenue tax on toilet articles here in the United States, and we have been through also as manufacturers and retailers the system applied in Canada. We most emphatically indorse the Canadian system as a revenue producer to the United States Government over the proposed plan of 5 per cent on manufacturing. We do this, knowing fully well the situation, for the reason that we are the largest producers in the United States of this character of merchandise to be taxed, and we are the largest retailers in the United States of the merchandise that is to be taxed.

Respectfully submitted.

LOUIS K. LIGGETT,

Chairman Board of Directors Louis K. Liggett Co., New York, Operating 154 Retail Stores; President United Drug Co., Manufacturers, Boston, Mass.

Mr. LIGGETT. The first is because under the present plan of taxation you are going to upset business conditions. The second is you are going to impose upon the consumers of our articles an increase in the price over what they are now paying, a difference which is greater than the tax. The third reason is, I believe, the plan I propose will give the Government a larger revenue than the plan as outlined in the House bill. In lieu of a 5 per cent tax, I suggest you impose what is known as the Canadian system of taxation of 1 cent for over 25 cents value of retail sale, and that the tax be collected from the consumer at the time the sale is made, rather than from the manufacturer, jobber, or retailer. The increased cost in materials of manufacture in the past three years has grown so great that articles that formerly sold for 10 cents or are selling for 10 cents to-day and formerly jobbed at 6 and 6½ cents are now jobbed at 7, 7½ and some as high as 8 cents. The margin of profit between that and the 10-cent sale is less than 10 per cent on the average, which is less than it cost the retailer to do business.

If the 5 per cent tax is added you will appreciate that the price of a 10-cent item will be increased. It is not good merchandising to increase it to 11 cents. Therefore it will be jumped to 15 or two for 25 cents, the 25-cent article to 30 cents, and the 50-cent article to 60 cents. As a result of that you will see that if the consumer pays 15 cents for a 10-cent item, he is paying a great deal more than what he is paying to-day. This tax is going to go to the consumer; it is going to be passed on. Let us pass it to the consumer in such a way that he pays only what the tax is. That is why I suggest what is known as the Canadian system. It has been said that that system is not successful. As the largest retailer in Canada, I tell you it has

been successful and is successful. You must trust the people, and we do, and we do not have any trouble in doing it. It is more certain of collection because no retail merchant will dare to take the chance of selling the article without the tax and collecting it at its source. It is said it is difficult to collect it because it interferes with the sale. That, I will say from my experience in Canada, is also untrue.

The CHAIRMAN. That completes the schedule on proprietary medicines.

BRIEF OF THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS RELATING TO PROPRIETARY MEDICINES FILED WITH COMMITTEE.

THE NATIONAL ASSOCIATION OF RETAIL DRUGGISTS,
Washington, D. C., May 12, 1917.

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

GENTLEMEN: The 50,000 druggists of the United States, whose interests the National Association of Retail Druggists represents, are of opinion that a tax on medicine would be unwarranted, unjust, and ill advised, considered from the viewpoint of the interest of not only the druggists but the public as well.

Medicine is as much a necessity as food. As well tax food as medicine. The healthy and strong may be able to bear a tax on food. The sick and afflicted, whether in the Army and Navy or among the civilian population, should not be expected to bear the proposed additional taxes on medicine. The War Department has only recently invited bids for enormous quantities of medicines of various kinds in anticipation of the needs of the Army and Navy. Practically every ingredient of all of these medicines has been increased in cost from 1 to 1,000 per cent since the beginning of the war. H. R. 4280, the revenue bill pending in the House, imposes an additional duty of 10 per cent ad valorem on all drugs, chemicals, and other articles entering the manufacture of medicines imported into this country. This association has already called your attention to the fact that the revenue bill practically doubles the tax on alcohol, which of necessity enters into the preparation and manufacture of all medicines, in some cases alcohol constituting as high as 90 per cent of the preparation. Then the revenue bill imposes a tax of 5 per cent on the manufacturer's selling price of not only proprietary preparations but all "remedies or specifics for any disease, diseases, or affection whatever affecting the human or animal body."

It goes without saying that the 5 per cent tax on finished medicines, the manufacturer's tax, the doubling of the tax on alcohol, and the 10 per cent ad valorem duty on all imported drugs and chemicals and other articles used in the manufacture of medicines will be added to the cost of production and passed on by the manufacturer to the jobber and by him to the retailer, who of necessity must impose these additional taxes on the consuming public.

Your honorable committee did not hesitate to strike from the revenue bill in 1914 the provision taxing "the poor man's medicine," apparently realizing that such a tax could not be justified on any grounds of public policy. It could not then and it can not now be so justified. Therefore the National Association of Retail Druggists earnestly appeals to your honorable committee to eliminate this proposed tax from the revenue bill.

Respectfully, yours,

SAMUEL C. HENRY,
Chairman Legislative Committee.
EUGENE C. BROKMEYER,
Counsel.

(Senator McCumber assumed the chair.)

Senator MCCUMBER. I think this covers everything except chewing gum, and unless the gentleman who wishes to be heard would prefer to be heard now, we will adjourn.

(Thereupon, at 5 o'clock p. m., the committee adjourned to meet at 10 o'clock Monday morning, May 14, 1917.)

REVENUE TO DEFRAY WAR EXPENSES.

FRIDAY, MAY 11, 1917.

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

The committee met, pursuant to adjournment, at 10 o'clock a. m., in the committee room, Capitol, Senator Furnifold McL. Simmons presiding.

Present: Senators Simmons (chairman), Williams, Thomas, Gerry, McCumber, Smoot, La Follette, and Townsend.

The committee resumed the consideration of the bill (H. R. 4280) to provide revenue to defray war expenses, and for other purposes.

(Senator Smoot took the chair.)

Senator SMOOT. The committee finished the paragraph on proprietary medicines last evening. The next subject is the tax on chewing gum. Mr. James, we will hear you now.

Sec. 600 (J). CHEWING GUM.

STATEMENT OF MR. D. R. JAMES, JR., REPRESENTING THE WILLIAM WRIGLEY CO., THE BEECH NUT PACKING CO., THE F. H. FLEER CORPORATION, AND THE AMERICAN CHICLE CO

Mr. JAMES. I speak for four larger manufactures, representing approximately 75 per cent, perhaps even a greater percentage.

I sat here Saturday almost all day listening to the arguments of those who were opposing a tax on their particular industries, and I was quite amused to hear several make the suggestion that chewing gum be taxed. They overlook the fact that there is a provision in the House bill for rather a heavy penalty on chewing gum. They seemed to think that chewing gum was so useless and so profitable that it might be taxed even to the point wher there was presumably to be no profit in the industry.

Now, as to the first question, of the usefulness of chewing gum. I am going to make one or two brief observations. In the first place chewing gum is not different from confections. It is in the same class or classification in the Patent Office with confections. Chewing gum consists of an ingredient gathered from a tree in Mexico—chicle—and sugar and flavor. Confectionery consists alone of sugar and flavor. We have an added advantage in chewing gum in that we have something that is not deleterious, that can not be taken in two great substance, and therefore does no harm.

The authorities in Great Britain who have been experienced in such matters tell us that chewing gum has proved very essential in aiding the soldiers in the trenches. It is a remarkable fact that when the men are without food and without drink, they have found chewing gum the most satisfactory thing they can take, and within the last two weeks my London company has received an order for more than a million and twenty thousand packages of chewing gum, to be sent to the trenches. We hold, therefore, with doctors recommending gum, as they do, as an aid to digestion, and their finding chewing gum of real service in the trenches, that chewing gum is not just a luxury.

Now, as to the profit in chewing gum, the thought of most people is that because chewing-gum manufacturers advertise it is a very lucrative business. The fact of the matter is this: There are 650,000 dealers handling chewing gum. To reach 650,000 dealers we would have to have an army of salesmen. We make the newspaper, the bill board, the periodical, our salesman, and we find it less expensive to employ those agencies than we do to employ salesmen.

There is not to-day any profit in chewing gum. In times gone by there was a large profit in chewing gum, and fortunes were made. To-day that is not the fact. In former days we paid 18 and 20 cents for raw chicle. To-day raw chicle is costing us 80 cents a pound. There is a 15 per cent tax, and there has been since the Dingley bill went into effect, on raw chicle, and a 20-cent-a-pound tax on refined chicle. In addition, of course, we pay an import duty on essential oils, and under this proposed bill a 10 per cent ad valorem tax is to be fixed on all raw materials. That will increase the tax on chicle 4 cents a pound for the raw and about 6 cents a pound for the refined, or about a cent a box. The added tax on other ingredients—essential oils and sugar, presumably—will bring the additional cost to the manufacturer to 2 cents a box. That is to say, the 10 per cent ad valorem provision in this bill will increase the cost to the manufacturer of chewing gum 2 cents a box.

It happens that the 5 per cent provision in this bill on sales will increase the cost to the manufacturer from 2½ to 3½ cents a box, making the total increased cost to the manufacturer, by reason of the 10-cent ad valorem duty and the 5-cent tax on sales in the neighborhood of 4 to 5 cents a box. From 1914 to 1916 there was in effect a 4-cent stamp-tax provision, each box of chewing gum being required to be stamped with a 4-cent stamp, and during that time two large companies practically went out of business; that is, the tax was so burdensome that the manufacturer could not stand it. I am going to show you in just a minute how the manufacturer can not pass this tax along.

The Sterling Gum Co., capitalized at $6,000,000, was obliged to actually go out of business. Their shares were selling at one time at $7.50 each, par value $5. The stockholders who paid $5 or $6 or $7 a share actually got 30 cents a share on the liquidation of the company.

The American Chicle Co., capitalized at about $13,000,000, was obliged to suspend dividends on its common stock, and no dividends have been paid on its common stock since January, 1915.

Senator THOMAS. The common stock is all water anyhow, is it not?

Mr. JAMES. No; the common stock is not all water. The com-

pany has been in existence about 25 years, and money has been put back into the property time and again, and the holders of its common stock, which once sold at $275 a share, and now sells for about $40 a share, feel they are entitled to some return on their investment. A direct tax will make that return impossible.

I am representing the William Wrigley Co., the Beech Nut Packing Co., the F. H. Fleer Corporation, and the American Chicle Co. Each of these manufacturers has asked me to come down to represent them and point out what we consider the injustice in this present situation—not that we are not willing to pay the taxes, not that we are not already paying taxes. We always have when there has been an emergency. In the Civil War, if there was chewing gum, I doubt not that chewing gum was taxed. Chewing gum was taxed during the time of the Spanish War, and, as I say, only six months ago we were relieved of the 1-cent tax provision.

In 1915 the American Chicle Co. made exactly $100,000 on its $8,000,000 common stock. In 1916 we did a little better, because the tax went off in September or October. But the amount we earned on $8,000,000 common stock was not equal to a 2 per cent or a 3 per cent dividend on that stock. We are absolutely convinced that there is no possibility of paying dividends to our holders of common stock if this tax goes into effect. We are asking the elimination of the provision for the 5 per cent tax on sales.

In 1915 the American Chicle Co. paid the Government in revenue, in taxes, $800,000. Its common stock had just $100,000 on which to figure a return on the investment. In 1916 the amount was only about one hundred thousand less. That enabled us to make about $100,000 more. If the tax goes on, we will still have to pay, but we will not earn anything, and we can not pay anything to the holders of our common stock.

I said a few moments ago that the tax can not be passed on. The fact of the matter is this, over 50 per cent of the sales of chewing gum are penny sales. I am not claiming that this is a poor man's necessity, but I am claiming that chewing gum is in a little different position from confectionery selling at 80 cents or a dollar a pound. We pack chewing gum in packages containing five tablets. Each of those tablets is wrapped separately. It is wrapped separately because the demand is for a penny stick, and that goes to the schoolboy or the laboring man for 1 penny. A great amount of chewing gum is sold in slot machines. It would be impossible, of course, to get 2 cents for a penny tablet in a slot machine, equally impossible to get 2 cents for a tablet in a store, because the small boy would know he was only getting half of what he ought to get for his 2 cents. We can not cut down the size of the stick. These goods are wrapped by machinery. It would take at least nine months or a year to change those machines. They are very intricate, and you can not get mechanics to-day. The suggestion has been made that we pack four tablets in a 5-cent package. Of course, if we did that, the retailer who vended the gum would have to sell four tablets for the price of 5 cents, and his margin would be cut 20 per cent; in fact, he would lose money. He could not do it. So that we are up against a stone wall in that we can not pass this tax on.

Senator THOMAS. That is the kind of a tax I am looking for, a tax you can not pass on to the consumer.

Mr. JAMES. I listened to the argument of one of the automobile manufacturers. He said his industry would be ruined. I know perfectly well that if I went to buy a thousand-dollar car, and there was a 5 per cent tax on automobiles, I would pay $1,050, and I would expect to. But in this case we can not charge the boy $1\frac{1}{10}$ cents for that piece of gum. We can not charge him $1\frac{1}{4}$ cents. If the price were 2 cents, we would be put out of business, because the boy would not buy gum.

Now, gentlemen, I think I can rightly claim we have been patriotic in the past, and we are willing to bear the 10 per cent ad valorem or a reasonable tax, but I can not see why the chewing-gum manufacturer should be singled out in this instance, as he has been in the past, and all of this range of similar articles, in the same classification, left to go scot free. There are 150 different 5-cent sellers in this assortment.

Senator THOMAS. You must remember that this is just beginning. We are going to have some more bills after a while.

Mr. JAMES. This may be a valuable suggestion to you, then, Senator. My plea is, naturally, that we should be allowed to live. We imagine that these people have had a rather lucrative existence. I have here some articles that we manufacture. Here is an article that outsells chewing gum [referring to "life-savers"]. There is more of this sold to-day than there is chewing gum. You can not go into any store without finding it. We manufacture the same thing. I have here a package of our goods, the same type, on which we make a very large profit. We can not make that profit on chewing gum—it is not there—with chicle at 80 cents a pound as against 20, sugar at 8 cents a pound as against $3\frac{1}{2}$ or 4 cents, essential oils, and flavoring material twice or three times the original cost. But we are making a profit on this class of goods. It is the only profitable part of our business. Why should chewing gum always bear the burden? This is a direct tax, and this tax is collected before our stockholders can make anything. Why should this be taxed, and this range of articles in the same classification, not serving, in my opinion at least, as good or useful a purpose, be allowed to go without charging a tax?

Senator SMOOT. Do you wish to file a brief?

Senator LA FOLLETTE. Is this collection of candy your brief?

Mr. JAMES. I would be very glad to file this as my brief.

Senator SMOOT. If you do desire to file a brief, we would be very glad to have you mention a number of those things.

(The brief referred to by Mr. James was subsequently submitted, and is here printed in full, as follows:)

ARGUMENTS AGAINST PROPOSED FIVE PER CENT TAX ON CHEWING GUM BY AMERICAN CHICLE CO., WILLIAM WRIGLEY, JR., CO., BEECH-NUT PACKING CO., FRANK H. FLEER CORPORATION, AND OTHERS, REPRESENTED BY D. R. JAMES, JR., AND MAYER M. SWAAB, JR.

MAY 15, 1917.

With one single exception, which is notable, no manufacturer of chewing gum has "made money," investment considered, in more than three years. The exception is due to a peculiar combination of unit production in huge quantity, which practically nullifies the normal distribution charges, concentrates advertising costs and effect, and which must needs earn large profits on their colossal output simply because of huge tonnage which is, however, based upon an abnormally small profit per box

On the other hand the rule as applied to the whole trade, big and little alike, shows a varying range from actual deficit up to a minimum profit, in no case equal to commercial interest upon the actual investment. For instance, one corporation, capitalized at $6,000,000 (for the shares of which the subscribers paid $5 each), was forced to wind up its affairs and retire, paying its stockholders 30 cents per share in liquidation. Still another concern, the shares of which sold as high as $270, based upon splendid and continuous dividends, has not paid one cent of dividends on its common stock in more than 16 months, and its stock is now quoted $42 per share.

Another concern, with a cash investment of nearly a quarter of a million dollars, has not earned its fixed charges in three years. Why?

We submit the following comparison of present-day conditions with the period when Congress gave chewing gum its initial "official recognition."

	Cost per pound.	Present cost us.	Additional cost per box.
	Cents.	Cents.	Cents.
At the time of the Dingley bill 1 pound gum chicle (the basis of chewing gum) ready for the pot	18	57.50	11
1 pound of sugar	1½	7.70	2
1 pound of glucose	2½	4.50	.6750

Taking chicle at 40 cents raw, or 57 cents without the present duty added—the new ad valorem, 10 per cent, adds 1.4250 cents to these figures—which, with the same calculation on sugar, means very nearly 2 cents per box more.

Our box, labels, and wrappers cost us 2.97 cents more, and additional overhead amounts to 2.25 cents.

Hence the cost of that box of chewing gum has increased a total of 20.8950 cents—say, 21 cents.

United States coinage limitations—the penny and the nickel—make it impossible for us to increase our price to the consumer without destroying the very basis of our business establishment.

Our price to the jobber or wholesaler, without whose offices we could not effect our distribution, barely pays him for his service; in many cases he handles chewing gum as the retail grocer handles sugar, "as an accommodation." In point of fact, we are compelled to equalize the cost of chewing gum to the jobber throughout the country by prepaying freights (upon these as upon the extra ad valorem we will have to foot the extra tax) in order to retain his services in the distribution, which otherwise could not be made.

The retailer sells from 50 per cent to 95 per cent of his chewing gum (according to his location) by the penny's worth—in the case of the automatic vender this is 100 per cent—and therefore must make from 50 to 100 retail sales in order to earn a gross profit of about 35 cents. He certainly can not foot the bill.

The Mexican situation, involving an export tax, an exploitation tax, together with uncertainty of chicle supply and the tremendous inflation of commodities, higher labor costs, increased advertising expense (where the taxes will again strike us) have taken the profit out of chewing-gum manufacture.

While the House proposes a special tax of 5 per cent on our gross sales, they do not realize that such an action really means 10 per cent of our sales.

To summarize, a tax of 5 per cent on the wholesale selling price is equivalent to 2½ cents to 3¼ cents per box. In addition, it is proposed to increase the duty on chicle 10 per cent ad valorem. The duty on chicle is 15 cents per pound on raw, 20 cents a pound on refined; 10 per cent ad valorem is equivalent to 4 cents per pound on raw, and between 5 cents and 6 cents per pound on refined. The duty, therefore, would be increased to 19 cents per pound for raw, 26 cents per pound for refined, equivalent to an approximate increase of 25 per cent in duty. The proposed 5 per cent tax and the increase in duty combined are the equivalent of from 4 cents to 5 cents a box, or 8 per cent to 10 per cent of sales.

During the period from 1911 to 1916, the total taxes paid by manufacturers of chewing gum was equivalent to approximately 16½ per cent of sales. The amount paid in taxes to the Government in the case of the American Chicle Co. was double the amount of the net profit earned by the company and was

equivalent to a 10 per cent dividend on its common stock. Profits in chewing gum are largely diminished by reason of the increased cost of raw material, chicle from 20 cents a pound to 80 cents a pound, sugar from 3½ to 7½ cents and 8 cents a pound, other raw material in proportion. Prices are fixed, and the manufacturers of chewing gum are struggling for existence at the present time. Taxes totaling so large a percentage of sales are practically confiscatory.

It would pay most of us now to quit business until commodity values become reasonable, yet we dare not do so simply because ours is a trade-marked specialty, the "good will" of which, built up at enormous expense, would be obliterated in toto if not persistently kept alive.

Our machinery is all special; it can not be used for any purpose other than that for which it has been built. To tax us specially upon a basis of sales means ruin—unqualified ruin.

We feel that we will do our share by paying the increased taxes on raw materials, freights, advertising, and electrical power, and yet, we will offer no objection to a tax on profits. Help us conserve our plants and trade-marks; help us to earn a profit—any kind of a profit—on the business that we can and must do; after that, for the temporary expediency of the day, help yourselves to whatever portion the Government requires—but don't ruin us, and you will smash our industry if you at this time saddle us with a special tax on sales.

Mr. JAMES. May I only add, in conclusion, that I am absolutely sincere in this. There is not to-day the profit to the chewing-gum manufacturer that will enable him to pay this tax and pay dividends to his stockholders. We are willing to pay our share. We think if the 10 per cent ad valorem duty holds, if it is left in the Senate bill, we should be allowed to go without paying the 5 per cent on sales.

Senator SMOOT. Is it your judgment that the 5 per cent on sales on chewing gum should be transferred to such articles as you mentioned?

Mr. JAMES. No.

Senator SMOOT. What suggestion have you, then?

Mr. JAMES. At the same time we have in here our brand of mints, and some more of these, and if you tax those we will be glad to pay the tax. We have wafers and other 5-cent confections, none of which are sold for a penny, like chewing gum. They are sold for 5 cents, and the man who buys the thing as a luxury should pay it, whereas with chewing gum you can not sell the 1-cent tablet for 2 cents. Therefore the manufacturer must pay the tax.

Senator LA FOLLETTE. How could you pass that tax on, by cutting down the number of tablets?

Mr. JAMES. Charging 6 cents or cutting down the number of tablets. I thank you very much.

STATEMENT OF MR. FRANK H. SWAAB, REPRESENTING THE WILLIAM WRIGLEY CO., THE BEECH NUT PACKING CO., THE F. H. FLEER CORPORATION, AND THE AMERICAN CHICLE CO.

Mr. SWAAB. I simply want to accentuate one point as to how very directly this tax applies to our business.

A great many years ago, when the business was first founded, a plan of equalization of price to the jobber was established. At that time we undertook to pay freight to destination, so that it made no difference whether we sold our goods in Maine or California, the freight was paid, and the jobber started on the firm basis of a uniform price. There is one gentleman at this table who knows perfectly well that the margin of profit for the shipper is such that absolutely our product is selling on a basis to-day—that is, as far as chewing gum is con-

cerned—of the retail grocer on sugar. It is a matter of accommodation. The difference between the wholesale price of chewing gum to the jobber and the wholesale price from the jobber to the retailer barely pays the expense of handling, so that the jobber can not afford to pay more. I mentioned the freight item for this reason, we have time and again, in the advance of the cost of freight and the advance of the cost of material and the cost of labor and all the elements that enter into our manufacture, attempted to cut out that freight item, and invariably were met with a firm response on the ground that our item was such that it was impossible to get more for the goods.

Take, for instance, your retailer who sells his article at 1 cent a package. He has 100 sales to effect, for which he will receive from 35 to 40 cents. He simply is up against this proposition, that he can not pay more. Your jobber can not pay more. The question comes down to whether we can or whether we can not afford to pay 5 per cent on our sales. If I took the record of our own business, the establishment of the Frank H. Fleer corporation, a matter of three years—I have a record of the old Frank H. Fleer Co. and the Sensen Chicle Co., that goes back about 25 years in the chewing-gum business, and I want to say that on a capital invested of nearly $200,000 we have not made one dollar in the past three years, and that is due to one fact only, that gum chicle which we used to pay 18 cents a pound for—and I think the Senator from Utah will remember something of this—now costs just about 80 cents. Our shrinkage is 30 per cent. Along came the Dingley tariff bill, which put a tariff of 10 cents a pound on the chicle as it arrived from Mexico. We paid that, and paid it willingly. We had been asked to pay 20, and I appeared before the Finance Committee at the time, and I remember very well that somebody asked me whether we could not pay it. I said we could pay it, but we did not care to. But we did pay it. In the meantime the situation changed in the matter of production. Chicle which then cost us 18 cents began to cost us 20, 22, and 23, and finally we were paying up to 25 or 28 cents. Then came the original 4-cent tax, and I believe I was the one who suggested to the committee at that time the 4-cent tax. The original proposition was 10 cents, and my statement at that time to this very committee was that 10 cents would be almost impossible, that 6 cents would be profitable, that 4 cents would yield a good revenue to the Government without injuring us. Still we had that chicle which at that time cost us, ready for the pot, about 40 cents a pound, the price below being about 30.

Then came the time when the chicle began to mount, and the Mexican troubles added to it, so that to-day chicle will cost us 40 cents, then add your 18 cents, then take the price of 58 cents, and you do not get 100 pounds but you get 70 pounds. We have to dry it and clean it. You have 87½ cents more or less to pay for chicle in the pot.

At the time I came down with my original cry about the burden of the business, we were paying 4½ cents for sugar. The last sugar purchase reported to me at our factory was 7.70. There is the position in a nutshell.

There are probably two concerns in the chewing-gum business to-day which are making money, and both of those concerns have peculiar advantages. I want to be exempt from answering the names of those concerns, for I have no right to meddle in their business;

but I think it might be worth your while to know why the few concerns can make where the others can not. In the one instance, the larger concern has but one style or brand of goods, an overwhelming quantity of output. The result is that their factory overhead and their cost of distribution are so small that the money which we expend for publicity and the money which we expend for distribution is not evened up with them as it is with us. The other concern, which is a much smaller concern and a solid concern, carries the chewing gum as a side line, and it does not cost them anything to sell it.

But let us just for a moment go into the question of distribution of this product. In the city of New York there are, more or less, 26,000 retail stores handling chewing gum. Those stores handle all the way from one box a week—there are a few exceptions which handle more—to one box in two months. It is impossible for us to sell those people. We must sell the goods to the jobber. The jobber in turn pays 5 or 6 per cent to his salesmen who go out and sell it, and we allow them about 15 per cent leeway, and he winds up with a profit of 2 or 3 per cent if he makes a full profit. The retailer in turn gets a full 5 cents for his goods, and will make about 30 cents on a hundred sales. Your little man, your poor man, your little bit of a retailer who sells his penny newspapers and his penny lead pencils and his cent's worth of candy, depending on this little store, possibly, for two and a half or three or four dollars a day profit, is the man who is hit. We can not raise.

What happens if we do? There are thousands and thousands of reputable merchants of this country to-day who say point blank "If we can not make the little money out of chewing gum we are making, we will not handle it." And when it comes down to a question of the tax directly to be paid by us, I think it is very much in the position of the old theatrical agreement, where the managers demanded of the local manager a percentage of the gross profits. In the weeks that there was a profit, he got his; but in the next week, when there happened to be a loss in the house, he did not get his nor did the big man share the loss.

In this particular instance you are asking us to pay you out of our capital, and not out of our profit, because the percentage of that gross profit in many cases, as in my own concern, will come directly out of capital. And I want to make a statement here in honest truth and firm conviction, that if we could to-morrow close the doors of our factories and simply retire from the business for two years, or for one year, or until the times come when raw materials—when boxes, labels, and tinfoil and printed matter and labor, when all these things return to normal, we would make big money by simply stopping; but we can not.

You spoke a moment ago, Senator Thomas, about the water in the stock of the American Chicle Co. I happen to know something about it. There is not a dollar of water in it. Every dollar of that capital, and more of it, is represented by the millions of dollars that they have paid for publicity of the brands which they have established. Now, let them retire, let them take one of those brands out of the market for six months, and all that money is wasted, every dollar of it is gone, and it is gone beyond redemption and beyond hope.

Or take a single wrapping machine, costing thirty-five hundred to four thousand dollars. We can not make a single solitary thing with that machine excepting to wrap chewing gum on it. It is ingenious. We have developed it. We have paid for it. It has cost us countless thousands to produce those machines, and to-day, if you put a 5 per cent tax directly on chewing gum you are simply going to put it upon our capital and not upon our return. I thank you, gentlemen.

(Senator Simmons resumed the chair.)

The CHAIRMAN. This concludes the hearing on Title VI. We will now take up Title VII, the first paragraph, relates to admissions.

TITLE VII. WAR TAX ON ADMISSION AND DUES.

Sec. 700. ADMISSIONS.[1]

STATEMENT OF MR. LIGON JOHNSON, REPRESENTING THE THEATRICAL MANAGERS' ASSOCIATION.

Mr. JOHNSON. Mr. Chairman, I appear before you as the representative of the theatrical interests of the United States, covered chiefly under the Theatrical Managers' Association.

We are not here to seek to avoid taxation, so far as amusement enterprises are concerned, but rather in the spirit of cooperation, and the matter upon which we are being heard at this particular time falls upon the public rather than upon the theater, the chief danger being that the tax as drafted in the bill will interfere seriously with admissions paid to theaters.

We also are appearing here with the suggestion that the intent of the tax originally was that it should be assessed upon all public performances for profit, but that under the draft of the bill as it now stands about 50 per cent or more of the public performances for profit escape, by reason of the fact that indirect rather than direct admissions are charged to these performances.

In a number of instances under the bill there are charges upon the theater which can not be passed along to the public, and some of these charges are for the specific purpose, or, rather, the particular thing on which the tax falls is for the specific purpose of bringing in the admissions from which the Government gets its chief tax. For example, there is a tax upon advertising. The theaters are probably the largest lithograph and billboard advertisers in the country. The purpose of this advertising is to bring the people to the theater. Under the ordinary form of advertising the only income the Government can get from that advertising is its percentage of the amount paid for such advertising. It matters nothing to the Government whether or not a bill of goods is sold under such advertising.

On the other hand, our advertisement is for the sole purpose of bringing the patrons to the theater, to bring the people who will pay the admissions tax. The same conditions also apply to our electric signs, our illumination, on which there is a 5 per cent tax. I am stating this, not in objection to the taxes, but simply to show that these are taxes which fall directly upon the theater, and that we can not pass them along.

We are fearful of the effect upon admissions under the tax as drafted in the bill. We believe that Canada's experience shows a fair indication of conditions and of possibilities in amusement enterprises. War conditions, as you know, have existed in Canada for some time. It has been the purpose of the Canadian Province Parliaments to exact the highest tariff the traffic would bear and at the same time to permit amusement enterprises to continue as going

[1] Further hearings on this title will be found on page 391.

concerns. In Canada the admission charge is 1 cent on 15 cents. 2 cents on amounts over 15 cents up to 50 cents. 3 cents from 50 cents to a dollar, 5 cents for a dollar, and 10 cents for amounts over a dollar. They have found that taxes in these amounts brought in the largest revenue and produced the most satisfactory conditions, and we respectfully refer them to the committee for its consideration.

The other point that I raise with relation to amusement taxes applies to the theaters' chief competitor, and the single interest that has done more to detract from the theatrical patronage than anything else in the United States; that is, the cabaret. The House committee contemplated a tax on cabarets, as it says in its report: "It is recommended that this tax be imposed on all places to which admission is charged, such as motion-picture shows, theaters, circuses, cabarets," and so on.

The trouble is that to the cabaret no admission fee is directly charged. That the cabaret is a public performance for profit is no longer an open question. The Supreme Court of the United States last January settled that in specific terms. I quote from the decision of that court in the case of Herbert *v.* Shanley:

> The defendant's performances are not eleemosynary—they are part of a total for which the public pays, and the fact that the price of the whole is attributed to a particular item which those present are expected to order is not important. * * * If the performance did not pay, it would be given up. If it pays, it pays out of the public's pockets. Whether it pays or not the purpose of employing it is profit.

As all of us who have attended cabarets know, there is a uniform increase in price in the food, drinks, and merchandise sold. In many instances the bar price of a drink will be 15 cents, and in the cabaret hall it will be as high as 50 or 60 cents for the same thing. Certainly, it would not be worth the 50 or 60 cents to carry it up one flight of stairs. So that in all instances where a public performance of this character is given the public pays an admission price, although, as Justice Holmes said, it may be disguised in the price of the article sold. We would suggest that it would not be difficult to draft an amendment to bring public performances for profit in under the bill.

As a matter of fact, we suggest that an amendment along these lines be adopted:

> That from and after the 1st day of June, 1917, there shall be levied, assessed, collected, and paid a tax equivalent to —— per cent upon all moneys paid for refreshment and merchandise at public performances for profit to which admission fees as such are not directly charged, said tax to be paid by the person attending such public performances for profit and purchasing such refreshment or merchandise.

In conclusion, gentlemen, I regret to be forced to answer some suggestion of the motion-picture manufacturers, made to another phase of the bill, in which it was suggested that all of the motion-picture manufacturers' burdens be passed up to the theaters, and put in the form of admissions. I presume it would be fortunate, indeed, for the motion-picture manufacturers, if they could make our theaters bear their burdens. They of course are not burdened by anything falling on us.

Senator THOMAS. Do you not think it would be equitable and profitable, if we can do so, to place a heavy tax upon the sales of tickets in excess of the theater rate? For example, if I go to the Vanderbilt

Hotel and want to go to the theater, I have to pay $5 for a ticket that I could get at the window for $2.

Mr. JOHNSON. So far as the legitimate theaters are concerned, I will say to you that we would like to see you make it 200 per cent, or something like that. We have attempted to stop ticket speculation. We have been before the legislature at Albany time and again in an effort to suppress theater ticket brokers. We have directly attempted to suppress ticket speculation ourselves. We have had our own detectives in front of the office. We have tried to stop it by refusing to sell more than two tickets to any one person, but we have never been able to prevent ticket speculation. We would welcome anything the committee would do to add burdens to the traffic, or to actually suppress it.

Senator THOMAS. It is one of the most outrageous forms of robbery to which travelers are subjected.

Mr. JOHNSON. We can understand, of course, from the motion-picture point of view, where the proprietor of a motion-picture magazine, depending upon the motion-picture man's advertising, would advocate passing the motion-picture manufacturers' burdens on to the theaters, and we can even conceive that some motion-picture exhibitors would say, "All right, we will bear the tax," under the threat of the motion-picture manufacturers, "If you do not let the tax go forward in a form which may possibly be passed along to the public, we are going to increase your prices to a point where you yourself will have to pay it," and therefore I can see even motion-picture exhibitors accepting this form of tax, under the threat of increased prices from the motion-picture manufacturers. It seems to us, however, that in view of the fact that the motion-picture manufacturers are not engaged in actual exhibition, it is rather a gratuitous suggestion on their part and that they might do a little house cleaning of their own and get perhaps more satisfactory results. We think that men in any enterprise which can take a slap-stick comedian and in a few years give him an earning capacity greater than the gross salaries of all the Senators of the United States; or can take a girl barely out of her 'teens and create her into annual value in excess of the combined salaries of the President, the Cabinet, and the Supreme Court of the United States, might look into their own fields for forms of taxation, without attempting to pass it on to the theatrical interests.

The CHAIRMAN. I do not think it is fair to extend your time, as we have not been doing it.

Mr. JOHNSON. I thank you for your attention.

The CHAIRMAN. Now, Mr. Varner, you proceed.

STATEMENT OF MR. H. B. VARNER, SECRETARY OF THE MOTION PICTURE EXHIBITORS' LEAGUE OF NORTH CAROLINA.

Mr. VARNER. Mr. Chairman, I am representing, not the motion-picture interests of the world but I am representing the motion-picture theaters of North Carolina, which consist of 250, and we come here to object seriously to this tax of 10 per cent on the gross receipts. We do not object to paying our proportionate part of the tax to carry on this war, or any other expense. But we do object

to being put out of business. We are perfectly willing, if it is necessary, to give all of our profits to the Government during this crisis, but we ask you to permit us to operate our theaters so that we can produce a revenue for the benefit of the Government and for the amusement of the people.

There was a brief presented claiming to represent 75 per cent of the motion-picture theaters of the United States. That brief and that group of men do not represent the motion-picture exhibitors of the United States. They are representing a few men in New York and a few theaters in the large cities of the country. Their recommendation that you adopt this 10 per cent may work in Canada; it may work in New York, or with a few theaters in Washington; but it will absolutely destroy more than 90 per cent of the motion-picture theaters in North Carolina; and what is true of North Carolina is true of all of the States that are made up largely of rural populations and of small towns; and it is true of the South and the West; it is true of the States of the North and East, with the exception of those that have large cities. And we beg you to let us continue to operate; and, if it is necessary, put an income tax on us, or tax us on our net profits; and, if necessary, take all of them; but permit us to continue to operate, not destroy the motion-picture theaters of the country; because when you destroy them you are destroying the manufacturers and the whole industry from top to bottom. It is shortsightedness when the manufacturers come here and try to push this tax on the exhibitors and destroy them, because in destroying them they are destroying themselves and haven't got the foresight to see it.

But what they are after is arbitrarily to push this tax on some one else. We are not trying to dodge taxes. We just simply come to you and ask you to allow us to continue to operate our theaters, and if you need the money, take all of our profits, if necessary, if you are going to take all the profits of all the industries of the country. We do not want to give up all our profits. If necessary, take 10 per cent or 20 per cent or 50 per cent, but do not destroy the industry.

I have another gentleman here, the attorney of our association, Mr. Sams, who wants to talk to you for a few minutes.

The CHAIRMAN. We will be glad to hear Mr. Sams.

STATEMENT OF MR. A. F. SAMS, REPRESENTING THE MOTION PICTURE EXHIBITORS' LEAGUE OF NORTH CAROLINA.

Mr. SAMS. Mr. Chairman, I do not think anyone has taken the position that the motion-picture houses of the country should pay 10 per cent of their gross business and live. I have never heard anyone who has made that point. But the argument has been, from those who favor this action, that they can pass it on and let the public pay it.

I desire to call the attention of the committee to the fact that that is utterly impossible, because of the fact that we have no 4 or 9 cent pieces to make change at the window and sell a ticket for 11 cents. People will not buy them, and the exhibitor will be forced to pay the 1 cent on his 10-cent admission, which amounts to exactly 10 per cent on his gross business, regardless of whether he is making it

or losing. I know some theaters that are making money. I know some that are losing. I happen to know one theater that is taking in about $600 a week, and a weekly expense of $700. It runs not only motion pictures but some vaudeville. There is a loss of $100 a week, and yet this tax would fall $60 a week on top of that.

The proposition we submit is this: It is impossible to pass it on to the public, because we can not make the change. These tickets have to be sold within 20 to 30 minutes' time at the door or window by a cashier, who has to make the change with people crowding there, fishing out their pennies to give 4 pennies back to everyone who buys a ticket and lays down a dime or a nickel or a dollar or $5. In addition, the cashier would have to tear off the Government stamp and destroy that. It is altogether impossible to be worked so as to pass it on to the public.

It is impossible also for any business that has not more profit in it than an amusement business has to pay one-tenth of the gross—not of the gross profits but of the gross business—and remain in existence.

I want to say, further, that the gentlemen who filed this brief started out by saying that they are the representatives of the national league and allied interests, and the fact of the ridiculous position they take and their intimacy with the film people shows that the emphasis ought to be on the allied interests. They also set out in this that they represent practically 16,000 theaters, and from the best information I can get there are only 14,000 in the United States. I am positive of the fact that they represent none of the interests in the small towns of the United States, and you can not find that they represent anything except in two or three or four or five of our larger cities.

We want to present a brief in this case that will go with this brief that has been filed by those who claim to be the representatives of the motion-picture interests in the entire country.

The CHAIRMAN. The brief will be printed.

(The brief referred to by Mr. Sams was subsequently submitted and is here printed in full, as follows:)

MOTION PICTURE EXHIBITORS' BRIEF TO THE FINANCE COMMITTEE, UNITED STATES SENATE.

We represent the Motion Picture Exhibitors League of North and South Carolina, the owners or operators of nearly 350 moving-picture houses. Most of these are small houses, located in small towns, and the average seating capacities will not exceed 300 seats. Our admission charges rarely exceed 15 cents; in a few instances, where special films are displayed, as much as 20 to 25 cents, but in the main our regular prices are 5 cents for children all day, 5 cents for afternoon performances for adults, and 10 cents for adult evening admission. Our houses are limited as to patronage because of the strictly local relation, and yet competition is such as to demand the display of the best service; hence our expense for films is in the highest ratio of cost to capacity. In our entire field there is not one single operator who has been more than ordinarily successful—naturally when the capacity of a house can not exceed $50 a day gross admissions six days in the week, where excessive summer heat cuts the year to an average not to exceed 40 weeks, and where the race line so complicates the problem of marshaling an audience the profit at best can not be large, and on a basis of investment the most successful house merely returns good interest on the money.

The payment of 1 cent on a ticket in accordance with the terms of the House bill becomes an immediate physical impossibility. Stamping 200 to 300 tickets

within 20 minutes and making change in pennies in the same period can only be accomplished by the employment of a stamping clerk, who, like our present cashiers, would have to be on duty 12 hours a day at 12 hours' pay in order to render less than an hour's actual service. The other side of the argument, granting that the Government would issue tickets, including stamps, reduces the physical problem to "change making," but you must bear in mind that fully half of your patrons come in because the price is "only a nickel" or "only a dime," and they would not "change a coin" in order to "go to the show," which they would have to do if we asked them to pay the tax and which we can not afford to assume for ourselves.

For instance, the writers are part proprietors of the Piedmont Amusement Co., operating nine houses in Winston-Salem, Greensboro, High Point, Charlotte, Thomasville, Durham, and Lexington, N. C., and Danville and Lynchburg, Va. In 1916 we made a loss of $26,000. This was an operating loss; and had we paid a tax of 10 per cent on admission, as here proposed, before earning it, our loss would have been $12,000 additional, or $38,000 in all.

This was due to the general poor business in our section, coupled with standard expenses, which could not be reduced. The return of prosperity put all of these houses on an earning basis, and we are now earning very decent profits, out of which we are paying the indebtedness incurred during the season of loss. To tax us 10 per cent of our gross admissions—our only source of revenue—might be tolerable during six months of the year in 50 per cent of the houses, but impossible for the balance of the time for the best of them and absolutely impossible in the balance of the houses, which by this process would pay taxes out of our capital.

A group of men styling themselves "The Motion Picture Exhibitors' League of North America" (why not the world) and other allied interests are misrepresenting the small-town theater owner, whether in North or South Carolina or any other Southern State. They probably do fairly represent the "allied interests," who in the main consist of film makers, whose wonderful financial successes have been quoted as "moving-picture fortunes." They are a monopoly, as you know. They boastfully pay half a million a year to a single slapstick comedian, and, as in the case of this tax, pass the buck to the little man, who takes what he gets and pays what he is compelled to pay in self-defense, with no chance to save his financial soul.

The 25-cent houses or 50-cent houses, with a seating capacity of 1,000 to 3,000, might be able to carry this burden, but even in their case it would be fair to tax their profits after they had earned them. The proposed exemption of straight 5-cent houses is ridiculous. Do you wish to encourage the "fly-by-night" or the men who run what in the parlance of the trade is known as "the drugs"—the dirty, ill-kept, insanitary, and immoral little places, which are never fit for children. To waive the tax on these and compel us to pay 20 per cent on our 5-cent children's admission certainly does not appear either just or honest. If you thus put 50 per cent of our enterprises out of business, you will defeat the purpose of your bill "to raise revenue." We recognize, under the extraordinary conditions now facing the country, we must contribute a larger sum in taxes for the use of the Government than at present, and we are willing and ready to do so, but we ask cooperation in the same measure that we offer it. A tax upon our net profits would be fair, just, equitable, and sane. Give us the opportunity to make the money before you take it away. Take as much as you need of this—our fair proposition—but do not throw our investment into the "scrap-heap"; do not destroy our livelihood; help us keep it intact until normal times will reestablish normal opportunities for us.

A tax of 10 per cent of the net earnings of our theaters would be enough to start with; if it isn't, come back for more in your next bill; but bear in mind that if you start by taxing us to death, they won't be "any more" to come back for.

HENRY B. VARNER,
Secretary North Carolina Motion Picture Exhibitors' League,
Lexington, N. C.

A. F. SAMS,
Attorney North Carolina Motion Picture Exhibitors' League,
Representing South Carolina League,
Winston-Salem, N. C.

Senator MCCUMBER. Can you not save a good deal of this by getting together and saying that you will not pay a face contortionist a million a year who is not worth $5,000 a year?

Mr. SAMS. It is impossible for the exhibitor to control that. The film men might do it, but the trouble is that the exhibitor has no way in the world of reaching it.

The CHAIRMAN. Mr. Kelly, the committee will hear you next.

STATEMENT OF MR. JOHN M. KELLY, OF WISCONSIN, REPRESENTING THE RINGLING BROS.' CIRCUS, THE BARNUM & BAILEY CIRCUS, ADAM FOREPAUGH AND SELLS BROS.' CIRCUS.

Mr. KELLY. Mr. Chairman and Senators, I am here to speak for the circus, and I represent in that connection, Ringling Bros., Barnum & Bailey, Adam Forepaugh, and Sells Bros. The last-named show, owing to the condition of the times, has not been on the road for the last four years, and is not now operating.

You, having heard a series of complaints and supposed grievances for the last several days, may be able to realize what the circus has to endure with the number of complaints and grievances that are registered at its door every day in the year. I have been in and about this committee meeting for the past two days, and I am rather surprised to learn that we are living in such an age of business depression, with all industries practically on the threshold of destruction. I had assumed that we were having prosperous times in this country. That we were, in fact, as well as in name, the greatest productive and the greatest industrial country on earth.

I represent these circuses which have developed in this country to their present capacity in over a quarter of a century by a continuous, faithful devotion to business and business ideals.

These men have met many trials, endured many hardships, suffered many losses, and have overcome too many disheartening difficulties in business life for them to come in here now and complain about this tax in a period of our Nation's need. We come here rather in the spirit of cooperation, placing the facts before you on the table, asking for your help in a problem in which Ringling Bros. cheerfully volunteer substantial contribution to the revenues of the Government.

I believe, if there should be a full season, and a prosperous season, with ordinary crops, and with war kept on the other side of the Atlantic, these shows can go out, under the plan that I have before you, and collect a tax equivalent of from, say, $300,000 to $500,000. That amount of tax, should this circus collect it for the Government, would be equivalent to one four-thousandth of the entire tax, which has been stated here as the greatest ever levied in the history of the world. We might get a better idea of what this means by considering a group of 4,000 or 5,000 people—you could place them upon the steps at this end of the Capitol—and apart from that number consider the 110,000,000 people remaining in this country. It would be rather an unusual conclusion to feel that this great number of people should place the tax upon 5,000, and yet these four brothers are willing to assume a share in the collection of revenues that would represent this sort of burden.

If you would permit me to go into the detail which I would like to do here, I have some amendments to propose to the bill as it was

introduced before the House. One of these amendments relates to the tax that is imposed on the transportation of freight in this country. I can not believe that the framers of that bill intended that circus movements should be held subject to this tax. They own their own equipment and rolling stock. The railroads do not load their trains, nor do they unload them. They have no connections at freight stations. They are not carried as a common carrier.

The only thing the railroad does is to furnish the motive power. With ordinary freight it has its beginning and its ultimate destination for purposes of sale or exchange. We sell nothing, we deliver nothing to the public. When a man ships freight subject to this tax he gets a bill of lading and is protected if the railroad injures his freight. Before the circus can move it must sign a contract which exempts the railroad company from any liability not only to injury to its property but to persons who travel in connection with it, and the circus must sustain it and carry it. It is not the end, it is merely the means whereby the circus makes its stands and sells tickets, and it is in connection with the sale of the tickets that the Government is to reap this very considerable revenue.

The next amendment is on the question of its advertising. I do not believe it was intended by the committee that framed this bill that circus advertising should bear a 5 per cent tax. The big circuses are the only institutions in the world carrying this form of special equipment private advertising. They own their own advertising cars with each show. There are three. One goes three weeks ahead, another two, and another one. They carry their own outfit, a force of skilled union labor, trained in the service of advertising. They carry their entire equipment. They do not go out and ask a billboard company to do their advertising. It does its own advertising, and I do not believe it was the intention of those who framed the bill to assess that tax upon those who do their own advertising in this manner.

The next amendment I have to propose is one in connection with the levying of the reduced tax on the side shows. Preceding me a gentleman spoke for the moving-picture interests and signified the difficulty resulting from the collection of a 1-cent tax at a moving-picture window. Gentlemen, consider for a moment the difficulty that would relatively apply, the increased difficulty, to a circus coming late into town, with its thousands of people upon a lot. If it does not put up this advertising, secure the attendance of these thousands, it is not able to meet expenses. Late entry means a tremendous haste in handling these crowds. Let me tell you that this season since the show started on the road, the Ringling Bros., on account of bad weather and difficult grounds, have been able to parade but twice. In Springfield, Ohio, last Thursday they had to put 102 horses on one wagon to move it. Friday in Clarksburg, W. Va., they did not get out of town until 4 in the morning, and they had men working day and night to sustain a bridge suspended high and long in order to get over it with these tremendous wagons. At this moment it is rather a coincidence that this show is in the city of Washington, and its parade is now going on. There are right now men from the Army of the United States out reviewing that circus upon the lot to ascertain how the commissary department is run, how they mobilize and transport and feed that army of 1,300 people, with over a thousand

animals, and with that quantity of material—five long trainloads—from one end of the country to the other regardless of conditions.

I want to refer back to this penny tax. If the law is permitted to remain as it now stands, the side show, which sometimes charges 15 cents, and again, in a few places, 25 cents, will have to vary from the regular tax of 1 cent to 2 cents and 3 cents; and the difficulty in making this change is a very serious thing in connection with the dispatch necessary in handling the show. In other words, the circus will have to assume that tax unless we have the amendment providing a straight 1-cent side-show tax.

The fourth amendment proposed is a 5-cent tax maximum. It is proposed that Congress pass a law providing 10 per cent on admission dues to entertainments. If there is any one thing that is significant in connection with entertainments, it is that a circus is in a class by itself. Many of the people who pay their admission and tax enter the show to see the zoology and the menagerie. No other amusement institution or line of amusement on earth carries this extensive, important feature. Its entertainment is unique and special and instructive, and many who enter the menagerie do not go beyond into the big top entertainment at all. We have a great big roomy place for the folk of this country. It is a place where they walk around and meet their friends and converse and accept the situation as a big holiday, and it is a difficult feature, speaking from the private lines of the business, to sell these reserve seats. So that if you put a tax of 10 per cent, where they charge 50 cents for reserve seats when they get inside, the circus will have to absorb that in order to sell its seats, and the traffic will not bear the burden of the tax.

In what manner does the circus differ from any of the other lines of amusement to justify this committee in providing a maximum tax upon the circuses? I think I owe you this explanation because of your consideration of the other amusements, if we are to secure a maximum tax of 5 cents for circuses.

A theater, baseball, a cabaret, or anything else may close its doors if business does not warrant operating. The circus can not do this. It carries 1,300 people. It carries over a thousand horses that must move its equipment, and they must be trained and picked and suitable and hardened. There is one thing, one significant and underlying fact supporting the circus to-day, and that is its organization. It has men with it who have been in continuous service for over 29 years—as long as Ringling Bros. have been in the business. Their families are dependent upon them. They have no other line of business. Circus property is perishable. The tremendous amount of canvas and the paraphernalia and the costumes they use in it can not be hoarded away in some corner of this country without destroying the whole value of it. It gets out of date; it mildews and is destroyed.

What are they going to do with the horses and elephants and other animals? They eat their heads off if they are retired. So the show must go on, and these men will strive to have that show go on and bear its burdens, and collect for the Government its revenues, as long as a camel bears a hump or a zebra wears a stripe. And a

patriotic effort will be made to collect for the Government any tax you may impose.

If the circus is to continue in the field a tremendous crowd must attend the show for it to approach the level of operating expenses. If the circus were able to go on and never net a dollar for the season it would nevertheless bring this Government a tremendous revenue on the basis of 1 cent for the side show, 1 cent for children under 12 years of age, and an admission tax of 5 cents. We provide, different from most amusements, a great, unusual number of reserve seats for which there is no charge. We are always limited to conditions which exist in the town on the day we are there. We can issue no rain checks and tell you to come to-morrow, as they do with baseball. We must move, with all the advertising, and all the expenses, and all transportation that has occurred in making a stand for a single day, and all to no account. If we fail and do not show on that day, all that is lost forever. That is the big item in the upkeep and maintenance of the circus as compared with other amusements.

Another point I wish to call attention to. We have been listening to men speak about taxes. They have never been acquainted with the tax burdens of the circus business. The circus pays a Federal tax of $100 per State. That is charged the theater, and they exhibit 365 days a year, but many times the circus enjoys the patronage of but a single day. There is the excess profits tax, and the income tax, if the owners have anything left at the end of the season; there is a State tax; there is a county tax; there is a city tax, and in many places they have to pay police dues; and in this bill there is provided a tax on indemnifying bonds, and you know the way the circus is harassed by these circumstances. It is a question of taxes and extraordinary burdens to which the business falls heir from the time they begin in the spring until they cease operating in the fall.

I would like to have time to take up other points, Mr. Chairman, but you gentlemen have extended to me my full measure of time, and I thank you. I wish the privilege of filing a brief.

(Senator Williams assumed the chair.)

Senator WILLIAMS. That privilege is granted. You can file a main brief and as many supplementary briefs as you choose.

(The brief referred to by Mr. Kelley was subsequently submitted and is here printed in full, as follows:)

To the Finance Committee of the United States Senate.

GENTLEMEN: We respectfully ask your consideration of this brief and the few amendments proposed.

We refer to bill H. R. 4280. This bill unamended imposes a 3 per cent freight tax on circus movements (daily) of five trains; 10 per cent tax on passenger and Pullman fares of its advertising men and agents; a tax on its advertising—billboard, poster, banner, and miscellaneous—in city and country; and a tax on reserve seats in addition to the 5-cent admission tax. These taxes, added to the excessive aggregate already imposed, burden and restrict the circus in its operation and are taxes which the circus can not absorb or pass on.

The importance is apparent, to the Government as well as the industry, of avoiding a form of tax on the circus which limits or restricts its ability to move its property and freely advertise. The daily attendance necessary to approach the level of operating expenses of the show is so large that, under the tax proposed by this bill, the Government would receive very large revenue while the circus may do no more than exist in the field.

CIRCUS MAY YIELD SUBSTANTIAL REVENUE IF LEFT FREE TO WORK OUT PROBLEM.

It is not improbable that if the Ringling Bros. Circus and the Barnum & Bailey Circus were to enjoy a full, prosperous season, and are allowed to conduct their shows in their own way, free from oppressive and restrictive tax burdens, that revenues to the Government would approach sums from $360,000 to $450,000. The latter sum would be one four-thousandth of the entire tax.

This is a tremendous tax to be derived through a single unincorporated business unit—a partnership composed of four brothers. There is grave danger of fixing the tax beyond what the business will bear. The following amendments are, guided by our experience in the business and our knowledge of conditions, suggested with the view that the Government may receive its full measure of revenue without destroying the business that provides it.

PROPOSED AMENDMENTS.

At the end of line 12, page 22 (H. R. 4280), add the following:

"*Provided further*, That nothing in this or the preceding section shall be construed as imposing a tax upon the movements by railroad companies of the outfit, property, and persons composing any amusement company which, in the conduct of its business, owns and provides its rolling stock and equipment and which is not engaged in the transportation of commodities for sale or exchange; or as imposing a tax on the amount paid for tickets or mileage books issued to said companies and used for the transportation of its bona fide employees and agents."

We believe this amendment will be made as a matter of course. It is the sense of those whom we have heard express themselves on this point that it never was intended that circuses should pay a tax on their trains or property movements.

That the matter may not be overlooked or its importance underestimated, we briefly submit:

Rail movements are not made as common carrier; no freight handled. The cars and everything carried thereon are property of circus. The railroad company neither loads nor unloads the circus. In case of loss the railroad is protected by indemnifying contracts which it exacts—and which it can not exact as common carrier in shipment of freight and other amusement companies transported as common carrier.

Unlike freight that goes only from shipper to destination, the circus moves every day. Transportation is not the object—it is only a means of bringing its exhibitions before the people far and near.

The circus ought not to be taxed by the Government for transporting its property from one locality to another in order to accommodate the attending public, which yields the Government revenue under this bill.

We again call attention to subdivision (e), section 500, page 20: This clause should be amended to exempt therefrom amusement companies and their bona fide agents. The circus can not carry this extra tax burden; it can not pass it on to the public. All the expense of these agents is exclusively for circus uses—all preparatory to the sale of admissions. The circus has nothing to sell but tickets; no income except through the sale of tickets. If it loses a day or a stand all this vast expense is total loss. It is therefore not a tax on property, not a tax on an occupation; it is in reality a tax on disbursements and operating expenses.

2. At the end of line 13, page 23 (H. R. 4280), add the following:

"*Provided*, That the provisions of this section shall not apply to advertising by religious or charitable institutions or amusement companies carrying their own outfits and furnishing their own labor for doing advertising."

It can hardly be assumed that the framers of the above bill intended that companies such as the circus, with vast investments in advertising cars, employing skilled labor, making directly their own contracts for space, and furnishing their own paper of whatever nature, posted or exhibited, should pay this tax. An amendment is asked that will make a complete exemption for the circus as a separate class.

Advertising is the very artery through which circus life is maintained. This is why the circus has equipped the greatest individual advertising outfit in the world. It has expensive specially designed railroad cars and a vast force of skilled union labor employed exclusively in the service of advertising. It carries on its own advertising in all departments. The expense is enormous.

Suitable locations are difficult. The work is complex and contingent upon a variety of conditions. It derives no revenue from other concerns. It must advertise heavily or its business fails. Often it loses a stand entirely through transportation difficulties, inaccessible locations, or late arrivals. This means heavy losses, heavy taxes, no sales, no income. Unlike other amusements, it can not open its doors regularly in a permanently established place. Any other form of business or amusement may obtain the natural ordinary benefit of its advertising; the circus, when it loses a stand, loses it forever. The show must go on. We have no advance sales; can issue no rain checks to come again another day.

We respectfully ask that the amendment be adopted.

3. After the word "age," in line 8, page 30 (H. R. 4280), insert the following: "and the tax on admissions to any side show."

We ask the above amendment not that it makes any material difference in the revenues of the Government, but it will relieve the circus of much confusing detail and expense. The standard price is 10 cents; in several places a charge of 15 cents is made; in a few 25 cents. Considerable advertising and signs will have to be used, at the expense of the circus, looking toward the standardizing and collection of these taxes while the law is in force, and to that end it will save much labor and expense to have established by law a straight side-show tax of 1 cent for all admissions, whether regular or complimentary.

4. At the end of line 10, page 30 (H. R. 4280), there shall be added the following:

"And the maximum tax imposed upon circuses and wild-west shows owning and transporting their own equipment, for each admission inclusive of reserved seats, shall be 5 cents."

An amendment to the bill providing a maximum tax of 5 cents upon circuses would make unnecessary any amendment regarding reserved seats. Taking consideration of the great hazard, uncertainties, operating investment, labor force, wear and tear—which do not obtain with other lines of amusement—a tax of 5 cents is high enough; and the differences that distinguish the circus from other amusements provide sufficient reason for making the maximum tax of 5 cents apply specially to the circus.

It is not unfairly discriminating against the theater, baseball, and similar amusements to place a maximum tax of 5 cents on circuses. The circus has its menagerie. It is the greatest zoological exhibition in America. It is visited by all who enter the tents. Great numbers never go beoynd this department and many seek admission solely for the entertainment and instruction it provides. Hence it is that a sale of reserved seats is more difficult than in other amusements where the only entertainment offered is completely inclosed by a zone of seats with no room to walk or roam about, and with no side attractions.

We sell a reserved seat to no one who has not already paid his admission tax. A great extent of the tent is devoted to seats unreserved to accommodate the public, and for which no extra charge is made. A small portion of the seating space is reserved, and in many places the show has difficulty in disposing of these. To add thereto another Government tax (they having already paid their tax on entering the show) would be to add little to the revenues of the Government, but would directly deprive the circus of a sum which in this particular season is important.

The show must meet expenses and yield a trifle more if it is to remain in the field—if it is to protect itself from loss of its vast perishable property, preserve its organization that it has been perfecting for a quarter of a century, and keep together its big force of men, having dependent families. And yet, if the show does this and no more under a 5-cent tax the Government will receive through the offer of Ringling Bros. revenue estimated at about one four-thousandth to one five-thousandth of the whole tax levied.

CIRCUS DIFFERS FROM ALL OTHER FORMS OF AMUSEMENT—CIRCUS CAN NOT SHUT DOWN WITHOUT GREAT SACRIFICE TO OWNERS AND VAST NUMBER EMPLOYED.

With no thought of discussion to the prejudice of any other form of amusement, such as theaters, moving pictures, baseball, cabarets—yet what we have to submit will indicate how differently the circus is affected by a special tax from any other amusement.

Please consider the enormous investment of the big circus.

Now, with each show are over 85 double-sized cars; enormous perishable equipment; over 1,000 animals (domestic and wild); over 1,200 people employed, housed, and fed, the majority of whom, with their families, are dependent upon the circus for their livelihood—and many of these are trained experts with more than a quarter of a century of continuous service with Ringling Bros.

The circus, once equipped and on the road, can not relieve itself by quitting the field. A theater or a moving-picture house may close its doors, await improved business, and open when conditions warrant with a company owned and equipped by other concerns in which it has no capital invested. In that way it keeps going, and may offer its selections to the public at advantageous periods. The circus can not do this. In the first place, it has its thousands of contract obligations, partly performed, and binding of fulfillment. It has costly transportation, merchandise, and advertising contracts outstanding.

The feeding and maintenance for a long idle period of their great number of animals would reduce to insolvency and show; they would "eat their heads off"; and if sold under the hammer there would be great loss and no value as a going concern. A great extent of its equipment is perishable and deteriorates quickly. It only operates a portion of the year. The remainder is devoted to renewals and repairs. It can not close its show this week and open next month as a theater can; it must preserve its mighty organizations in which trained men and discipline are back of industrial accomplishments that need no explanation here.

Further, the circus can not exhibit here and there as it chooses. Crop conditions, conditions of climate, and many other considerations control. For instance, along the great North Atlantic coast points the exhibition season is short and must be undertaken before the warm weather sets in and before the people take to the parks and the beaches. In midsummer a circus would not meet a fraction of its expenses in the New England States, any more than it would in the cotton belt prior to harvest season. And so in between the spring season of the coast and the harvest season of the West and South the show must zigzag here and there to tide over the season, keep the employees and artists engaged and fed, and its organization together. And while there are some good days, yet there are many lean days; and unlike the theater, the movie, or the baseball park it can not close its doors and choose to do business only when the business pays—the "show must go on." Poor business means more than loss of profits to the circus, it means such property loss as may come from meeting contract obligations and in trying to tide over the season.

UNDER EXISTING CONDITIONS SHOWS CAN NOT BEAR ADDITIONAL TAXATION—SHOWS CAN BEST SERVE GOVERNMENT BY COLLECTING REASONABLE ADMISSION TAX.

We positively must take conditions as we find them. The big shows have never been equipped so heavily. They were organized before war was declared. Since the declaration, receipts have fallen off. Estimated crops are below the average. With consideration of what it costs the common people (and they make up the greatest patronage of the show) to live, with taxes never in our history so numerous or so high, with rigid economy being advised and practiced everywhere, with the whole amusement business upset, we submit that the tax may easily be made so high as to reduce the attendance to an alarming degree.

There is no business on which the public pays the tax unless the business in its operation is able to defray expenses. If the business does not yield some fair net return there will not long be any business to tax. And there is no line of business that suffers the hazard that obtains in the circus. Its wear and tear is tremendous; the earning season is short at best. Nearly all its property is perishable. It carries not a dollar on the road of either fire or accident insurance. The rates are prohibitive.

Taking into consideration those who in the past have ventured their time and capital in the circus business, the number who have been successful is smaller than is true of any other business on earth, not excepting mining speculation. In other words, the percentage of failures for the last 50 years in America is not only great—it is almost complete.

The circus pays, in addition to its State income tax, a personal property tax on its vast amount of property and equipment, State license taxes, county license, and city license taxes. It pays to the Federal Government a special war tax of $100 for each State entered. The distinguishing feature between the circus and other amusements in the matter of taxes is that a theater or moving-picture show, etc., having a permanent place of business

enjoys under one license the right to exhibit for a whole year. The circus, on account of its extensive itinerary, is able to continue its business but a few days in any one State, and it often pays for a single day the same license theaters pay for a whole year. Furthermore, the circus pays, in addition to the taxation now proposed in this bill, the excess-profits tax and its tax on net income.

Notwithstanding the enormous increase of taxes imposed upon the circus within the past few years, and notwithstanding the increased cost of production and maintenance of the show, Ringling Bros., realizing the danger to the business from any increase in admission prices which have been standard for years, have never raised the price of admission.

We believe it to be in the interest of the public welfare that these shows be kept in operation. Especially is this thought true in war times, when there is tendency toward dejected feelings and need of wise social and mental diversions. The fact is that England, France, and Italy are to-day urging the maintenance of amusements generally for their natural and wholesome effect upon the morale of the people.

Adoption of the amendments proposed will not reduce the revenues. They are not urged with that purpose in view. They are necessary in order that the show may have freedom of movement and operation compatible with the needs of the business.

These shows now operate under a most distressing weight of tax burdens, difficulties met in the movement of such vast properties in limited time, and the high cost of living and labor. It is not to the interest of the Government to add "straws" to the "camel's back" already loaded to the breaking point. A mutual interest lies in securing large attendance. Without it the shows can not long proceed.

It is believed that with these amendments adopted the circus will find itself able to collect and turn over to the Government very substantial revenues. It is not contemplated that the war will end this year. Accordingly it is essential that the circus industry make such showing this season as will warrant its being continued another year, when the people will require the entertainment and the Government need additional revenue. To a very large extent the revenues collected by the circus will mean a return from those whom taxes generally do not reach. The circus will gather revenue from all the people, from all classes, in all parts of the country. With a deep sense of the needs both of our industry and the Government and from a desire to serve our country, the foregoing is—

Respectfully submitted.

RINGLING BROS.,
BARNUM & BAILEY,
ADAM FOREPAUGH & SELLS BROS.,
By JNO. M. KELLEY.

MAY 14, 1917.

The CHAIRMAN. The committee will now hear Mr. Sun.

STATEMENT OF MR. PETE SUN, REPRESENTING THE SUN BROS.' SHOWS.

Mr. SUN. Mr. Chairman, we make the small cities, like Cannel City, Ky., or Pikesville, Ky., or Plainsviile. We have a small show, and we bring this show away back into the woods where the people never have a chance to see animals; where they never have a chance to see anything at all. They do not even read the newspapers. I have done business with hundreds of people who could not even read a bill or write their name when I pay them a bill, and I feel that if you put that tax on, which you are trying to put on, you will put us out of business.

In the last 10 years there were 42 shows. Twenty-eight of those shows have ceased operation; since the war 10 shows have ceased. I am with a show that has exhibited with cleanliness, never doing anything wrong, never having anything wrong with the show. My past reputation is that I have given the people their moneys' worth,

and I feel that I have a right to exist and move this show. I have had two wrecks, and my life is signed away; and when I signed a railroad contract for $100 I wrote to the Interstate Commerce Commission, and I wrote to State commissions. I had a wreck on the Pennsylvania, and they charged me for a wrecking crew. They say: "You sign a contract that you do not hold us responsible." I had to bear that. I had to buy new wagons, and I had to buy new cars. To-day, we have been out six weeks. We have lost four days, and we lost two days when we could not get a wagon on the lot. All I want you to do is to frame this bill so that we can exist; so that we can bring education to those backwoods towns where they do not see anything.

ADDITIONAL BRIEFS RELATING TO ADMISSIONS FILED WITH THE COMMITTEE.

Brief on behalf of the Motion Picture Exhibitors' League of North America and other allied theater interests representing 75 per cent of the motion-picture theaters of the United States concerning suggestions for amendment of House bill No. 4280, as particularly pertaining to title 7, war-tax admissions and dues.

We respectfully suggest that all admissions up to and including 15 cents be taxed 1 cent on each ticket; from 16 cents to 25 cents, inclusive, 2 cents on each ticket; from 26 cents up, 10 per cent on all tickets, or 1 cent on each additional 10-cent admission or fraction of additional 10-cent admission. The difference between the original bill as drafted and the amendment as suggested lies in the fact that all 5-cent tickets are taxed 1 cent, whereas, under the original the 5-cent theaters are exempt. Our reasons for including the 5-cent theaters in this measure is to equalize the 1-cent tax on the 10 and 15 cent admissions, so that the Government will derive a revenue from every ticket sold. We, as representatives of the industries, can see no legal reason for discriminating against the higher-priced theaters for the benefit of the theater charging only 5 cents admission. Our experience and observation has taught us that the patrons of the 5-cent and the 10-cent theaters and the 15-cent theaters are practically the same, and we believe that the Government is legitimately entitled to a tax on all tickets. We apprehend that thousands of houses now charging 10 cents admission would change to 5 cents in order to avoid the tax if the exemption of 5-cent houses should prevail, thereby depriving the Government of a vast revenue.

We respectfully suggest that the act become effective September 1, 1917, because we believe that the Government will require all of the time during this interim to prepare the necessary printing and administrative acts to make the bill effective, and we further submit that the majority of the theaters will be closed from June 1 to September 1, as the summer months are always dull in the theatrical business, and an enforcement of the act on June 1 will probably result in the closing of practically all of the theaters during the summer months.

We further respectfully suggest, as a matter of expediency on behalf of the Government, that instead of issuing revenue stamps to be affixed to the various tickets that the Government be empowered to print and distribute standard tickets to all theaters, which could be printed at approximately the same price as the ordinary revenue stamps would cost. One of the principal reasons that leads us to suggest that the Government print these tickets is the fact that nearly all of the theater business is done in the course of 15 or 20 minutes before each performance and it would be impracticable to accommodate the public if the ticket sellers had to affix revenue stamps to each ticket as sold, in addition to making change and otherwise accommodating the patrons of the various theaters; in fact, the nature of our business absolutely requires this, and we are drawing these conclusions from the experiences of picture men in Canada who have covered the same ground under the same conditions during the past three years. When the law first became effective the Canadian Government issued stamps, which later on had to be changed about to meet the above conditions. In addition to this, on behalf of the Government, it would simplify the work of the Government inspectors to a great degree, and we are

prepared to submit plans to the administrative department that would work out in full detail to the mutual benefit of the Government and our industry.

We would also respectfully suggest that all free passes be eliminated, so that the Government tax be paid on all admissions, whether children or adults.

We also respectfully suggest that the administrative department be empowered to redeem tickets unused at their face value, and provide for the cancellation of used ticket. This redemption of tickets is suggested by us for the protection of theater owners, who have an advance sale of seats, and who may not dispose of all of their seats for a given day's performance, and who would therefore be legitimately entitled to redemption for the unsold portion of their tickets.

In conclusion we desire to state that, with the exceptions herein mentioned, we are satisfied with the provisions of the bill as they stand, and that this brief is presented on behalf of about 16,000 theaters out of a total of 24,000 in the United States. Whatever amendments we have suggested are put forth in good faith and not alone for our convenience, but having in mind the needs of our Government at this time, feeling sure that the Government is desirous of fostering a popular education industry, instead of crushing it. We therefore strongly urge the individual members of the Finance Committee on the part of the Senate of the United States, to seriously consider the few reasonable changes herein suggested.

We further desire to suggest that we are at present paying a war tax, under the act passed, for providing revenue when the European war situation developed. This act levied taxes on telephone companies, telegraph companies, express companies, and other corporations, which said corporations had this special tax since removed. We want to convince this committee that our industry is not attempting to evade just taxation, but is vitally interested in meeting the proper adjustment and equalization of taxation, as well as the method of the collection of the same. Any additional tax imposed upon the manufacturer as provided for in section 600, page 26, lines 15 to 21, will of necessity have to be carried by the theater owners presenting this petition, because of the fact that the manufacturer will fasten the cost of the taxation provided for to his cost of sale of films. The burden falls on the theater owner and can not be carried by the majority of them. This would defeat the purpose of the bill by closing a number of theaters, which would therefore pay no revenue tax to the Government.

All of which is respectfully submitted.

ISADORE STERN,
709 Lincoln Building, Philadelphia,
Attorney for Motion-Picture Exhibitors' League of America and Allied Theatrical Interests.

WASHINGTON, D. C., *May 12, 1917.*

The CHAIRMAN. That concludes Title VII. Next we come to Title VIII.

TITLE VIII. WAR STAMP TAXES.

Sec. 808 (1). PLAYING CARDS.

ADDITIONAL BRIEFS RELATING TO SCHEDULE A, INCLUDING PLAYING CARDS, FILED WITH THE COMMITTEE.

Brief of the Standard Playing Card Co.

STANDARD PLAYING CARD CO.,
Chicago, Ill., May 14, 1917.

SENATE FINANCE COMMITTEE,
United States Senate, Washington, D. C.

GENTLEMEN: The proposed tax on playing cards is, in our judgment, in its effect unfair and unjust to the industry. We can conceive of no equitable basis upon which our industry should be subjected to such an enormous increase (several times that of any other business), when such industry is already paying the Government a tax equal to about 25 per cent of the total volume of business done.

Any increase in present tax should be made upon such a basis as to enable the industry to maintain its present volume as nearly as possible and secure at least the present revenue and as much additional as possible.

The publication of the proposed increase in present tax has already caused dealers to make every effort to unload present stocks and has brought our business to a standstill.

The following will illustrate clearly the effect of even a slight advance. Owing to the increase in cost of production, it became necessary during the latter part of 1916 to increase the selling price of our product about 1 cent per pack, and as a result of the said increase our business the first four months of this year shows an actual decrease of 33 per cent, which speaks for itself.

In our judgment an increase of 50 per cent in the present tax is all the industry will stand and continue sufficiently in volume to bring an increased revenue, which is the result desired.

Respectfully submitted:

STANDARD PLAYING CARD CO.,
By B. C. HAWKES, *President.*

Brief of the New York Consolidated Card Co.

LONG ISLAND CITY, N. Y., *May 14, 1917.*

Hon. F. McL. SIMMONS,
Chairman Senate Finance Committee.

DEAR SIR: We believe that our industry should contribute its proper proportion of the revenue to be raised for war purposes. Having been in the business since 1826 we have experienced the effect of every war measure taxation on playing cards since that date. The highest tax ever imposed was 5 cents per pack, and under that tax the volume of business largely decreased. This was approximately from 1870 to 1884. Our sales then were from 7,000 to 8,000 gross per annum, yielding a tax of from $35,000 to $40,000. The lowest priced card then was 15 cents per pack and the highest 45 cents. In 1916 we sold 75,410 gross, which averaged 8¼ cents per pack, and which paid a tax of $218,334.24. This shows that the lower the card can be sold the greater the revenue to the Government will be.

In November, 1916, to meet the increased cost of materials and labor we increased our prices to 9¼ cents per pack, and the falling off in volume since

has been 38 per cent. Were the tax made 4 cents, we believe in time the Government would receive approximately the same or possibly a larger income. At 6 cents, as proposed, the revenue would decrease at least 50 per cent. It must be remembered that 80 per cent of cards used are in the homes and social circles, and the general retrenchment which must come with present conditions will cause cards to be used longer and there will be less sold.

Very respectfully,

NEW YORK CONSOLIDATED CARD CO.,
By STANLEY A. COHEN, *President.*

Brief of the United States Playing Card Co.

CINCINNATI, OHIO, *May 14, 1917.*

DEAR SIR: The following statistics will vary a little from the Government records, as our fiscal year ended December 31, 1916.

Last year our factory used $579,103.86 worth of 2-cent stamps on playing cards, which stamped up 201,077 gross, or 28,955,088 packs of cards for sale.

This output, after deducting the revenue paid the Government, yielded an average of less than 6¼ cents per pack.

Sixty-six per cent of this output, or 131,300 gross, yielded only 4 cents per pack.

The $579,103 paid the Government was nearly 30 per cent of the total net sales.

On December 1 last year we advanced prices nearly 1 cent per pack to cover the increased cost of manufacture.

The first three months of this year our output was 35,355 gross against 48,737 gross during the same period last year, showing that the sales fell off practically one-third, due to the 1 cent per pack increase in price.

If the present tax of 2 cents were doubled we feel sure it would curtail the sale still more. But we want to do our part in raising taxes, and we believe if your committee can fix our rate at 4 cents per pack it will yield more income than a higher rate.

Respectfully submitted.

THE UNITED STATES PLAYING CARD CO.,
JOHN OMWAKE, *President.*

Hon. F. McL. SIMMONS,
Chairman Senate Finance Committee.

Brief of the Russell Playing Card Co.

THE FACTS ABOUT THE PROPOSED TAX ON PLAYING CARDS BOILED DOWN.

RUSSELL PLAYING CARD CO.,
New York, May 14, 1917.

The playing-card business amounts to about $3,000,000 annually. The manufacturers pay a tax to the Government at the present time of about 25 per cent on what they receive.

Since December, 1916, the volume of the business has been cut down about 30 per cent by increases of prices forced by very heavy increases in cost of production.

This has already eliminated our most popular and most largely sold item—the 10-cent card—and further increases in prices which will come as a result of the rising costs of all commodities and labor will eliminate our next most popular grade—the 15-cent card. These two grades represent about 75 per cent of the total business.

The reason for this rapid decrease in our business following advances in price is because 95 per cent of all cards sold are used in the home for general amusement and not in the clubs, as is generally supposed.

We must maintain our volume to manufacture economically. That can be done only by retaining about our present prices. Any increase in the stamp tax is absolutely certain to cut down the volume. To double the present 2 cents per pack tax will reduce it at present high prices to 50 per cent of normal.

Even if the tax is doubled the Government will receive no more revenue than at present, and it will receive less in corporation, excess-profit, and income taxes from the industry.

If the tax is increased beyond that, it is our firm opinion that the revenue from every source will be still less, and if the tax proposed by the House bill becomes law the volume will be too small to manufacture at all.

We propose that the stamp tax remain as it is at 2 cents per pack and that instead a tax of 5 per cent on our gross sales be levied, and thus include playing cards with all similar items in the bill, viz, games, chess and checker boards, baseballs and bats, billiard balls, tennis rackets, golf balls, etc.

Respectfully submitted.

RUSSELL PLAYING CARD CO.,
BENJ. ROSENTHAL, *President.*

Supplemental Brief of the Russell Playing Card Co.

SHALL THE TAX ON PLAYING CARDS BE INCREASED 500 PER CENT AND THE INDUSTRY DESTROYED?

RUSSELL PLAYING CARD CO.,
New York, May 12, 1917.

The war taxation bill now before Congress provides for a tax of 10 cents per pack on playing cards instead of the tax under existing law of 2 cents per pack. This is so drastic, so utterly inconsistent and unfair, the Ways and Means Committee could not possibly have been informed of conditions in our industry when they incorporated it in the bill.

The present levy of 2 cents per pack on playing cards represents a tax of about 25 per cent on the value of the output of our industry. To increase it to 10 cents per pack, the business, the total volume of which is only about $3,000,000 annually, would pay a tax to the Government of 125 per cent on the value of its output. This tax, representing an increase of 500 per cent on the present tax on our goods is out of all proportion to that on other articles used for amusement, etc.

For instance, the bill provides for a 5 per cent tax on the following: All games, dice, chess and checker boards, billiard balls and tables, baseballs and bats, tennis racquets, golf clubs, perfumes, toilet water and various other toilet articles, musical instruments of various kinds, talking machines, etc.

Why, then, should the playing-card industry, which already pays a 25 per cent tax on its product, be so unfairly discriminated against and assessed 125 per cent?

Even such articles as cigars, cigarettes, smoking tobacco, liquors, wines, etc., which have always been regarded as proper items of taxation, are to pay less than double the tax now levied on these items, while playing cards are to be increased 500 per cent. This certainly could not have been given due consideration by the committee.

The playing-card industry in recent years has yielded an annual revenue to the Government of from $700,000 to $800,000. This represents a considerable increase in the past five years, because the manufacturers have sold exceptional values to retail at the popular prices of 10 cents and 15 cents. The increase in the cost of production in the past year due to the enormous increase in the cost of raw materials, labor, etc., has already eliminated the 10-cent card and very few cards are now sold for less than 15 cents. This has already cut down our sales over 30 per cent. The many items of materials which will be taxed in this new bill, including transportation on them, will still further increase our cost of production so that the lowest-priced card will shortly no doubt be sold at 20 cents retail, thus doubling the price of our heretofore most largely sold item.

About 75 per cent of our total business has been done on the 10-cent and 15-cent grades, and with the business of these wiped out by the increase in the cost of production and an additional 8 cents per pack tax, our very cheapest card would sell for about 30 cents per pack and would compel a similar increase in the prices of all higher grades.

This is absolutely certain to so curtail our sales that we do not believe there will be sufficient business at these high prices to profitably manufacture at all. Fully 95 per cent of all cards sold are used for general amusement in the home and not in clubs, so that the increase in the tax would immediately affect the very class of business on which depends the volume we must have to economically manufacture.

In view of all these facts, it is very clear that the Government would not only derive no more revenue if a higher tax is imposed, but because of the very drastic increase in the retail prices and consequent curtailment of sales the consumption would be so reduced that the revenue would be actually less than it is at the present time. When the 2-cent tax stamp was originally put on playing cards it took the industry five years to recover from it.

Furthermore, in addition to the loss of revenue by the Government from the sales of stamps, the corporation taxes, income taxes, and excess-profit taxes which the Government would receive from our industry would no doubt be wiped out entirely.

Our industry, already sufficiently taxed, ought to be relieved of any further burdens. The business is small at best and does not warrant it; but if the committee still feels that it must impose another tax on playing cards let it be included under the heading of "Games, etc." and tax us 5 per cent on our gross sales. We have no desire whatever to evade any responsibility of any nature. We want to contribute our full share of taxes to the Government, but this can only be done by permitting our business to live and to continue in its present volume. Any such tax as now proposed will mean certain destruction to the playing-card industry.

Will you not use your every effort to prevent the incorporation of the above provision in the bill?

President Wilson has said only recently in addressing Congress on the subject of taxation: "In a country of great industries like this it ought to be easy to distribute the burdens of taxation without making them anywhere bear too heavily or too exclusively upon any one set of persons or undertakings." The logic of this reasoning must certainly be apparent and surely applies in our case.

Thanking you in advance for your efforts to help us in this matter, we beg to remain with all respect.

Very truly, yours,

RUSSELL PLAYING CARD CO.

The CHAIRMAN. The next paragraph relates to surety bonds, and Mr. Gilkey will next be heard.

Sec. 808 (2). SURETY BONDS.

STATEMENT OF MR. ROSCOE R. GILKEY, 80 MAIDEN LANE, NEW YORK, SECRETARY OF THE SURETY ASSOCIATION OF AMERICA.

Mr. GILKEY. Mr. Chairman, I represent a number of surety companies. I have four suggestions to offer in relation to subdivision 2, the first of which touches the question of the flat 50-cent tax imposed by this subdivision upon any bond.

Senator WILLIAMS. What page is that?

Mr. GILKEY. Page 39, subdivision 2. The subdivision as drawn imposes a flat 50-cent tax upon any bond, whether one for a personal surety or a surety company. Where the premium charge, however, is in excess of $100, the tax shall be at the rate of 1 per cent of the premium charged. The suggestion that I have to offer in relation to the flat tax of 50 cents on any bond is that in many cases it exceeds the entire premium charged upon the instrument. Therefore you would have a graduated tax, anywhere from 100 per cent running down to 1 per cent, where the premium is $50 or less.

We do not believe that such a large proportionate tax can be justified, because where it equals 100 per cent of the premium, it is pretty large, and then it goes from that to 75, and 50, and so on. Whereas, under the revenue bill, in relation to insurance the general scheme of the levying of the tax is 1 per cent upon the premium. That applies to fire, marine, and casualty insurance in all its

branches. So that we feel that the tax in this section, in those cases where premiums are paid upon these bonds, should be a tax of 1 per cent of the amount of the premium, and that fitting any premium that may be charged.

The second matter that I wish to bring to your attention is the question of the failure in this section to eliminate the tax on reinsurance. I think it was an oversight, because in the revenue law of October 22, 1914, reinsurance was specifically exempted. Reinsurance on fidelity and surety bonds is very prevalent, particularly for the reason that the Treasury Department of the United States Government has had for many years a regulation providing that no company may issue any bond in excess of 10 per cent of its capital and surplus. That necessitates the reinsurance of very large numbers of these instruments, and to tax any portion of reinsurance would be to levy a double tax upon that instrument. So that reinsurance having been exempted as to all forms of casualty insurance and fire insurance, and the probability being that the exemption will apply to life insurance, as was stated in this room the other day, we felt that it is merely an oversight that reinsurance was not exempted under subdivision 2.

Senator TOWNSEND. Let me refer back to that other and ask a question. Do you not charge a higher rate for your small bonds, which are taxed 50 cents, than you do for your higher bonds?

Mr. GILKEY. No. Bonds go in various amounts. In some cases the premium is only 50 cents on the whole instrument. I am not talking about the rate. I am talking about the premium. The tax would be 50 cents, equivalent to the whole premium.

Senator TOWNSEND. You do not issue any bonds for less than 50 cents, do you?

Mr. GILKEY. Some bonds are issued for 25 cents; but that is only a few. Fifty cents is approximately the lowest total premium charged.

Senator WILLIAMS. What you suggest there is a uniform tax of 1 per cent on all bonds?

Mr. GILKEY. That is it, Senator.

Senator WILLIAMS. Now, go ahead.

Mr. GILKEY. And the exemption of reinsurance. The matter I wish to bring to your attention is that there is a tax imposed upon the bond itself. In the surety business there are certain things that are a part of the same transaction, and probably from lack of technical knowledge of the business you might think there was a tax imposed by this section upon such things, such as powers of attorney and indemnity agreements. A surety company is engaged in the business of becoming surety for some person guaranteeing the payment of his obligations. The law imposes upon a principal in any bond the obligation of indemnifying his surety. That is an obligation that the law creates. These indemnity contracts that I speak of are practical restatements of the liability imposed by law upon the principal to his surety. Therefore, to tax that instrument is, in effect, to levy another tax upon the bond itself, which is already taxed.

In other words, in the transaction of the business these indemnity contracts we do not believe that under subdivision 2 it is the intent to tax them, nor powers of attorney. Bonds must be executed in

many cases by agents all over the United States. A power of attorney is granted him for the execution of bonds. Some companies operate in some cases by having a bond executed by resident officers. That is, they call them resident vice president or resident assistant secretary. Others have those bonds executed by a person under a power of attorney. So it means the same thing, only the bond must be executed one way or the other. These powers of attorney are prepared, as a matter of convenience largely, and in some cases requirements of law, to attach to the bond itself, the power of attorney showing the authority of the person to sign. That is a part of the same transaction connected with the issuance of the bond. Therefore, indemnity agreements and powers of attorney in connection with the execution of bonds are a part of the same transaction, and to tax them would be to levy an extra tax upon that, and we do not believe that this subdivision means that they should be taxed, but we do think, being accessories to the bond, they should be specifically eliminated in this section rather than by inference.

The fourth matter is in relation to the levying of the tax itself. Bonding companies are subject to all of the taxes imposed upon corporations generally by the Federal Government and by the State governments and in connection with all of the taxes paid by them, as other corporations pay their taxes, they are subject to a tax upon their premiums by each of the States. Therefore, if these companies are going to bear the burden themselves of this tax, it falls heavily in one spot, whereas if the tax can be distributed lightly, the Government will receive more than they would if the companies paid the tax. In other words, a small tax upon each individual instrument can be distributed by having the consumer pay the tax, that is, the person obligated to pay the premium on the bond, and therefore we suggest that, inasmuch as the Government may receive a larger revenue under this section, because if the companies pay the tax they are entitled to deduct the amount thereof from their excess-profits statement and their income-tax statement, and the Government will receive far less than they will if the tax is distributed lightly by having each one pay the small tax for the particular instrument rather than having the heavier tax fall upon the few.

For the convenience of the committee our suggestions are reduced into a proposed amendment, which I will hand in, and we have a brief we shall file with the committee for its use in its consideration of this subject.

The CHAIRMAN. Your brief will be printed.

(The brief referred to by Mr. Gilkey is here printed in full, as follows:)

WAR REVENUE BILL—BONDS, INDEMNITY AND SURETY.

AMENDMENT PROPOSED.

Strike out, in line 22, on page 39, all after the words "50 cents" and insert the following:

"*Provided*, That where a premimum is charged for the execution of such bond, the stamp tax shall be paid at the rate of 1 per cent on each dollar or fractional part thereof of the premium charged: *And provided*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision: *And provided*, That nothing contained in this title shall impose any additional

stamp tax on any power of attorney or indemnity agreement connected with the execution or issuance of any bond: *And provided*, That the stamp tax imposed by this subdivision shall be paid by the person, corporation, partnership, or association obligated to pay the premium."

BRIEF IN SUPPORT OF PROPOSED AMENDMENT.

As this amendment covers four distinct subject matters, each will be discussed separately.

1. "*Provided*, That where a premium is charged for the execution of such bond, the stamp tax shall be paid at the rate of 1 per cent on each dollar or fractional part thereof of the premium charged."

The general scheme of taxation under this bill relating to insurance is to impose a tax on the amount of the premium charged at the rate of 1 per cent per annum. Under subdivision 2, Schedule A, title 8, page 39, the premium tax on bonds would vary upon the smaller premiums from 100 per cent, where the premium if 50 cents, to 1 per cent, where the premium is $50. The levying of such a large proportionate tax can not well be justified. However, upon premiums in excess of $50 and less than $100, the rate of tax does not equal 1 per cent; nevertheless we feel there should be a uniform rate of tax upon bonds where premiums are charged.

Under the stamp-tax provision of the revenue law of October 22, 1914, surety bonds were taxed at the flat rate of one-half of 1 per cent of the premium charged without a minimum, and under the present bill fire, marine, and various forms of casualty insurance are taxed at the flat rate of 1 per cent of the premiums.

We respectfully suggest that the provision for a minimum tax of 50 cents in those cases where a premium is charged upon such bonds should be eliminated and a provision inserted levying a tax upon such bonds at the rate of 1 per cent of the premium charged.

2. "*Provided*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision."

It was probably an oversight not to exempt reinsurance from the stamp tax provided for in this subdivision. Such exemption was made in the stamp-tax act of October 22, 1914, and such exemption is provided for in this bill, as it relates to fire, inland, marine, and casualty insurance in its various branches, and will also no doubt be made applicable to the life business.

Reinsurance of fidelity and surety bonds is very prevalent in the bonding business due among other reasons to the fact that the Treasury Department of the United States has for many years had a regulation that compels surety companies doing business with the Government to reinsure any bond issued in excess of 10 per cent of the capital and surplus of the company, unless the company executing the bond is otherwise secured for the excess; and also due to statute regulation of many States of the Union on this subject.

Stamps denoting the full tax are required to be affixed to the original bond, and to require further stamps upon a reinsurance of any portion of such bond would be the imposition of a double tax.

"3. *Provided*, That nothing contained in this title shall impose any additional stamp tax on any power of attorney or indemnity agreement connected with the execution or issuance of any bond."

We feel certain that bonds being specifically taxed in this subdivision, it is not the intention to also tax accessories to those bonds. To do so would, in effect, impose an additional tax upon the bond itself, because indemnity agreements and pwers of attorney are part and parcel of the transaction in connection with the issuance of the bond.

The surety business consists of issuing bonds whereby the surety becomes bound for the debt or obligation of the principal. In all cases of suretyship, the principal is always bound by law to indemnify his surety, so before the surety executes a bond it is customary to take from the principal an indemnity agreement which, in substance, recites the obligations imposed by law upon the principal to his surety, and in some cases the surety takes other indemnity agreements, all connected with the one bond.

Many bonds can only be executed by agents throughout the country under power of attorney. To tax these powers of attorney would be, in effect, to impose a tax upon the bond itself, because they are a part of the transaction connected with the execution of the bond, which is itself specifically taxed.

"4. *Provided*, That the stamp tax imposed by this subdivision shall be paid by the person, corporation, partnership, or association obligated to pay the premium."

Bonding companies are subject to all of the taxes imposed on corporations generally under Federal and State laws. In addition thereto, and in addition to other taxes paid to States, each State levies a tax upon the premiums derived by the companies upon business in such State. Such companies now pay to the Federal Government an income tax, a franchise tax, and excess-profit tax, and under this bill additional taxes are imposed.

To adopt this amendment will impose but a very small burden upon each person obligated to pay the premium upon the bond, and will also create an additional source of revenue from this item for the Government, because should the tax be paid by the bonding companies they would be entitled to a credit for the amount of the tax in their income-tax statement, and also in their excess-profits tax statement, which would decrease the revenue to the Government from those two sources, while if the tax be paid by the person who pays the premium the burden would be lightly distributed, and the Government would receive a largely increased revenue from those sources.

If, after due consideration, it is finally decided to adhere to the minimum of 50 cents then we most respectfully ask that subdivision 2 of schedule A, be amended by adding after the word "charged" in line 24 on page 39, the following:

"*Provided*, That policies of reinsurance shall be exempt from the tax herein imposed by this subdivision: *And provided*, That nothing contained in this title shall impose any additional stamp tax on any power of attorney or indemnity agreement connected with the execution or issuance of any bond: *And provided*, That the stamp tax imposed by this subdivision shall be paid by the person, corporation, partnership or association obligated to pay the premium."

Respectfully submitted,

R. R. GILKEY,
Secretary Surety Association of America,
80 Maiden Lane, New York, N. Y.

WAR REVENUE BILL—TAX RELATING TO INSURANCE.

AMENDMENT PROPOSED.

Amend section 505, subdivision (C), page 24, by inserting in line 25, after the words "health insurance," the following words: "and fidelity and surety insurance."

BRIEF IN SUPPORT OF PROPOSED AMENDMENT.

It is not proposed to tax bonding companies under this subdivision. They are taxed under title 8, section A, subdivision 2, on page 39. It is admitted that it was the intention of the framers of this bill to definitely exclude bonding companies from subdivision (C), but inasmuch as under this subdivision a tax is imposed upon other branches of insurance, and in the exception immediately following bonding companies are not included, it may be claimed that they would be taxable under title 5, subdivision (C), and also under title 8m. Schedule A, subdivision 2. It is proposed by this amendment to remove this ambiguity, so that in express words, and not by inference, taxation of bonding companies will be expressly excluded from this section.

R. R. GILKEY,
Secretary Surety Association of America.

The CHAIRMAN. The committee will now hear Mr. Bartlett.

STATEMENT OF MR. J. K. BARTLETT, OF BALTIMORE.

Mr. BARTLETT. Mr. Chairman, I also represent a surety company, but what has been said by Mr. Gilkey has been so well said and covers the ground so completely that I will not ask permission to take up any more of your time.

The CHAIRMAN. We will now listen to Mr. Whelan.

STATEMENT OF MR. THOMAS A. WHELAN, VICE PRESIDENT OF THE FIDELITY DEPOSIT CO., OF BALTIMORE.

Mr. WHELAN. Mr. Chairman, I had the pleasure of submitting to the committee on Saturday an amendment to another section, and expected then to make some remarks on this subject. But inasmuch as Mr. Gilkey has covered it, and covered it thoroughly, I will not trespass on the time of the committee further than to say that we think the terms of this amendment have been very carefully considered, and we believe they will meet with the approval of the committee after they consider the reasons. We have prepared a short, concise, clear-cut brief on the subject, which we will present to the committee covering these various matters.

The CHAIRMAN. That finishes the schedule on surety bonds. We will now take up postal rates.

Mr. H. B. VARNER. Mr. Chairman, I am very much interested in postal rates, and there is a very large delegation here. But from an inspection of the schedule they did not think they would be heard until late this afternoon, and they are all out, and I am not the man to present it.

Senator WILLIAMS. I received a message, which I communicated to the chairman, and he was of the opinion that we should not reach that subject matter until about 3 o'clock, and I communicated with the person who came to me that we would set it for 3 o'clock, and that we would give 15 minutes to the gentlemen who wanted to be heard upon it at that time. Mr. Gompers sent word that he wanted to be heard upon the union labor phase of the matter.

The subject matter has 30 minutes altogether. Do you want 15 or 20 minutes?

Mr. BALDWIN. At a meeting of the publishers on yesterday we tried to divide our time. Mr. Seitz was only to speak for the daily newspapers, Mr. Moore for the periodical publishers, and myself for the technical press, and Mr. Gompers for the labor unions, and I think there was one other division that wanted to be heard. I should be glad if I could have 10 minutes. I will try to confine myself to that.

Senator WILLIAMS. That is all right.

STATEMENT OF MR. ARTHUR J. BALDWIN, VICE PRESIDENT OF THE ASSOCIATED BUSINESS PAPERS (INC.), NEW YORK CITY.

Mr. BALDWIN. On the 17th of April, on behalf of——

Senator WILLIAMS (interposing). Before you commence, I think this is rather an important matter to every publisher, and you say there were five altogether that wanted to be heard?

Mr. BALDWIN. Yes, sir.

The CHAIRMAN. Then I think that you should be given 50 minutes altogether, so that each of you can have 10 minutes.

Senator TOWNSEND. I think that is right. You can not cover it in a shorter time than that.

Senator WILLIAMS. Very well. We will give you an hour, then.

Mr. BALDWIN. I would like very much, as it is a misunderstanding, that we could have more of the Senators present at this hearing. The publishers feel that this is such a vital change in the policy of the Government——

Senator TOWNSEND (interposing). May I suggest, Mr. Chairman, that this has been set for 3 o'clock, and suppose we meet at half past 2, as usual, and they will be here at that time, and then he can take it up.

Mr. BALDWIN. I will have all of the publishers here in 30 minutes.

Senator WILLIAMS. It is suggested that we pass over this subject matter until half past 2 o'clock, and then we will take it up, and then you will have 10 minutes to be heard, and you will be the first one to be heard. That is passed over, then.

Senator TOWNSEND. That closes it all, except the tariff for tomorrow, which is Title X, War customs duties.

Senator WILLIAMS. Yes, sir.

Senator TOWNSEND. We will finish this afternoon on these postal rates.

Senator WILLIAMS. Then we had better take a recess until half past 2 o'clock.

Senator TOWNSEND. I move that.

Senator WILLIAMS. It has been moved and seconded that the committee take a recess until 2.30 o'clock this afternoon.

(Motion put and carried.)

(Thereupon the committee took a recess until 2.30 o'clock p. m.)

AFTER RECESS.

At 2.30 o'clock p. m. the committee reassembled, pursuant to the taking of the recess, Senator Furnifold McL. Simmons presiding.

The CHAIRMAN. The committee decided this morning to pass over Title X. Is there anybody here who wishes to be heard upon the first branch of Title XII, being the increase in letter and postal-card rates? [After a pause.] If there is none, then we will take up the question of newspaper and magazine rates.

The clerk will insert briefs pertaining to first-class mail at this point.

TITLE XII. POSTAL RATES.

Sec. 1200. FIRST-CLASS MAIL MATTER.

Brief of Mr. Henry M. Goldfogle on behalf of Illustrated Postcard & Novelty Co. in relation to post-card rates.

PROPOSED INCREASE OF RATE OF POSTAGE ON POSTAL CARDS AND POST CARDS, UNDER SECTION 1200.

The largest percentage of illustrated post cards are retailed at 1 cent each. The new rate proposed by the bill would compel the sender to pay 2 cents for the mail transportation of a 1-cent card.

It may be asserted that there are millions of cards sent throughout the year by many of those who adopt this method of correspondence, because they can do it better than their small or moderate means will permit. Of course, this does not apply to all who use postal cards or post cards, but it does apply to the thousands of people of extremely small means to whom the additional postage would be somewhat of a burden. Irrespective of that consideration, it is urged that the increased rate proposed by the bill would largely reduce the mailing of cards, and the expectation that the framers of the bill had in view in raising a revenue from that source would not be materialized. The expected gain in revenue would be largely offset by the reduced number of cards that would be sent.

It is admitted by the Post Office Department that one of the most profitable parts of the mail business of the country is this very article. So that anything which would curtail the volume of postal cards and post cards through the mail would necessarily cut off a good portion of the profit that the postal business now derives. If we are to regard practical results, we may look at what that practical result was in Canada, where the increase of postage caused a great reduction in the sending of postal cards and post cards, and there many of the dealers in cards had to abandon that business altogether. As we view the Canadian experience and consider what in all likelihood would be the result in this country of increased postage on cards, the conclusions that the makers of these cards have reached is that their business would, to a large extent, be wiped out may be said to be well founded. The economic proposition applies that when the business gets below a certain volume costs necessarily rise, and the continuance of it is hampered, if not in a great measure destroyed. When speaking of the Canadian experience with regard to postage on post cards, we desire to quote the figures given by the Wholesale Post Card Association of Canada, located at Toronto, to one of their correspondents, a large card and art establishment in New York:

"Recapitulation: The replies received from 1,175 retail dealers in picture post cards throughout Canada the following statistics are given:

30 dealers say sales have dropped off 15 per cent.
33 dealers say sales have dropped off 35 per cent.
339 dealers say sales have dropped off 50 per cent.
107 dealers say sales have dropped off 60 per cent.
303 dealers say sales have dropped off 75 per cent.
5 dealers say sales have dropped off 80 per cent.
81 dealers say sales have dropped off 85 per cent.
139 dealers say sales have dropped off 90 per cent.

"Making an average drop in sales of 61¼ per cent."

Referring to the loss of Canadian duty on cards, the figures quoted state:

Average annual importation of post cards	$50,000,000
Average invoice price, $3.50 per M	175,000
Average duty, 25 per cent	43,750
Average drop in sales, 60 per cent	26,250

Extended figures, $26,250 lost in duty.

And so far as the loss in Canada on postal revenue was concerned, these are the figures:

Average cards mailed, 50,000,000, at 1 cent.

Average cards mailed now, 20,000,000, at 2 cents.

If these figures prove anything at all, they would strongly indicate that we in the United States would meet with a loss similar, and, in fact, larger, than that sustained in Canada.

It stands to reason that the average person would be far less inclined, if the postage was doubled, to send the picture card than if he had the opportunity of sending it now at the present rate of 1 cent. Taxation must, in the face of war conditions, be necessarily heavy, and while the average citizen ought to be perfectly willing to pay his share, yet considering the heavy taxation that must necessarily be imposed upon the thousands of articles that enter into the necessaries of life, as well as luxuries, and considering what we may well understand to be the general inclination of the mind of the individual that sends post cards because it is the cheapest way of sending his communication through the mail, and especially in the case where he sends illustrated cards often as a souvenir, the presumption may be well indulged in that there will be far less cards sent at the 2-cent postage rate than at the 1-cent, as at present.

After all, the purpose of the bill is to raise as much revenue as is possible, and that very purpose will be defeated in so far as the postal picture cards are concerned by taking the chances of increasing the rate of postage and meeting the experiences that the Canadians have had.

In submitting this brief I beg to append and invite attention to an article that accompanied the communication to which I have referred, which I have marked as "Appendix A."

The protest which is now entered on behalf of the Illustrated Postcard & Novelty Co., as well as on behalf of concerns similarly situated, is as well a protest on behalf of the community in general. Desirous, doubtless, as the general public may be to aid the Government in raising the moneys necessary to successfully conduct the war, people would feel that it was unnecessarily increasing postage upon that medium of communication which ought to at the cheapest possible rate find transportation through the mail.

In the interest of the trade; in the interest of the masses of the people, who are anxious to preserve this feature of correspondence through means of post cards and picture cards through the mail; in the interest of the Government itself, so that the revenue will not be decreased, at least as we have shown it will be if the postage on the cards be raised, it is submitted that the 1-cent postage should remain as it is.

HENRY M. GOLDFOGLE,
Of Counsel for the Illustrated Postcard & Novelty Co. and Other Concerns Similarly Situated, New York City.

APPENDIX A.—THE EFFECT OF THE WAR TAX ON PICTURE POST CARDS.

Picture post cards were first sold in Canada to any extent in 1904, and from then until 1908 it became a tremendous fad, people paying as high as $1 for a post card. Almost everybody became a collector of picture post cards, and the sale of albums was large. In 1909 the picture post card business as a fad began to die out, but people had acquired the habit of using them for short greetings and casual correspondence, and from then till 1913 the picture post-card trade was a very steady and a very large one, becoming a staple business, and large sums were invested by the publishers and jobbers in Canada, and large revenue to the Government was the result, both for postage and import duties. On postage alone the Government got $10 for every 1,000 post cards mailed. In 1914 there was a decided decrease in the sale of picture post cards, as there was in practically all other commodities, caused first by the depression in the West, followed by the depression throughout the rest of Canada, and still further intensified by the outbreak of the war.

On April 15, 1915, a war tax went into effect on picture post cards, and those interested in the industry hoped that the extra cent would not deter the public from using picture post cards to any extent, but the experience of the past nine months proves conclusively that the extra cent, which is 100 per cent increase, has reduced the sales of picture post cards from 60 to 75 per cent, and we are sending figures with this to verify this statement.

It may be thought that the slump in sales of picture post cards in Canada is due to conditions and the falling off in the habit of using picture post cards on the part of the public, but we know that such is not the case. General trade throughout Canada for the past six or eight months has been good and we are convinced that the public would have used picture post cards in large quantities had the postage remained at the old rate of 1 cent. We have practical confirmation of this from reports we have from Great Britain and the United States. The general trade conditions in these two countries are the same as in Canada, and the only reason for their selling more post cards is the fact that they can in these countries be mailed for 1 cent.

It may be thought by those who use view cards only when on holiday as souvenirs that they are the only class of picture post card sold, but we know that they are approximately only 25 per cent of the whole, the balance being made up of Christmas, New Year, Valentine, birthday, comic, St. Patrick, Easter, Thanksgiving, Hallowe'en, greeting, and studies of art and animal life, and many others of a general nature. In a year like the present patriotic picture post cards should have a tremendous sale, and along with view post cards of Valcartier Camp one firm alone, Valentine & Sons, sold 350,000 post cards, and this year all the other camps did not sell 50,000 cards. This can be verified by the Y. M. C. A.

Furthermore Valentine & Sons have had control of the sales of picture post cards at the Toronto exhibition for the past six years, and sold on an average 100,000 picture post cards per year in the exhibition grounds alone, but in 1915 the falling off in sales was so great that Valentine & Sons would not undertake to pay for the concession, and the firm who did bought all their cards from Valentine & Sons, and their total purchase was not 15,000 cards.

Picture post cards are not used for correspondence that would take the place of a letter, as the space provided for writing is only one-third of the address side of the card, and, further, a very large proportion of the cards are heavily embossed, giving a poor writing surface. They are used for short friendly greetings and messages from friend to friend, and on special occasions, such as Christmas and other holidays, and by those on vacations and tourists. Cards are used very largely throughout the year by people who, for lack of education or lack of time or lack of something to say, would not compose a letter; and every card sent in this way brings a card in reply.

Picture post cards are never used for business purposes, as, in the first place, they cost too much money, being sold at an average of three for 5 cents, and the writing space is far too small in comparison with the Government post cards where you get three times the writing space for a total cost of 2 cents, and, furthermore, it would be considered ridiculous for business houses to use picture post cards for business correspondence. Even the publishers of picture post cards, who get them at first cost, never use them.

The granting of a five-word general greeting on Christmas and New Years post cards should have been beneficial, but it has not proved to have been so. In the first place, such a general greeting is printed on every Christmas and New Years post card; and then arises the question, "What is a general greeting?" Secondly, an allowance of this kind gives rise to much misconception on the part of the public and nearly all the small postmasters, and many cards have been sent to the dead-letter office which should not have been, causing much annoyance to the public, and the time lost in checking up these greetings must have been very great, in the opinion of our association. The allowance of the entire correspondence portion of the address side of the picture post card would cover the ground. We would respectfully suggest that, if the change we earnestly request is made, that the description that would cover the various lines of picture post cards would be as follows: "Picture post cards, season's cards, view post cards, greeting cards, and comic cards." This would cover in a general way all picture post cards.

In addition to the very serious loss of revenue sustained by the Government, there is the additional serious fact that the picture-post-card habit, once lost by the public, will be lost forever, for, as we have pointed out, picture post cards came into being as a fad but remained as a habit, and continued one;

and the picture post card will never come in again as a fad, and consequently will never again become a habit.

There is the additional serious fact that those who are in the picture post card business are being gradually driven from it. The jobbers are devoting their time and capital to other lines, and in time, if the war tax is maintained, will be entirely out of the picture post card business. The publishers who depend entirely on picture post cards are not doing enough business to pay their overhead expenses, and from this condition there can be but one result, either voluntary or forced retirement from business, and the retailers of picture post cards, who approximate 6,000, mostly small dealers, lose a revenue that provided a nice income, which income very often means the difference between profit and loss, or between a fair living and a very poor one.

The new import duty on picture post cards is entirely borne by the publishers and jobbers of post cards, as the retail prices can not be changed without affecting the sale, but no jobber in this association objects to paying this tax during the continuance of the war, but on the contrary is most desirous to have the opportunity of paying more of this tax and oftener in the future than in 1915.

Letter from Edward H. Mitchell, Publisher of Souvenir Post Cards, San Francisco, Cal.

SAN FRANCISCO, CAL., *May 10, 1917.*

We read in to-day's papers the Ways and Means Committee have suggested among other increases in the new revenue bill, raising the rate of postage on souvenir post cards from 1 cent to 2 cents. We desire to respectfully protest against such action, for the following reasons:

1. We believe such increase would result in a decrease of from two-thirds to three-fourths of the number of cards now being mailed, thus actually decreasing the present revenue obtained from this article.

2. Probably 90 per cent of all post cards sold retail at from one-half to 1 cent each. The proposed 2-cent postage rate would amount to from two to four times the cost of the card.

3. The proposed increase on letters from 2 cents to 3 is 50 per cent, while on post cards, which weigh less than half the average letter, the increase is 100 per cent. On the latter (an open message) the rates, by weight, would be higher than on the former (a sealed message). This is obviously unfair and unjust.

4. The post-card business has been passing through a lief-and-death struggle for the past five or six years. It is safe to say that 50 per cent of the publishers and jobbers have failed and another 25 per cent been forced to retire. The remaining 25 per cent are only able to exist because of other lines of merchandise they handle or by falling back on outside resources. They would gladly close up were it not for the large quantities of made-up cards they have on hand. These will be practically worthless if the use of cards is stopped by the increase in the postage rate, as seems probable, judging from reports reaching us from Canada, where similar action was taken by the Government.

5. Our large stocks of made-up cards, amounting to more than 50,000,000 carried by the San Francisco jobbers alone, are all printed in the upper right-hand corner of the address side as follows: "Postage, United States and possessions, 1 cent; Canada, Mexico, foreign, 2 cents." This is required by the regulations of the Post Office Department. The cards were originally printed in large sheets, but are cut into single cards before being stored in stock. To reprint them singly would not only cost more than our present profit, but would practically make them unsaleable, as it would seriously deface them.

6. It is an agreed fact among bankers and commercial-agency houses that the post-card business represents the greatest hazard of any business risk at the present time. If the postage rate is increased, it will receive its death blow.

7. It is practically impossible for any Pacific coast manufacturer or jobber of post cards to attend your hearings on account of the distance and shortness of time, but we have no doubt one from the East will attend, and we suggest you allow him to explain our precarious position to you. His story can only differ from ours in details. We are all in an equally dangerous position.

Memorandum submitted by National Association of Employing Lithographers.

WHO WE ARE.

We are the printers and publishers of picture post cards of all classes and qualities.

THE SECTION INVOLVED.

The proposal is to increase the postage on postal cards and private mailing cards from 1 cent to 2 cents.

THE ARGUMENT AGAINST THE INCREASE.

A. *The provision defeats its own purpose.*—The largest percentage of these cards are sold at retail for 1 cent. The sending of a card is a matter of temporary whim. No one is urged by business necessity to send these cards. They therefore differ from other classes of mail. They will not be sent. The new rate would compel the purchaser of the card to pay double its retail value for transportation. The cards are sold at retail to the dealers at from a quarter of a cent to 1 cent apiece. The proposed increase, therefore, amounts to from 100 to 400 per cent of the gross price paid by the dealer. The Post Office Department admits that one of the most profitable features of the carrying of mails is the post card. Anything which curtails the carriage of the card, therefore, reduces the profit of the Post Office Department. The number of cards to be sent under the new rate will be tremendously diminished. This will result in the Government realizing no greater profit or revenue, and the attendant injury to the post-card trade will be without any compensatory benefit to the public at large or to the Government. This result has been experienced in Canada, where similar action was taken. As a result many abandoned the business. The reduction in the volume of the business results in rising costs and the disappearance of profit.

We are advised that similar arguments resulted in England rejecting a similar proposal in relation to war taxes.

B. *The section is unjust.*—Large future stocks have to be manufactured at one time in order to reduce the cost to a profit-making basis. Hundreds of millions of these cards have been printed and are now in stock, and are in the hands of the manufacturers, jobbers, and dealers, all bearing the imprint of the present rates of postage. The section under consideration make all these cards "impaired stock." The increase of 1 cent per card does not sound important, but considered as an increase of 100 per cent of the retail value of the majority of the cards, and as an increase of from 100 to 400 per cent of the price which the dealer pays for the card, the relative importance of the increase is appreciated. The injustice has been manifested in Canada, where the result of a similar increase has been baneful and destructive. The contemplated injustice was appreciated when England proposed to do a similar thing and declined.

Respectfully submitted.

National Association of Employing Lithographers,
1232 Granite Building, Rochester, N. Y.

The Chairman. The committee will now take up second-class mail matter. We will hear Mr. Seitz first.

Sec. 1201. SECOND-CLASS MAIL MATTER.

STATEMENT OF MR. DON C. SEITZ, OF THE NEW YORK WORLD, NEW YORK CITY.

Mr. Seitz. Mr. Chairman, I am a little bit in the position of the colored gentleman who was going to be hanged and who was advised to remonstrate with the governor, and he wrote him a letter something like this: "Dear Boss: I understand I am to be hung Friday, and here it am Wednesday."

We have had very short preparation, and the thing came upon us unexpectedly and unawares, but I have compressed most of my things in a little brief, and I will emphasize my point by reading from it and commenting as I go along.

Point No. 1: It is not a war tax, but an effort to further repress and embarrass the newspaper industry. A war tax should be something temporary and easily repealed when the emergency is past. This is the arbitrary enforcement of a new plan for raising postal revenue by increasing the rates on second-class matter. It is not a tax, but a charge for service.

Point No. 2: A rate proposed is an increase of from 100 to 600 per cent—an increase beyond precedent—even in the price of chemicals or platinum produced by "war conditions." It is out of all proportion to the value of the service performed. The normal price of news-print paper is about $40 a ton. This is the sum to be charged for moving a ton of printed sheets to any part of the first zone—whether the distance be 1 mile or 300. Railroads carry print paper as freight 350 miles for $2.94 a ton, and still pay dividends. For the outer zone the postal charge is $120 a ton, or three times the normal cost of the news print.

Point No. 3: The charge is out of all proportion to the value of the article carried. Many newspapers sell for 1 cent per copy, others 2 cents, and a very few 3 cents. They are wrapped, routed, bagged, and delivered to the mail car by the newspapers. The sole duty of the Post Office Department is to deliver the paper to the subscriber or dealer. Most of the dealers' bundles are "outside mail." They are thrown out of the car, and the dealer goes to the platform and picks them up and sends them to his customers.

Point No. 4: Newspapers afford dealers a profit of from 40 cents to $1 per 100 copies for delivering their publications to subscribers or buyers. It would be possible to transfer this profit to the Government if the Government performed equal service, which it does not. A newspaper is a perishable article; it should have quick delivery. The post office is from one hour and a half to all day, and sometimes the day after, behind the express company. It seems to enjoy carrying mail by, forgetting to drop the bag at a nonstop station, etc., habits that annoy the subscriber and cause serious loss to the newspaper. It is the studied policy of the Post Office Department and its employees to illtreat newspaper mail.

Point No. 5: In the midst of all the money raising and adjurations for economy sent out by the Government we hear nothing at all about retrenchment on its own part. Why does it not come forward with some provision to do something itself to lift the burden on the people instead of adding to it? The rural free delivery is wholly unremunerative but widely beneficial. Its chief value is to get newspapers to the farmer, that he may know the markets and keep up with the news of the world. The farmer will not be able to take publications at the price papers will have to charge for subscriptions if the rate passes. The daily load of the rural carrier will be reduced from an average of 25 pounds to parcels and a few handfuls of letters. This does not hurt his back very much.

Revenue will be lost, and the rural-delivery man will be a much less valued personage and proportionately more of a loss than he is

now. His bill is about $50,000,000 a year, or as much as you pay the railroads for their services in carrying all the mail of all classes. And yet it is deliberately proposed to cut his load down to nothing and keep on paying him and having him walk over the roads, empty handed. I would abolish him. That is $50,000,000, if you want it. What sense is there in maintaining a benefaction and then depriving it of its chief function?

Point No. 6. The newspaper business is to-day the most heavily loaded in the country. It pays the highest wages, enjoys no form of protection, sells its product at the lowest cost our coinage will permit, and always at a fixed price. It can not well pass its load along or change from day to day as the merchant meets price raises. It must appear at an arbitrary hour at all hazards. It is paying nearly twice as much as formerly for white paper, in some instances three times as much. To this you propose to add a 10 per cent duty and a cold-blooded proposition to close the mails. Many of the country papers are paying three times as much as they formerly paid for white paper, and to this we are now having added 10 per cent of duty, and to that you add the cold-blooded proposition to cut us out of the mails.

Point No. 7. We are unable to fathom the desire to suppress an industry that performs its part in the community at such low cost to the people and the smallest profit to itself. We do not object to a zone system, where the rates are laid with some regard to the value of the service performed and the cost of the article transported. In making such a schedule we will be glad to aid. But if we are to be taxed, let it be a levy upon income and profits, not a double tax, unfair, oppressive, and irremovable as is now proposed. What you are planning will destroy business and decrease, not amplify, revenue, wiping out the ability to pay such other taxes as the necessity of war may levy upon those who derive their livelihood and gains from the press. The postal service is either a privilege or a business. If a privilege it should treat all interests alike. If a business it should be run on a business basis, giving value received. To use it as a taxing power is entirely foreign to the purpose of placing it in Government hands. It was designed to serve, not to oppress, its users.

Point No. 8. I note with interest Chairman Kitchin's remark that it costs the department 9 cents a pound to carry second-class matter. This is an overwhelming indictment of incapacity and extravagance. Large quantities of second-class matter are carried by express companies and railroads, who do the routing and sorting as well. For your information I present this table of the rates for zones radiating out of New York, with the name of the carrier:

The Baltimore & Ohio Railroad Co. carries our papers from New York to Parkersburg, W. Va., 425 miles, for one-half cent a pound.

The Central Railroad of New Jersey carries them from Jersey City to Scranton, a distance of 192 miles, for one-half cent a pound.

The Pennsylvania Railroad brings our papers to Washington for a quarter of a cent a pound. We run a special train to Boston, for instance, a fast train, 225 miles, with every facility of train service afforded, and they sort it and deliver it to our people at the end of the route for a half a cent a pound.

Now, some concrete examples as to the cost feature. I begin with the New York Times. The New York Times has a wider country circulation than any other New York paper. I am allowed to use their confidential figures. The increase in the cost of paper which went into effect on the 1st day of January of this year—their contract ran to the 1st of April, but the contractor told them if they did not begin to pay the higher price on the 1st of January he would refuse to furnish them any more paper on the 1st of April—that totals up $800,000 a year. Their paper comes from Canada. The tariff of 10 per cent will add $221,000 to their total bill, making a million dollars besides the tax on the New York Times on account of the increase in the cost of print paper.

The New York Times has a mail circulation of 59,000 daily and 62,000 Sunday copies—not an enormous amount—on which the total increase in postage will be $252,878. Practically, that makes a thirteen-hundred-thousand-dollar tax that the newspaper is compelled to meet this year, of which, yearly, five hundred thousand is laid on by the Government in a form of tariff taxes and the proposed postal tax.

I am somewhat familiar with their earnings, and the highest dividend they ever paid was $200,000—last year. By raising the price in the near-by zones, by cutting down their size, by going to great limits in the way of economy they had hoped to get through this year with a trifling loss, but this is simply ruin. Here is a letter from the Daily Oklahoman, printed in Oklahoma, pointing out their troubles. They say the recommendation of the Ways and Means Committee would mean ruin to them.

The CHAIRMAN. The letter will be printed.

(The letter referred to by Mr. Seitz is here printed in full, as follows:)

THE DAILY OKLAHOMAN,
Oklahoma City, Okla., May 9, 1917.

L. B. PALMER,
Manager American Newspaper Publishers' Association,
World Building, New York City, N. Y.

DEAR MR. PALMER: The recommendation of the Ways and Means Committee has come like a bomb into the plant of every publisher. Last year our papers paid over $43,000 in second-class postage at 1 cent per pound. Under the new scale we would have to pay $85,000 additional per year for the same number of pounds as we had last year. The 5 per cent gross tax on advertising would add another $30,000. For a year or more we have been at death's grip because of the enormous increase in the cost of white paper, but the proposed tax on second-class postage and on advertising would amount to an additional burden fully as great as the increased cost of paper.

We have already strained every nerve and turned every possible trick by increasing the advertising and subscription rates, and effecting every known economy to meet the $100,000 increase in the cost of our paper. Now we have another increase of more than that amount to meet, and no resources left to call upon.

The proposed tax will add $2 per year for each subscription by mail on the Oklahoman. This would absolutely eliminate subscriptions on rural routes, as not one farmer in ten would pay an extra $2 to get his paper.

The circulation of our daily papers would have to be confined to towns where we could establish news dealers or special agents and make deliveries through them, sending all papers to them by express or interurban cars. With the exception of copies to advertisers and exchanges, we would have to eliminate all subscriptions by mail, except to the very small percentage of people who would be willing and able to pay the extra postage.

103242—17——27

Serious as the situation is for newspapers, it is not nearly so bad as it is for farm papers. The tax on our farm paper would cost us more than $25,000 per year. There is no way of delivering farm papers except direct to the subscriber through the mail. There is no agency or news-stand circulation.

Most of our subscriptions are paid up for two or three years in advance, and we have no way of increasing our subscription rate to meet this tax.

Again, the farmer must suffer and give up his farm paper, for it would be cheaper for us to suspend publication than to attempt to meet the burden. But serious as is the tax and the increased postage rate, to my mind it is not so serious as other conditions now confronting us.

The Government has confiscated all steel, iron, and hardwood and has cut off the supply from many manufacturers who are now advertising their products both in the daily papers and in farm papers. Very few pleasure automobiles will now be constructed. Automobile advertising will be discontinued, and necessarily tire advertising will largely cease. Automobile accessories will no longer be advertised; in fact, there are few manufacturers who do not depend directly or indirectly on supplies of steel, iron, and hardwood for the conduct of their manufacturing business. It looks to me inevitable that all publications will lose 25 per cent or more of their gross volume of advertising. This loss of volume will inevitably bring about a wiping out of profit and a creating of a deficit in most publishing houses. This will happen without an additional war tax or a postage increase.

We have presented all these matters to our Congressmen and Senators, and no doubt your association is doing all in its power to present these facts to every Member of Congress.

The papers of this country have been giving the Government millions of dollars worth of space to help build up an Army and Navy and create a public sentiment which will stand back of the Government, but the Ways and Means Committee seem determined to kill the goose that lays the golden egg. Never before have farm papers and newspapers been so valuable to the Government, and never were they so needed to arouse the public to food production and economy, and yet, inevitably, half the farm papers will have to go out of business if this tax bill is passed, and a certain percentage of newspapers will disappear likewise.

If at any time you have any suggestions of things that we can do to help the situation please advise us by wire.

Very truly, yours,

E. K. GAYLORD, *General Manager.*

The CHAIRMAN. I would suggest that your time is about out.

Mr. SEITZ. I have only consumed about eight minutes.

The CHAIRMAN. I say, that as your time was about out, if you have a statement we could publish in the record, you might do that instead of reading it.

Mr. SEITZ. I would be very glad to have it go into the record and hope that it may be printed in full.

The CHAIRMAN. That will be done.

(The statement referred to by Mr. Seitz is here printed in full, as follows:)

THE POSTAL SECTION IN THE WAR-REVENUE BILL.

Argument against it before the Finance Committee of the United States Senate Monday afternoon, May 14, on behalf of the American Newspaper Publishers' Association, by Don C. Seitz, chairman of the second-class postage committee of the organization:

The objections to the proposed measure raised by the American Newspaper Publishers' Association are briefly these:

1. It is not a war tax, but an effort to further repress and embarrass the newspaper industry. A war tax should be something temporary and easily repealed when the emeregncy is past. This is the arbitrary enforcement of a new plan for raising postal revenue by increasing the rates on second-class matter. It is not a tax, but a charge for service.

2. The rate proposed is an increase of from 100 to 600 per cent—an increase beyond precedent even in the price of chemicals or platinum produced by "war" conditions. It is out of all proportion to the value of the service performed. The normal price of news-print paper is about $40 a ton. This is the sum to be charged for moving a ton of printed sheets to any part of the first zone—whether the distance be 1 mile or 300. Railroads carry print paper as freight 350 miles for $2.04 a ton. For the outer zone the postal charge is $120 a ton, or three times the normal cost of the news print.

3. The charge is out of all proportion to the value of the article carried. Many newspapers sell for 1 cent per copy, others 2 cents, and a very few 3 cents. They are wrapped, routed, bagged, and delivered to the mail car by the newspapers. The sole duty of the Post Office Department is to deliver the paper to the subscriber or dealer. Most of the dealers' bundles are "outside mail." The dealers go to the station for them.

4. Newspapers afford dealers a profit of from 40 cents to $1 per 100 copies for delivering their publications to subscribers or buyers. It would be possible to transfer this profit to the Government if the Government performed equal service which it does not. A newspaper is a perishable article; it should have quick delivery. The post office is from one hour and a half to all day, and sometimes the day after, behind the express company. It seems to enjoy carrying mail by forgetting to drop the bag at nonstop stations, etc., habits that annoy the subscriber and cause serious loss to the newspaper. It is the studied policy of the Post Office Department and its employees to illtreat newspaper mail.

5. In the midst of all the money raising and the adjurations for economy sent out by the Government we hear nothing at all about retrenchment on its own part. Why does it not come forward with some provision to do something itself to lift the burden on the people instead of adding to it? The rural free delivery is wholly unremunerative but widely beneficial. Its chief value is to get newspapers to the farmer, that he may know the markets and keep up with the news of the world. The farmer will not be able to take publications at the price papers will have to charge for subscriptions if the rate passes. The daily load of the rural carrier will be reduced from an average of 25 pounds to parcels and a few handfuls of letters. Revenue will be lost, and the rural delivery man will be a much less valued personage and proportionately more of a loss than he is now. His bill is about $50,000,000 a year, or as much as you pay the railroads for their services in carrying all the mail of all classes. What sense in there in maintaining a benefaction and then depriving it of its chief function?

6. The newspaper business is to-day the most heavily loaded in the country. It pays the highest wages, enjoys no form of protection, sells its product at the lowest cost our coinage will permit, and always at a fixed price. It can not well pass its load along or change from day to day as the merchant meets price raises. It must appear at an arbitrary hour at all hazards. It is paying nearly twice as much as formerly for white paper, in some instances three times as much. To this you propose to add a 10 per cent duty and a cold-blooded proposition to close the mails.

7. We are unable to fathom the desire to suppress an industry that performs its part in the community at such low cost to the people and the smallest profit to itself. We do not object to a zone system where the rates are laid with some regard to the value of the service performed and the cost of the article transported. In making such a schedule we will be glad to aid. But if we are to be taxed, let it be a levy upon income and profits, not a double tax, unfair, oppressive, and irremovable as is now proposed. What you are planning will destroy business and decrease, not amplify, revenue, wiping out the ability to pay such other taxes as the necessity of war may levy upon those who derive their livelihood and gains from the press. The Postal Service is either a privilege or a business. If a privilege it should treat all interests alike. If a business it should be run on a business basis, giving value received. To use it as a taxing power is entirely foreign to the purpose of placing it in Government hands. It was designed to serve, not to oppress, its users.

8. I note with interest Chairman Kitchin's remark that it costs the department 9 cents a pound to carry second-class matter. This is an overwhelming indictment of incapacity and extravagance. Large quantities of second-class matter are carried by express companies and railroads, who do the routing and

sorting as well. For your information I present this table of the rates to zones radiating out of New York, with the name of the carrier:

Railroads.	Mileage	Pound rates.
		Cents.
B. & O. R. R., Baltimore, Md., to Parkersburg, W. Va	428	[illegible]
C. R. R. of N. J., Jersey City to Point Pleasant	60	[illegible]
C. R. R. of N. J., Jersey City to Scranton	192	[illegible]
D., L. & W. R. R., New York to Buffalo	395	[illegible]
Erie R. R., New York to Buffalo and Cleveland, Ohio	639	[illegible]
Lehigh Valley R. R., New York to Buffalo	447	[illegible]
L. I. R. R., New York to Montauk Point	100	[illegible]
N. J. & N. Y. R. R., Jersey City to Haverstraw, N. Y	42	[illegible]
N. Y. C. Lines, New York to Buffalo	438	[illegible]
N. Y. C. Lines, New York to Chatham, N. Y	127	[illegible]
N. Y. C., Lines, New York to Brewster, N. Y	54	[illegible]
N. Y., N. H. & H. R. R., New York to Boston, Mass	225	[illegible]
N. Y., O. & W. R. R., Cornwall, N. Y., to Oswego, N. Y	327	[illegible]
N. Y., S. & W. R. R., Jersey City to Stroudsburg, Pa	102	[illegible]
Penn. Lines, New York to Washington, D. C	225	[illegible]
Penn. Lines, New York to Pittsburgh, Pa	438	[illegible]
West Shore R. R., Jersey City to Buffalo, N. Y	425	[illegible]
B. & M. R. R., Boston, Mass., to Portland, Me	108	[illegible]
Fitchburg R. R., Troy, N. Y., to Boston, Mass	190	[illegible]
P. & R. R. R., Philadelphia, Pa., to Williamsport	200	[illegible]

The New York papers employ a special train on the New Haven to Boston for the carriage of Sunday issues. For fast, efficient service this road charges but one-half cent a pound for a distance of 225 miles, including the sorting and unloading.

For a concrete example as to the fiscal effect of the proposed rate on a single newspaper, we present you this table made up on the basis of the mail circulation of the New York Times:

	Copies.	Present rate.	Proposed rate.	Increase per day.	Increase per year.
Daily	59,833	$202.51	$540.17	$337.66	$121,947.58
Sunday	62,869	943.04	3,460.95	2,517.91	130,931.32

	Total increase.	
	Per issue.	Per year.
Daily	$337.66	$121,947.58
Sunday	2,517.91	130,931.32
Total		252,878.90

Daily figured on 22-page average.
Sunday figured on 1½ pounds average.

If this is not confiscation, what is it?

9. The newspapers are ready to meet a real, honest war tax, even to the point of presenting the Government with all profits, provided other lines of business are asked to do the same; but if it is the purpose of the Government to establish a noncompetitive, do-as-we-please, charge-as-we-please post-office monopoly it is difficult to see why the Sherman law should be allowed to stand or why we should speak disparagingly of Prussianism.

SECOND-CLASS POSTAGE COMMITTEE
AMERICAN NEWSPAPER PUBLISHERS' ASSOCIATION.
DON C. SEITZ, *Chairman, New York World.*
HERBERT F. GUNNISON, *Brooklyn, N. Y., Daily Eagle.*
HARRY CHANDLER, *Los Angeles Times.*
ROBERT EWING, *New Orleans Daily States.*
C. P. J. MOONEY, *Memphis Commercial Appeal.*
JAMES R. GRAY, *Atlanta Journal.*
FREDERICK I. THOMPSON, *Mobile Register.*

Mr. SEITZ. I wish to lay special stress upon the percentages against the profits of the newspapers. I want to lay stress on the fact that you wipe them out. Take the St. Louis district, and in the office of the Post-Dispatch the increase in their second-class postage would be $80,217.49; import duties, $102,000; freight-bill taxes, $2,356. On the Globe-Democrat, if this tax is laid on the Globe-Democrat, with its wide range through the South and Southwest, their increase in operating charges would be, for second-class postage, $200,000; import duties, $74,100; and for freight tax, $807, making a total of $274,907 against that single establishment. Maybe they have made that, but I doubt it.

The St. Louis Republic would have to pay as increased operating charges on second-class postage $175,637; import duties, $39,600; freight bills, $1,098, or a total for the whole three papers of $699,808 for a single community.

Senator STONE. Is that the increase under this bill?

Mr. SEITZ. Yes, sir, Senator Stone, that is the increase under this bill.

The CHAIRMAN. Print your statement in the record.

(The statement referred to by Mr. Seitz is here printed in full, as follows:)

THREE ST. LOUIS NEWSPAPERS.

Three provisions of the Ways and Means Committee's proposed war revenue bill, if passed and applied to the three principal St. Louis newspapers, would increase their operating charges as follows:

	Post-Dispatch.	Globe-Democrat.	Republic.
Second-class postage	$86,217.49	[1] $200,000.00	$175,637.85
Import duties	120,000.00	74,100.00	39,600.00
Freight bills	2,356.00	807.12	1,098.84
Total	208,573.49	274,907.12	216,327.69
Total increase for the three newspapers			699,808.30

[1] Estimated.

This sum in itself would wipe out all net revenues in normal times. Of graver consequence, however, is the fact that the increased postal tax would by its prohibitive character destroy a great volume of circulation in all zones above the first (daily, weekly, and Sunday), which has been built up by many years of labor and by the expenditure of hundreds of thousands of dollars. It would be an added burden to the unbearable load imposed on them by the paper manufacturers within the last few months, which in the case of the Post-Dispatch amounts to $510,000 per annum increase over 1916; in the case of the Globe-Democrat, $296,400; in the case of the Republic, $201,680.

The four items of increased cost enumerated here, not counting the innumerable smaller items of increase which have lately had to be met, total more than $1,707,000. The three papers could not pay the bills or survive.

Mr. SEITZ. Take the Clover Leaf publications that emanate from St. Paul and Minneapolis and in the region about, supplying the farmers with an amazing amount of information in the way of market quotations and market news. Their profits, under the group of newspapers under average conditions, was $204,000, and yet the postal increase alone is $284,000, and, in addition to that, they have had to face an increase in the price of white paper of $147,000, which they are now carrying.

RECAPITULATION.

	Increase second-class postage.	Increase paper.	Total increase.	Government profit returns.
St. Paul Daily News	$53,362.56	$46,640.28	$100,002.84	$34,661.06
St. Paul Rural Weekly	51,911.40	9,782.90	61,694.30	28,118.31
American Home Weekly	28,285.56	8,103.99	36,389.55	[1] 11,584.51
Minneapolis Daily News	45,992.34	37,595.30	83,587.64	66,106.74
Woman's Home Weekly	28,988.13	6,285.52	35,273.65	12,386.31
Omaha Daily News	55,813.22	35,233.88	91,047.10	69,284.92
Omaha Rural Weekly	19,855.95	4,076.58	23,932.53	[1] 11,264.36
	284,209.16	147,718.45	431,927.61	[2] 204,708.70

[1] Loss. [2] Net profit.

GROSS INCOME.

[Per Government figures.]

St. Paul Daily News	$553,379.74
St. Paul Rural Weekly	183,874.09
American Home Weekly	124,406.00
Minneapolis Daily News	494,379.02
Woman's Home Weekly	109,559.53
Omaha Daily News	576,833.20
Omaha Rural Weekly	66,530.46
	2,110,962.04

SECOND CLASS MAIL MATTER.

	Present cost at 1 cent per pound.	Proposed new rate.	Increase.	Per cent of increase.
St. Paul Daily News	$34,670.40	$88,032.96	$53,362.56	153
St. Paul Rural Weekly	18,539.76	70,451.16	51,911.40	280
American Home Weekly	10,380.00	38,665.56	28,285.56	272
Minneapolis Daily News	30,014.60	76,006.94	45,992.34	[1] 153
Woman's Home Weekly	10,657.40	39,645.53	28,988.13	[1] 272
Omaha Daily News	36,479.23	92,292.45	55,813.22	[1] 153
Omaha Rural Weekly	7,299.98	27,155.93	19,855.95	[1] 272
Total	148,041.37	432,250.53	284,209.16	....

[1] Estimated.

OTHER INCREASES.

Paper, from $1.77½ to $2.20 to $4.50.
Ink (black), from 3½ cents to 4½ cents per pound.
Ink (colored), from 22 cents to 35 cents per pound.
Wrapping paper, from $4.25 to $7.90.
Twine, from 6 cents to 14 cents.
Paste (account, flour), from $1.90 a barrel to $3.
Matrix paper, from $7 to $9.36.
Red matrix, from $1.60 to $2.06.
Tissue, from $1.75 to $3.10.
Dry mats, 11 per cent.
Roller composition, from 18 cents to 30 cents.
Metal, from 8 cents to 14 cents.
Rags, from 3½ cents to 5 cents.
Coal, 50 per cent.
Felt blankets, 30 per cent.
Rubber blankets, 25 per cent.
Oil, lubricating, 17 cents to 22 cents.
Labor, material increases.

Take the Minneapolis Journal. They have a similar experience. They have got to pay an increase of $112,000 in postage alone under this bill. Their white paper will cost them $21,500 more than it did in previous years.

The point that we want to make in winding up is this: We are not here to ask any special favors or any special privileges at all. We are here to ask you to put us in exactly the same level you would any other business and not single us out. If the Post Office requires some assistance and readjustments in handling its affairs, we will be glad to combine with them and aid them and get rid of inequities and different things that do not pay either of us; but when you ask something for revenue for it when it is vitally necessary to stimulate all forms of industry, we can not. We want you to allow us to keep our cow, and you can have all the milk you require, but if you kill our cow there will be no milk. In other words, we will be in position to raise money for you by the continuance of our industry.

We had a meeting last night of all branches of the industry, and we said if the Government requires every cent of our profits they can take them up to that point, and we will cheerfully give it. [Applause.] The Bible says that if a man gives his own life, he has given all he had. We do not think we should be singled out. We do not think we should be singled out by this method to remedy a defect in the Post Office Department's plans and methods of doing business, under the guise of a tax. We say: "Let us have this machinery which we have had so many years and the profits of which we have given to the reader."

Gentlemen, there is a slump in business coming in this country if you go on on this line that will tyrannize us. Up to two weeks ago our advertising in New York was increasing from $10,000 to $15,000 a week. One week later it had dropped to $5,000 a week, and last week it dropped to no increase at all, and we print more than a million help wanted advertisements in a year, an unfailing barometer. They began to drop two weeks ago. They are now dropping at the rate of 1,000 a day. We want to follow the wise plan of the Canadian Government, which has kept all privileges, raised nobody's relations to the Government, the post office unchanged, and stopped no industry which would allow the industry to become a source of collecting revenue for the country, and we ask to be allowed to be an industry collecting revenue for the country to save our business Where people are extra tax collectors, extra people to go around and do this and that and the other thing. We say this thing is destructive. If we are going to say that the post office shall be a noncompetitive, do-as-we-please, charge-as-we-please monopoly, it is difficult to see why the Sherman law should be allowed to stand or why we should speak disparagingly of Prussianism.

The CHAIRMAN. The committee will now hear Mr. Dunn.

STATEMENT OF MR. ARTHUR W. DUNN, REPRESENTING THE AMERICAN PRESS ASSOCIATION.

Mr. DUNN. I represent the American Press Association, and through that association 5,000 country weeklies and small dailies. I want merely to add to what has already been said—that while this is vital to the big papers, on the small papers it is going to be very much harder, because they have less resources. I represent the same list of papers which I did before the Federal Trade Commission on the paper situation, and I had the correspondence of hun-

dreds and hundreds of these papers from all over the country showing the very great increase in the price of paper. Now, if this present zone rate goes into effect, it will double their postal rates. It will drive a lot of them out of business. They can not stand the increase of paper besides the increased rate of tax, and I just merely wanted to put the country papers on record as very much opposed to this increase.

The CHAIRMAN. Now, Mr. Meredith, we will hear you.

STATEMENT OF MR. E. T. MEREDITH, REPRESENTING THE AGRICULTURAL PRESS, DES MOINES, IOWA.

Mr. MEREDITH. While I appear before you as a representative of the agricultural press, I wish to say to you that we of the agricultural press are viewing this matter of increased second-class rates from the standpoint of the country first and the whole publishing business second, and not alone from the standpoint of the agricultural press.

There is no hesitancy on the part of publishers to pay war taxes, and we wish to pay war taxes. We will give the Government all the money that it is in our power to give, up to our last dollar, but we do protest against our business being ruined. We are willing and anxious to pay such portion of our profits as the needs of the Government may demand, even up to 50, 75, or 100 per cent, but we do not want a tax levied that would be an unbearable burden to thousands of the publications of the country, even to the stronger ones.

We feel that at this critical time the Government needs the circulation of every printed page possible. The agricultural press must carry the message of increased production, the daily press must urge conservation of foods and popularize the liberty loan. The magazine press and the fiction press—the so-called mail-order press—has a wonderful service to perform of carrying to the housewife and directly into the kitchen the message of the food conservation, preservation of waste in foods. The trade press must carry the message of the manufacturer to the retailer, the message of better methods that business may go on as usual, that there will be profits and incomes from which you expect to raise the major portion of your revenues.

Excepting the railroads alone, there is no instrumentality so important in this crisis as the publications of the country. Surely this will be appreciated as a fact; and yet the measure that is before you, if incorporated into law, will absolutely ruin thousands of publications. I know you have heard similar statements from every other industry that has appeared before you, but, gentlemen, attached is a statement of the situation of the farm press that must show you the seriousness of the situation.

A letter was sent to 118 farm papers asking them to send a sworn statement of their profits for 1916 to Price, Waterhouse & Co., of Chicago, also to make affidavit as to the amount of second-class postage they paid and the cost of paper at the present time over the cost of paper during 1917.

I am handing you the composite statement of these 55 publications, which you will note is the original copy direct from Price, Water-

house & Co., certified accountants. The publications have a combined circulation of over ten millions copies, representing over three-fourths of the agricultural circulation of the country. They include the strongest and most profitable farm papers in the country. I attach a list of the 55 publications. They have plants, buildings, and invested capital to a total of over twelve millions of dollars.

The CHAIRMAN. It will be printed in the record.

(The composite statement referred to by Mr. Meredith is here printed in full, as follows:)

PRICE, WATERHOUSE & CO.,
Chicago, May 11, 1917.

ARTHUR SIMONSON, Esq.,
Chairman of Special Committee,
Agricultural Publishers Association,
76 West Monroe Street, Chicago.

DEAR SIR: Under arrangements made with the farm papers, assembled at the Hotel Sherman on May 3, 1917, requests for information, as indicated in the annexed form of letter addressed to us marked "Exhibit A," were mailed to publishers of 118 farm papers. Up to the present time we have received sworn replies from publishers of 55 papers, as per list attached, marked "Exhibit B," and we certify that the following is a correct summary of the information contained therein:

Net profit from the 55 publications during the year 1916	$581, 875. 20
Total amount of postage paid in 1916, at 1 cent per pound rate	$569, 277. 01
Total amount of paper used in 1916, 63,548,645 pounds, or	[1] 635, 486
Average increase in cost of paper, i. e., excess of present prices over the prices paid during 1916, average increase of	[2] $1. 742

In a number of the replies received the publishers advise:

(*a*) That in addition to the postage paid at the 1 cent per pound rate, they incur a large expense on postage at the first-class rate.

(*b*) That the increased prices now paid for paper are for grades inferior to those used in the year 1916.

Yours, truly,

PRICE, WATERHOUSE & CO.

EXHIBIT A.

Messrs. PRICE, WATERHOUSE & CO.,
134 South La Salle Street, Chicago, Ill.

DEAR SIR: In accordance with arrangements made with you by the farm papers assembled at the Hotel Sherman May 3, 1917, we (or I) beg to submit the following facts regarding our farm publication or publications:

Present total circulation:

Name of paper, ————. Copies, ———.

Total amount of postage paid in 1916 at 1-cent per-pound rate	$———
Total amount of paper used on above publications in 1916, pounds	———
Increase in cost of paper, i. e., excess of present prices over the average price paid during 1916, per hundredweight	———
Net profit or loss from above-mentioned publication or publications during year 1916:	
Profit	———
Loss	———

We (or I) certify the above information to be true and correct to the best of our (or my) knowledge and belief, and an affidavit to this effect is appended at the foot hereof.

The above information is submitted to you with the understanding that—

(1) It is to be treated as strictly private and confidential by you and is not to be disclosed to anyone except in total form with the figures of other publications as provided below.

---

[1] Hundredweight.
[2] Per hundredweight.

(2) You are to collate the information of the above nature received from all publications who respond and to arrive at a total for all publications from which you can compute the effect of the proposed increase in postage rates on the aggregate profits of all the publications.

(3) The total figures so arrived at by you are to be submitted by you to Arthur Simonson, chairman of the special committee appointed by the farm papers assembled, but figures of individual publications are under no circumstances to be disclosed.

Yours, very truly,

(Name of company) ——— ———

(Official signing) ——— ———

Subscribed and sworn to before me ——— ———.

EXHIBIT B.

LIST OF AGRICULTURAL PUBLICATIONS WHO HAVE RESPONDED TO REQUESTS FOR INFORMATION AND WHOSE FIGURES ARE INCLUDED IN THE TOTAL FIGURES EMBODIED IN THE ACCOMPANYING CERTIFICATE OF PRICE, WATERHOUSE & CO., DATED MAY 11, 1917.

American Agriculturist, New York, N. Y.
American Farming, Chicago, Ill.
Better Farming, Chicago, Ill.
Country Gentleman, Philadelphia, Pa.
Dakota Farmer, Aberdeen, S. Dak.
Family Magazine, Springfield, Ohio.
The Farmer, St. Paul, Minn.
Farmer and Breeder, Sioux City, Iowa.
Farm and Fireside, Springfield, Ohio.
Farm Engineering, Chicago, Ill.
Farmers' Guide, Huntington, Ind.
Farm and Home, Springfield, Mass.
Farm Journal, Philadelphia, Pa.
Farm Life, Spencer, Ind.
Farmers' Mail and Breeze, Topeka, Kans.
Farm News, Springfield, Ohio.
Farm Progress, St. Louis, Mo.
Farmers' Review, Chicago, Ill.
Farmer and Stockman, Kansas City, Mo.
Farm, Stock, and Home, Minneapolis, Minn.
Farmer's Wife, St. Paul, Minn.
Gleanings in Bee Culture, Medina, Ohio.
Green's Fruit Grower, Rochester, N. Y.
Inland Farmer, Louisville, Ky.
Iowa Homestead, Des Moines, Iowa.
Journal of Agriculture and Star Farmer, St. Louis, Mo.
Kansas Farmer, Topeka, Kans.
Kimball's Dairy Farmer, Waterloo, Iowa.
Maine Farmer, Augusta, Me.
Missouri Ruralist, St. Louis, Mo.
Missouri Valley Farmer, Topeka, Kans.
National Farmer and Stock Grower, St. Louis, Mo.
National Stockman and Farmer, Pittsburgh, Pa.
Nebraska Farmer, Lincoln, Nebr.
Nebraska Farm Journal, Omaha, Nebr.
New England Homestead, Springfield, Mass.
Northwest Farmstead, Minneapolis, Minn.
Oklahoma Farmer, Oklahoma City, Okla.
Orange Judd Farmer, Chicago, Ill.
Pennsylvania Farmer, Philadelphia, Pa.
Power Farming, St. Joseph, Mich.
Practical Farming, Philadelphia, Pa.
Prairie Farmer, Chicago, Ill.
Progressive Farmer, Birmingham, Ala.

Southern Agriculturist, Nashville, Tenn.
Southern Farming, Atlanta, Ga.
Southern Planter, Richmond, Va.
Successful Farming, Des Moines, Iowa.
Southland Farmer, Houston, Tex.
Twentieth Century Farmer, Omaha, Nebr.
Up-to-Date Farming, Indianapolis, Ind.
Wisconsin Agriculturist, Racine, Wis.
Wisconsin Farmer, Madison, Wis.
Brownell's Dairy Farmer, Detroit, Mich.
American Breeder, Kansas City, Mo.

Total circulation, 10,800,000.

Mr. MEREDITH. You will note their combined profits for 1916 were $581,875. Second-class postage paid in 1916 was $569,000, so that an advance of 1 per cent only in second-class rates would wipe out all but $12,000 of their profits on the basis of 1916 earnings. This, you understand, is the amount left to the whole 55 publications. It, of course, means ruin to the weaker ones. You will note further, however, they used in 1916 63,000,000 pounds of paper, which is costing to-day an average of $1.74 per hundred in excess of 1916, or a total increased cost of $1,000,000 for paper stock. You will note that this statement is made on the oaths of 55 publishers. This is so great a load that papers are already finding the stipulation more than they can meet and are going out of business. Many more must necessarily discontinue during the year even without increased postage, but with an increase of postage of even 1 cent it simply means ruination to 60 per cent of the publications. A few of the stronger publications can survive, and possibly by the elimination of competition profit thereby in the years to come, but the country can not afford to have this situation brought about.

The publishers of to-day are the right arm of the Government and must continue to perform their function. The 55 publications represented in this composite statement, on a conservative basis pay over one-half of the postage paid by farm papers. Estimating the total paid by farm publications as liberally as $1,000,000, if you should double the postage rates you increase your revenue $1,000,000; triple the rate and you get an additional revenue of $2,000,000 if the papers could live and pay you the postage, but they can not.

What is the result? The Agricultural Department loses a source of communication to the farmers they can ill afford to lose. One publication alone may easily stimulate crop production to an amount greater than the total revenue you hope to raise from all agricultural papers by increased second-class rates. Many business concerns depending upon the farm papers carrying their message to the farmers will be deprived of this business help, and business, generally, to that extent will be demoralized. What applied to the farm publications applied to the technical press, magazines, dailies, etc.

No; the publication business can not stand an additional burden of any kind at this time and live. It is in your hands to say whether the country can afford to see the publications ruined. Do not take my statements as exaggerations. Study the attached sworn statement of 55 farm papers. Read the names of the papers included. Realize that even 1 cent advance means ruin, and I can not believe that you will see it done. Rather would we have you increase the excess-profit tax from 16 per cent to 18 or 20 per cent, thereby taking a

little more from all industry making a profit (and the profitable publications will pay their proportion as gladly and willingly as will profitable enterprise in any line), but we do not want to see a burden placed upon anyone who can not pay it. We want to force no institution into bankruptcy and ruin and thereby defeat the only purpose of the bill, which is revenue.

There is much that might be said regarding the impracticability of the zone system from the publishing standpoint, the creation thereby of zones of influence for certain publications developing sectional sentiment instead of the national sentiment, etc. But there is nothing to be gained by extended arguments along that line, as the simple fact is any increase at this time means ruination to the publishing business, and there is little satisfaction in discussing just now how you are to be put out of your misery, in the event it is coming in any form. A zone system for several reasons is the most undesirable that can be devised, practical as it might seem on first thought, and the question of establishment of any such system should be referred to some committee for careful study in all its phases.

It has been suggested that the publishers could pass along an increased postage expense by raising advertising and subscription rates. If time could be had to present this from a publishing standpoint, it could be easily shown that this can not be done early enough to save the industry. Subscriptions are in many cases paid long distances in advance. Advertising contracts are made covering considerable lengths of time, and, more than all this, charges for advertising are, because of the psychology entering into the matter, the hardest thing in the world to raise. Most men feel advertising is an expense rather than an investment: so if advertising rates are raised, they discontinue advertising. Many other men feel that advertising ought not to cost much, if anything, because it is just white space and in their minds costs the publishers nothing. Many men (some of them even in Congress) have an exaggerated view of the profits of the publishing business. Even if an increased cost could be passed on in some instances, it would be an additional burden to enterprises in other lines who may be struggling with increased labor cost, high prices of materials, etc., without adding to their sales cost by increasing advertising expense.

We urge that there be no increase of the second-class rates, not because we wish to escape taxes. Take all you wish of our profits and our incomes, but let us live to render to the country the very great service we can render, are anxious to render, and which it is so vitally necessary we should render at this time.

The CHAIRMAN. We will now hear Mr. Baldwin.

STATEMENT OF MR. ARTHUR J. BALDWIN, VICE PRESIDENT ASSOCIATED BUSINESS PAPERS (INC.), NEW YORK CITY.

Mr. BALDWIN. On the 17th of April, on behalf of 267 trade and technical papers, an offer was made to the United States Government of free advertising. This was done knowing that there were bonds to be sold and that the Government had a message for the business world. This copy of the offer I file with the secretary, and it shows a list of the papers whom I represent. They are technical papers.

The CHAIRMAN. It will be printed.

(The matter referred to by Mr. Baldwin is here printed in full, as follows:)

THIS OFFER WAS LAID BEFORE THE GOVERNMENT APRIL 17, 1917.

In common with others, the business papers of the country—technical, trade, and class publications—place service above expediency and patriotism above profit.

There are bonds to be sold. Industries are to be mobilized. The Government must speak to the men who plan and do things. The business of the country must be enlisted. Knowing that we can perform this service at this critical hour, and answering the President's call, we, the publishers of the following papers, hereby tender to the Government our advertising pages without expense, and our editorial columns:

American Wool and Cotton Reporter.
American Gas Engineering Journal.
American Cheesemaker.
American Grocer.
American Ladies' Tailor.
Auto Review.
American Dentist.
Automobile Trade Journal.
American Paint and Oil Dealer.
American Paint Journal.
American Shoemaking.
Automobile Journal Publishing Co.
American Architect.
American Hatter.
American Furrier.
Architectural Record.
American Contractor.
Automobile Topics.
American Carpet and Upholstery Journal.
American Fertilizer.
American Motorist.
American Construction Publishing Co.
American Furniture Manufacturer.
Architecture and Builder.
American Perfumer and Essential Oil Review.
American Cloak and Suit Review.
American Machinist.
American Machine and Tool Record.
American Stationer.
Architectural Forum.
American Drop Forger Consolidated with Steel and Iron.
American Electrical and Grain Trade.
American Miller.
Automobile.
American Druggist.
Aviation.
American Artisan.
Brooms, Brushes and Handles.
Bulletin of Pharmacy.
Boiler Maker.
Builders' Guide.
Brick and Clay Record.
Builder and Contractor.
Boot and Shoe Recorder.
Blast Furnace and Steel Plant.
Building Age.
Bulletin of Photography.
Camera, The.
Contractor.
Cordage Trade Journal.
Commercial Vehicle.
Cement World.
Compressed Air Magazine.
Coal Age.
Clifford and Lawton.
Cottonseed Oil Magazine.
Concrete Age and Dixie Woodmaker.
Concrete Cement Age.
Continent Jeweler.
Commercial Car Journal.
Clothier and Furnisher.
Commercial Fertilizer.
Clay Worker.
Canning Trade.
Commercial Bulletin.
Cotton.
Cotton Oil News.
Canner, The.
Contractor, The.
Domestic Engineering.
Daily Iron Trade.
Drugs, Oils, and Paints.
Dry Goods.
Dry Goods Reporter.
Drygoodsman.
Dry Goods Economist.
Dry Goods Guide.
Electric Railway Journal.
Electric Age.
Eolctrical World.
Electrical Merchandising
Electrical Record.
Electrical Review.
Engineering News-Record.
Engineering and Mining Journal.
Executive Engineer.
Express Gazette.
Electric Vehicles.
Electric Traction.
Embalmers Monthly.
Furniture Journal.
Farm Machinery.
Farm Power.
Foundry.
Furniture Dealer.
Furniture Merchants' Trade Journal.
Factory Magazine.
Furniture Manufacturer and Artisan
Farm Implement News.

Flour and Feed.
Fur Buyer.
Fur News.
Gas Age.
Grand Rapids Furniture Record.
Gas Record.
Hay Trade Journal.
Hardware Trade.
Hardware and Housefurnishing Goods.
Hotel Monthly.
Hide and Leather.
Hotel Gazette.
Hardware Dealers Magazine.
Harness Herald.
Hardware World.
Harness and Saddlery.
Harness Gazette.
Hardware Age.
Housefurnishing Journal.
Iron Age.
International Trade.
Implement and Vehicle Record.
India Rubber Review.
Interstate Grocery.
Inland Printer.
International Railway.
Illustrated Milliner.
Industrial Record.
Implement and Vehicle Journal.
Implement and Tractor Trade Journal
Ice and Refrigeration.
Improvement Bulletin.
Jewelers Circular.
Journal of the Western Society of Engineers.
Keystone Publishing Company.
Los Angeles Apparel Gazette.
Louisiana Grocer.
Laundryman's Guide.
Lumber Trade Journal.
Lumber World Review.
Leather Manufacturer.
Medical Engineering.
Medical Brief.
Medicina and Hospitales.
Metallurgical and Chemical Engineering.
Motor Age.
Motor World.
Metal Worker.
Mill Supplies.
Milliner, The.
Mining and Scientific Press.
Manufacturers Record.
Mining Journal.
Municipal Journal.
Moving Picture World.
Michigan Tradesman.
Motography.
Merchants Index.
Manual Training Magazine.
Modern Miller.
Modern Hospital.
Merchants Trade Journal.
Manufacturing Jeweler.
Marine Engineering.
Motor Boat Publishing Co.
Machinery.
Music Trades Co.
Musical America.
Musical Courier.
Millinery Trade Review.
Music Trade Review, The.
Motorist Publishing Co.
Merchants Journal and Commerce.
Merchants and Manufacturers Journal.
Marine Review.
Metal Market Report.
Mill News.
Merchants and Manufacturers.
Mill Supplies.
Modern Grocer.
Motorcycling and Bicycling.
Merchants Journal.
Mississippi Valley Lumberman.
Merchants Record and Show Window.
National Lithographer.
National Coopers Journal.
New South Baker.
National Electrical Contractors.
National Druggist and Medical Brief.
Nugents Bulletin.
National 5-cent, 10-cent, and 25-cent Magazine.
National Hardware Bulletin.
Novelty News.
National Cleaner and Dyer.
National Laundry Journal.
Northwestern Miller.
National Engineering.
National Petroleum News.
Oregon Merchants Magazine.
Paper (Inc.).
Photographic Journal of America.
Plumbers Trade Journal.
Power.
Packages.
Pottery, Glass and Brass Salesman.
Pacific Marine Review.
Progressive Merchant.
Public Service Magazine.
Practical Engineer.
Paint, Oil, and Drug Review.
Pennsylvania Merchant.
Power Boating.
Pacific Motor Boat.
Railway Maintenance Engineer.
Rubber Age.
Rock Products.
Railway Review.
Real Estate Record.
Real Estate Record and Builders Guide.
Railway and Marine News Publishing Co.
Retail Druggist.
Railway and Locomotive Engineer.
Railway Age Gazette.
Railway Mechanical Engineer.
Railway Signal Engineer.
Railway Electrical Engineer.
Roadmaker, The.
Refrigeration.

Revista Americana de Farmacia.
Southern Lumberman.
Steam and Hot Water Fitters' Review.
Stone.
Sporting Goods Dealer.
Shoe and Leather Reporter.
Shoe and Leather Factory.
Southern Carbonator and Bottler.
Soda Dispenser.
Sartorial Art Journal.
Southern Lumberman.
Shoe Repair Shop.
Southern Merchant.
Southeastern Dry Goods Merchant.
Spokesman Publishing Co.
St. Louis Lumberman.
Southern Architect and Building News.
Shipping Illustrated.
Superintendent and Foreman.
Street Railway Bulletin.
Southern Engineer.
Tobacco.
Telegraphy and Telephony Age.
Traffic World.
Textile World.
Trade Review.
Tradesman Publishing Co.
Talking Machine World.
Timberman, The.
Telephony.
Tea and Coffee Trade Journal.
Toys and Novelties.
United States Paper Maker.
Variety Store Magazine.
Vehicle Monthly.
Western Architect.
Western Confectioner.
Wisconsin Motorist.
Wood Turning.
Women's Wear.
W. F. Wendt Publishing Co.
Western Undertaker.
Western Engineering.
Gas Energy.
Heating and Ventilation Magazine.
Office Appliances.
Yachting.
Osteopathic Physician.
Fashion Woman's Tailor.
Office Outfitter.
Ohio Architect, Engineer, and Builder.
New York Medical Journal.

Mr. BALDWIN. Now, I can not, in the short time that is before us here, adequately present our definite viewpoint on this question. I must, therefore, proceed with certain illustrations. I think that every publisher recognizes that we are at war, and I think we are at war because as a people we can distinguish between military necessity and military ruthlessness. The Germans, in their strategic retreat, while they plowed up the produce and burned down the farmhouses, say that that was a military necessity, but when they cut down the fruit trees we say that that was military ruthlessness. Now, in the short time that we have got to present our views before you, we want to place before you the facts, so that, in executing a military necessity, there may be no military ruthlessness. We want you to take the fruit, but to spare us the trees.

The position of the trade paper in the field is peculiar. There has grown up for every single line of human endeavor a trade paper, a technical paper, a business paper, that serves that field. I am going to illustrate that with just one publication, and I take one with which I am most familiar, because it happens to be one of my own publications, the Engineering and Mining Journal, 50 years old. A man does not buy that to get the baseball news or any other kind of news but news of his business. He buys it because it is devoted to his industry. It serves 75 per cent of the mills and 1 per cent of the smelters of this country. It is devoted to it. It has become an authority as the trade paper of the mining industry and recognized as such. Duties are imposed, taxes are collected by it. Seventy-five per cent of the ores of the world are sold upon the quotations printed in the Engineering and Mining Journal, and the wages of employees are fixed according to the price quotations in the Engineering and Mining Journal.

Here is a dispatch from a daily paper this week out in Butte, Mont., which states that the Anaconda Copper Mining Co., the Butte

and Superior Mining Co., the North Butte Mining Co., and all the smaller companies of the Butte district made up their pay rolls for the month of April on the basis of $4.75 for miners, muckers, and other underground men.

This announcement by the officers of the Anaconda Co. brought joy to nearly 30,000 men employed in the Butte district and at Great Falls and Anaconda. The sliding scale that fixes the wages places the changing point between $4.50 per day and $4.75 for the miners at 27½ cents per pound for copper, according to the official figures given out by the Engineering and Mining Journal. On the 26th of April, there being some doubt as to whether the price of copper would carry over the 27½ cents per pound, a telegram to the Engineering and Mining Journal determined the fact and the wages of 30,000 men who work underground in Montana was determined by that paper. We say that that fulfilled a useful function in the business organization of this country. What is true of that is true of other technical papers. I only use that as an illustration.

In 1904 we paid $500,000 for that publication, because it was a valuable property. I am going to show you the balance sheets of this company. No one ever saw those except the executive officers of the company. For four years the profits of the Engineering and Mining Journal have averaged less than $7,000 a year. Now, if this bill gets through, gentlemen, our postage bill is increased $35,000 a year. Now, that is a tax equivalent to 500 per cent more than the average net profits of our publication for the last four years.

In the hearing this afternoon I understand you are looking for taxes that can be passed on. Here is one that can be passed on, but when you tax 500 per cent more than the profits you are taking 400 per cent of it out of the capital. What is true of that paper, gentlemen, is true of many others. I have here the figures of other businesses. The committee has received a great many letters which have been written to them.

Here is a paper that circulates among the florists, in which case his profits were $2,700. He adds, "Who is going to pay this nearly $8,000 additional? We can not: the subscribers can not. The proposition spells ruin to us."

Senator JONES. Does the balance sheet show the amount of money which went into betterments during these years?

Mr. BALDWIN. Nothing went into betterments during those years. In fact, there were no betterments. Here is the exact balance sheet. The original was transcribed from our books in lead pencil, because it is not copied even, because no one has seen it but an executive officer of our company. I have given the fact in a brief which I will file, but I have not given the detail, but it is here and it is open. There was nothing which went into betterments, not one penny, except the betterment which accrues from good will of service well performed to the business world.

Here is a telegram from a publisher in Atlanta, Ga., and he says there will be $15,000 additional postage on his three publications. "This is greater than our net profits any year for the past five years. The same proportionate increase would be effective with other 32 members of Southern Periodical Publishers Association." Signed Smith.

Here is a little paper which circulates in the building world; has a circulation from Maine to California. It is national in character. All of the papers which I represent are national in character. That shows that it has a net loss of over $1,000 a year.

Here is the Illustrated Milliner, which gives the total circulation. This man has a circulation of 6,000 in the eighth zone. What does that mean? Millinery—does that mean anything to you gentlemen? No; but it means a lot to your wives. It means to the citizens of America that when a lady steps off of the train at Grand Central Station you can not tell from the hat she has on whether she comes from Peoria, Ill., or Boston, Mass. [Laughter.] It is because of the service of the trade papers that give the fashions from one end of the country to the other that makes it possible. It unifies us and helps to make us one people.

Here is a paper; this man shows that last year he made $560. You say that is enough. Bear in mind, gentlemen, that that man had editors and he had stenographers and he had solicitors, and he had type matter set up which furnished work for compositors, pressmen, and electrotypers, and after he had paid the wages and furnished their meal tickets he had $500 left. Under this new bill, if it passes, the increase in his expenses will be $2,400, which throws him on the wrong side to the extent of $1,838. Here is one amongst the produce papers, and here is one of four papers, the Sartorial Art Journal, and the ladies' tailors publications; and here they give the facts concerning every one of the publications. With these papers the lady in Albuquerque, N. Mex., dresses in a way which will imitate the best creations on Fifth Avenue in New York City, and every one of them is a national publication, and are you going to say that the publications which the dressmakers have to have will have to discontinue business because the lady in Arizona has to pay 25 per cent more than the dressmaker in Fifth Avenue because of the zone system? Should not the man who works in California have it for the same price as the man in New Jersey? Yes. Some of you here remember the old pony express, and the Government did not think then of charging $5 extra to the man who happened to live away out in Utah, because it cost the Government $5 to deliver that letter. The fact that he lived in the United States of America, and one citizen of the United States was as good as another, no matter where he dwells, was the spirit of that time. This year we will appropriate $50,000,000 for rural free delivery. Why? For the zone system? No. It demonstrates absolutely the theory of this Government that because a farmer lives remote from the post office he is entitled to the same privileges or the same right to communicate with his fellow man and receive information promptly as the man who lives in Newark, N. J.

Here is a paper circulating in the motor world. Here is one that comes from Grand Rapids, and this says "It exceeds our average net profits for the past three years."

I realize the burden that you gentlemen have here in determining this, but bear in mind that the publishing industry is one of the few industries that has not prospered under these conditions. The raw material which we use, paper, has mounted up beyond all conscience. We are bearing that burden. I can only say this: I believe that these

technical, these trade, these business papers, are a necessary part of the functions of government. Any system which you devise of establishing zones hurts them tremendously, because they are all of national importance, all have national circulations, and the imposition of this tax or any increase at this time will necessitate—and I state it conservatively, judging from the views which have been furnished me as chairman of this committee—at least 30 per cent of them discontinuing their business.

All we have got to say is, please take all the fruit, but leave us the fruit trees.

May I file with the secretary a copy of the little memorandum which I would like to have talked more on, and if some of you are interested enough, I wish you would read it.

The CHAIRMAN. File anything you want to, and it will be printed.

(The brief referred to by Mr. Baldwin is here printed in full, as follows:)

BRIEF BY ARTHUR J. BALDWIN, OF NEW YORK, VICE PRESIDENT ASSOCIATED BUSINESS PAPERS (INC.), REPRESENTING THE TRADE, TECHNICAL, AND BUSINESS PERIODICALS OF THE UNITED STATES BEFORE THE FINANCE COMMITTEE, UNITED STATES SENATE, MAY 14, 1917.

Mr. Chairman and Senators, I am here to represent the 300 trade, technical, and business periodicals published in the United States. You will find their names listed on Exhibit A of this paper.

And, first, gentlemen, before I mention our reasons for considering the proposed second-class postal tax to be not only unreasonable but confiscatory, I want to state that we, as patriotic citizens, realize that our country must be provided with money, and that it must have taxation, and severe taxation.

This is a military measure, and we realize that protests which hold good at other times will not hold good in this time of emergency. But we are in this war, gentlemen, because of the simple fact that as Americans we can distinguish between military necessity and military ruthlessness. We can forgive the Germans for destroying the trenches from which they retreat, for burning the bridges behind them, for devastating the roads, and for obliterating what would be of physical advantage to the enemy, but we can not forgive them for the destruction of the fruit trees.

Gentlemen, this is a measure to raise war revenues, but it should not be a measure to destroy American industries.

Take the fruit, but don't tear down the trees.

We trade, technical, and business publishers are glad as individuals to pay our increased income taxes and the many other minor taxes that we will be called upon to pay. As corporations we are willing and glad to pay the corporation tax and the war excess-profits tax and the tax that as corporations we shall be called upon to pay for transportation by freight and by express, for traveling by land and by water, for communicating by telephone and telegraph and first-class mail. These we will pay, and pay gladly, knowing that all other corporations will be called upon to render equal service in these things without discrimination.

But we do, gentlemen, protest, and protest emphatically, against a measure that will mean the practical confiscation of a large number of the properties that I represent.

THE EFFECT ON OUR COSTS.

Based on the most conservative estimates figured on present circulation and present distribution of readers, and basing these figures not on one industry and one publication but on a number of them, the effect of this proposed second-class postal increase will be to add to the expense of each paper an amount equal to one-third to over one-half of its subscription price. The average increase in postage alone will be 250 per cent. Can it be taken as an accurate commentary on American legislative distinction that a 50-cent pack of playing cards shall pay a war tax of 8 cents, while a $2-a-year educational journal shall pay from 66 cents to $1?

Many educational papers have been forced out of existence on account of the enormous increase in the cost of paper. A large number of existing papers are doing business on a swap-dollar basis, entertaining the hope that at some time or another in future paper prices will be reduced to reasonable figures. This new postal tax would kill many of our papers, even at a time when paper prices are not normal.

You gentlemen, in the face of the strong temptation to depart from the principles of Jeffersonian democracy and raise a ready revenue, have steadily refrained from a prohibitive tax on raw materials. At most you have applied to these essentials of industry a 10 per cent increase.

Why, then, do you tax by a 250 per cent increase one of the important raw materials of our industry—second-class postage?

Knowledge is developed from ignorance through the spread of information. Any legislative act hampering the spread of information turns back the hands of civilization's clock.

THE NATIONAL FUNCTION OF THE TECHNICAL, TRADE, AND BUSINESS PRESS.

The function of the technical, trade, and business press is so highly specialized within its closely subdivided fields of industry that outside of these particular fields its function is not generally understood. Every industry has a paper given up entirely to that inustry—a paper that knits together in one closely connected group, widely separated though its individuals may be, every plant or office within that field of industry or business.

All of the munitions used on the battle field—the cannon, the field gun, the automatics, the rifles—and all of the ammunition—the shells, the cartridges, and bombs—are created by readers of trade and technical papers.

All of the means of motor transport on land and through the air—the motor trucks, the "tanks," the motor ambulances, the airplanes, and dirigibles—are the products of those who read and learn from technical and trade papers. All of the locomotives and freight cars and the rails over which they carry the coal and iron and steel, the merchandise of many sorts needed by a modern army, exist solely because of the prior existence of knowledge of how to do and make these things—a knowledge fostered, stimulated, and supported by the trade, technical, and business press, as by no other single agency in existence.

These educational periodicals, gentlemen, shorten the distance between human minds, just as certainly as the railroad has shortened the distance between places. What I am now going to say about one paper may be said of any of them, and I am selecting one with which I am familiar because it chances to be one of our own publications. I speak of the Engineering and Mining Journal.

For 50 years this journal has been devoted exclusively to the mining industry. It is not bought for its baseball news, for reports of murder trials, or for the latest fiction. The man who buys it does so because this journal, like all other technical journals in other fields, is entirely devoted to advanced information.

As a result of this policy of specializing in information, the technical and trade and business papers of our country have become the authoritative mouthpieces of their industries. Most of the commercial sales of ores over the world, for example, are based upon the prices published weekly in the Engineering and Mining Journal. Taxes and imports are levied and assessed upon them. Wage contracts are fixed and determined by what is published in these pages. Let me quote a news item in the daily press appearing in the early part of May, regarding mining wages in Butte:

"The Anaconda Copper Mining Co., the Butte & Superior Mining Co., the North Butte Mining Co., and all the smaller companies of the Butte district made up their pay rolls for the month of April on the basis of $4.75 per day for miners, muckers, and other underground men.

"This announcement by the officers of the Anaconda Co. brought joy to nearly 30,000 men employed in the Butte district and at Great Falls and Anaconda. The sliding scale that fixes the wages placed the changing point between $4.50 per day and $4.75 per day for the miners at 27½ cents per pound for copper, according to the official figures given out by the Engineering and Mining Journal.

"Figures received up to April 27 showed that the average price of copper for 26 out of 30 days in April had been 27.71 cents, and there was widespread apprehension among the miners that with the lower prices of copper the quotations for the last four days of the month might bring the price just below the 27½-cent mark.

"However, a wire on the quotations showed the average to be on the right side for the men, and the orders were issued to make out the pay rolls on the $4.75 basis."

One telegram, gentlemen, to the Engineering and Mining Journal determined the wages of 30,000 miners in Butte alone!

The Engineering and Mining Journal has a limited circulation, because it is a specialized paper. It goes to 95 per cent of all mines, 95 per cent of all of the mills and concentrating plants, and to 100 per cent of the smelters of America. It reaches the mining engineers, the operators, superintendents, and those who need the latest information on methods and processes in mining.

Our company purchased the Engineering and Mining Journal in 1904, for $500,000 in cash. It is a valuable property, gentlemen, because of the great service that, as you have seen, it renders to the field of mining. Now, as to its value as a business investment. During the last three years, its average net earnings per year have been $6,373.28—less than $6,500 a year on a $500,000 investment.

Now, gentlemen, when this proposed postal increase goes into effect with the resultant increase of 304 per cent in the cost of second-class postage for the Engineering and Mining Journal alone (based on its present subscription list and the locations of its subscribers), you are going to wipe out every cent of profit that this paper earns. The penalty of being a leader for an industry will be Government confiscation by taxation. The figures from which this increase has been obtained will be found in Exhibit B.

Gentlemen, what will happen to the Engineering and Mining Journal when this postal tax goes into effect will happen to a large majority of the trade, technical and business publications of America. Conservative publishers estimate that fully one-third of them will be forced to suspend. When you pass this bill you start to cut down the fruit trees.

THIS PROPOSAL IS A TAXATION ON EDUCATION.

The greatness of a nation is measured by the extent to which it fosters the enlightenment of its citizens. No statesman would oppose the free public-school system. No one would stand in favor of restricting the teaching of reading, writing and arithmetic as a matter of public policy and good national business.

Yet reading, writing and arithmetic are merely the tools one uses to acquire the further information that is to be of use to himself, to the community and to the State. The three "R's" never built a railroad or ran one. Beyond the education in public schools must come acquirement of the knowledge of how to do things, which is the basis of material prosperity. Only 7 out of 100 Americans are able to remain in school beyond the grammar grade. Large sums are wisely spent in maintaining high schools and universities where 7 per cent of our population may have great advantages in securing information. Gentlemen, are you going to penalize 93 out of every 100 Americans by legislation that will abolish the wealth of information contained in these specialized magazines?

The technical papers, the engineering magazines, the trade papers, and the business periodicals are the educational tools that nationalize American industry, and, gentlemen, nationalized American industry will be the principal factors in deciding this war.

You recognize the justice of taxing theatrical property and exempting school property. Why not distinguish, similarly, between the periodicals which instruct and those which merely amuse? Why place merely a 5 per cent war-revenue tax on tennis racquets, golf clubs, billiard balls, and dice games and place a war-revenue tax for postage alone of from 30 to 60 per cent on the total cost of specialized education that sells to the public at from $2 to $6 per year?

ENGLISH MINISTRY OF MUNITIONS VALUES OUR TECHNICAL PUBLICATIONS.

Gentlemen, the lessons of the European war ought not to be wholly lost upon us. I want to show you an actual example of the value England places upon American technical periodicals. England needs food and England needs ships, and yet when England, a few months ago, placed rigid restrictions on unnecessary imports to conserve her food and ships, the ministry of munitions of England, considering that information was as essential for the sustenance of her munition manufacturing industries as food is for the sustenance of the

bodies of her soldiers, wrote to the London office of the American Machinist, April 19, 1917, as follows:

"I am directed to inform you that the paper commission has been requested to import 144 tons of your publication, the 'American Machinist,' at the monthly rate of 12 tons, in order that you may supply munition firms throughout the country."

England, harrassed by submarines, her national life and the material life of her people threatened, with every inch of available import shipping room to be made to count against Germany, considers the distribution of this vital information a national necessity, whereas the legislators of America propose to discriminate against it by imposing a tax on one of its elements alone, five times as high as that imposed upon the most unessential luxury!

Exhibit C will indicate the value that our own Counsel of National Defense places upon the American Machinist.

I must hammer home the fact that if in response to the President's message to industry that "our industries on the farms, in the shipyards, in the mines, and in the factories, must be made more prolific and more efficient than ever," you gentlemen must uphold the President to this end by combating well-meant but harmful legislation which will keep from those on our farms, in our shipyards, in our mines, and in our factories, the essential knowledge of how the other people in the same industry do their work. If, again, in the President's words "the life of the war depends upon our shipbuilders and our ships," does it not equally depend upon the tools with which they build these ships, and especially in view of the enormous expansion of ship construction, does it not depend upon the information in shipbuilding methods that are contained in the pages of periodicals that deal with shipbuilding and marne engineering?

AN EXAMPLE OF INFORMATION SERVICE.

As an example of the information service rendered by technical publications, I have, as Exhibit E, a copy of the last issue of the American Machinist. The first article in this paper is a detailed description of the method of building airplane motors. God knows that we in this country are sorely in need of airplane motors.

On page 802 of this same issue in an article on the standardization of military trucks.

On page 803 is an article on the practical training of apprentices, and God knows that our country needs trained labor.

On page 817 is an article, one of a complete series showing how to perform every operation on the Springfield rifle, and God knows our country needs rifles.

On page 823 of this same issue is an article entitled "Some ways that engineers may serve their country."

On page 828 of this same issue is an editorial appealing to the machine-shop men of America to subscribe for Government bonds, and God knows our country needs money.

On page 832 is an article containing the latest advices from our Washington editor, and God knows our industries need advices from Washington!

This is the kind of national service, gentlemen, that the technical papers of our country are rendering in their respective fields.

THIS PROPOSAL AS COMPARED TO EXPRESS AND FREIGHT SERVICE.

The express rate from New York City to San Francisco, Cal., is $10.40 per hundred pounds. The second-class mail rate between these same points will be, if this exorbitant and confiscatory proposal is enacted into law, $6 per hundred pounds. In the one case we have privately organized companies handling small individual shipments, in the other case we have the wonderful machinery of our national Postal Service handling a specialized class of goods in large shipments previously sorted and prepared with a view toward the utmost efficiency and the minimum cost. Is it reasonable, gentlemen, that Government charges on second-class mail matter should be raised to within 40 per cent of the cost of express? Is it reasonable that if those who utilize express service as proposed in this bill shall pay 10 per cent toward war revenue, based on the cost of this service, that those who use second-class postage shall be compelled to pay 250 per cent increase on the cost of similar service?

Twenty-five thousand pounds of periodicals in second-class form can be put in a single car. On the theory of the zone rate, if 1 cent a pound covers

the terminal expenses, then in the carload shipment of periodicals from Philadelphia to California, transportation is being charged under the proposed 6-cents-a-pound rate at the enormous total of $1,500 a car—not on perishable goods, nor on luxuries, nor on dispensable articles of commerce, but on information!

WE CAN NOT PASS THIS BURDEN TO OUR SUBSCRIBERS.

You may ask, gentlemen, why we can not pass this burden or a part of it to our subscribers. There are three reasons:

First. Because it is a step toward sectional discrimination.

Second. Because we dare not abandon the cardinal principle which has led to the wonderful influence of trade and technical and business journals as educators, namely, the dissemination of information at low cost.

Third. Because the zone system makes it impossible to divide this burden.

Since our United States first became a Nation the task of our ablest statesmen has been the development among our people of the spirit of national unity in place of the spirit of sectionalism. Four years of Civil War were fought to save the Union; to insure the perpetuation of common thoughts and ideals.

On the Engineering and Mining Journal subscription list, 55 per cent of all its readers are located in zone No. 8. We must not legislate against the man who lives in California by charging him 50 per cent more for his information than the man who lives in Newark, N. J.

These technical papers covering these specialized industries can not through the nature of their work manufacture their products other than at one place. Our industry is not as flexible as the bakery industry, which permits bread to be made in every city, town, and village. If the nature of bread making compelled its manufacture at one restricted point, it would be the duty of the Government to provide transportation means so that the citizen of one State could secure his bread as cheaply as the citizen of another. If the necessities of life and food are a Government obligation, why not equally so the food of the mind which is conveyed throughout our land by these 300 educational periodicals? Nationalism means nation-wide service, and sectional restrictions breed sectionalism.

It is only in the journals of national circulation that one can expect to find public questions discussed from the broad point of view of the Nation's interests without regard to the interests of any particular locality.

The journals that will be seriously affected by this postal increase are those which know no sectional distinctions or boundaries—the very journals whose circulation should be encouraged by every statesman who understands the great importance of national unity.

Is it a step toward making our industries more efficient to compel publishers to scatter small plants throughout the country—to obviate and nullify the very principle of specialization which we all encourage and advocate as a means toward industrial efficiency? Will it be necessary for us in order to receive Government recognition and aid to restrict our circulation to individual counties?

ZONE SYSTEM NOT BASED ON EXPERIENCE OR LOGIC.

Wise statesmen have always held that the nationalization of information service is a principle that can not safely be thrown aside.

The zone system of postage, as is now proposed for our second-class mail, was originated in England in 1635. The charges on a letter were twopence for a distance under 80 miles, fourpence between 80 and 140 miles, and sixpence for a greater distance. This, in 1635, was progressive legislation, but in 1680 it was already behind the times.

On this date an enterprising individual, William Dockwra, on his own initiative, established in London and vicinity a flat-rate penny post whereby letters and parcels up to a pound in weight were collected, registered, carried, insured, and delivered for a penny each. He established mail boxes with hourly collections and made 10 city deliveries daily and 4 to outlying villages. Can you grasp these facts? In 1680, without facilities of any kind—no railroads, trolley cars, postal tubes, mail wagons, or automobiles—one man did for London what the Congress of the United States, aided by every imaginable facility, can not do for us to-day. Was he encouraged by the Government? No; his enterprise was too profitable, and it was confiscated and discontinued.

This same fact found echo in our own country in 1906, when responsible citizens of Chicago offered to take over the Postal Service, reduce first-class postage to 1 cent an ounce, and second-class postage to one-half cent per pound; save themselves 7 per cent as a profit, and turn over the balance of profit to the Government. This was accompanied by the offer of a satisfactory bond for the fulfillment of their obligations. (See Exhibit D.)

Every engineer familiar with modern transportation methods knows that under present-day conditions the great element in the cost of carriage is not the hauling over the road but the terminal expense. This is true of ordinary merchandise and much more true of mail matter where the employees at terminals must handle each individual piece a number of times. It costs less to haul a pound of mail across the continent, collecting it and delivering it with modern city terminal conveniences, than it does to haul that same pound from one country town to another a hundred miles distant and to deliver it over the free delivery route.

Go back to 1837, to the time when Sir Rowland Hill began the first real government postal reform in England. This gentleman, whose name and fame are forever connected indissolubly with postal matters, analyzed the cost of carrying mail and announced the fact that 90 per cent of the total cost was due to terminal expense and had nothing to do with the distance carried. This truth, known in England in 1837, is apparently unknown to some of our legislators of 1917, who would compel information to travel on a mileage ticket.

Go back to 1851, when England had a tax on information that prevented the circulation of newspapers to workingmen. Inspired by the example of the New York Tribune and protesting against this tax on information, Bright, in the House of Commons, interrogated his fellow members as follows:

"How comes it, and for what good end, and by what contrivance of fiscal oppression is it that while the workmen of New York can have such a paper on their breakfast tables every morning for a penny, the workmen of London must go without or pay 5 pence for the accommodation? How is it possible that the latter can keep up with his trans-Atlantic competitor in the race if one has daily intelligence of everything that is stirring in the world, while the other is kept completely in ignorance? Are we not running a race in the face of the world with the people of America? And if while such a race is going on the one artisan pays 5 pence for the daily intelligence which the other obtains for a penny, how is it possible that the former can keep his place in the international rivalry?"

England repealed this tax on information because it impeded the spread of information. To-day do American legislators propose to turn back the clock and inflict upon the artisans of the United States the handicap that our neighbors found unbearable a half century ago?

In our own country, gentlemen, the trend of wise statesmanship has been against attempts toward sectionalism even to the extent of facing deficits in budgets where these deficits mean real advantages to our citizens. There was a time in this country not so long ago when the stage coach and pony express still carried a large part of our mail to the remote parts of our country. It was not the theory in those days to discriminate against the man who lived in remote sections. Some of these letters and parcels cost the Government $5 a piece to deliver, but this tax was not passed on to the citizens of these remote localities. In those days, too, the Post Office Department was confronted with a heavy deficit at the close of each fiscal year; it was not such a time as at the present when it earns a surplus.

Later on came another wise move in establishing the rural free delivery, so that the farmers should not be penalized through their distance from the post-office. No one will deny the nationalizing and unifying value of the rural free delivery system, which is in itself an exemplification of the wrongness of the zone system as applied to information.

Ours is as much an industrial as it is an agricultural nation. We encourage agriculture as a national principle and a sound policy, but we distinguish between the seed and the crop. Why, then, classify information and merchandise on the same level and forget that information is the industrial seed from which merchandise springs?

On March 4, 1911, Congress appointed a commission to exhaustively study the subject of second-class rates and report its findings. This commission consisted of Justice Charles E. Hughes; President A. Lawrence Lowell, of Harvard University; and Harry A. Wheeler, later president of the National Chamber of Commerce of the United States. This commission made the most thorough

possible investigation, with many hearings and elaborate calculations covering a period of eight months, the result of which was that they discarded all of the fanciful schemes which had been proposed for penalizing the press and reported on February 22, 1912, their recommendation that a flat rate of 2 cents per pound be imposed, this being the maximum which, in their opinion, it was safe to charge for this service.

Gentlemen, you should not compel information to travel on a mileage ticket.

I am sure, gentlemen, that it is against the policy of the President and of your honorable body to dislocate industry by abrupt or excessive taxation. If this were not so, you would not have stopped at a 3 per cent tax on cost of transportation by freight, or a 5 per cent tax on cost of telephone service, or a 1 per cent tax on the cost of fire and casualty insurance, or a 10 per cent tax on the cost of express, and on the cost of traveling by land or water. These taxes are just and moderate and will cause no dislocation of business. Is it consistent, then, to abruptly impose a 250 per cent increase on the cost of second-class postage?

Gentlemen, in behalf of the 300 trade, technical, and business papers that I represent, and in behalf of the millions of artisans, engineers, professional men, and business men whom these papers represent, I protest against this unjust and discriminatory tax.

I protest against the unjust discrimination which taxes one industry 250 per cent of a principal element of its cost on this one item of taxation alone.

I protest against this confiscatory tax which will wipe out the profits of one-third of the information-distributing periodicals of America.

I protest against the unjust discrimination in favor of the illiterate and against those who seek knowledge; the discrimination against the 93 out of every 100 Americans who must get their education largely through reading.

I protest against the blow you will deal to American industries at this critical time if you shackle the feet of those bringing to them their vital information.

I protest against this unjust and ill-advised step toward sectionalism, this step that divides our country into a ring of zones, each ring imposing an additional handicap on the spread of information.

Take the fruit, gentlemen, but spare the trees.

The Chairman. The committee will next hear Mr. Moore.

STATEMENT OF MR. J. A. MOORE, REPRESENTING THE PERIODICAL PUBLISHERS' ASSOCIATION, NEW YORK CITY.

Mr. Moore. Mr. Chairman and gentlemen, we are here to speak in behalf of the periodical publications, the Periodical Publishers' Association representing the magazines of large national circulation, and while the arguments that Mr. Seitz has so forcibly brought out and Mr. Meredith and Mr. Baldwin apply with equal force to our magazines, there is one particular feature in this bill which will utterly destroy the magazines of general circulation, and that is the zone system. I do not know why, in framing a bill of this kind, all of the valuable information which has been acquired in the past by commissions and studied out, should be simply thrown to one side and abandoned; but it seems, gentlemen, that that is exactly what has been done when a zone system which two commissions have ruled against as being unscientific, un-American and as a scheme to denationalize this country so far as the purposes are concerned, I do not see why they have not made use of that information.

As regards this proposed increase in postage, that is a very easy matter to figure out. That is, so far as its effect on the national magazines is concerned. Eighty-six of these national magazines, comprising the more powerful magazines of the country, furnished to Price, Waterhouse & Co. a statement as follows: This is a consolidated statement of 86 of these magazines, with an aggregate

circulation per issue of over twenty-one million copies for each issue mailed. The total postage of the second class for 1916 on these magazines was $1,243,465. At the new rate of postage proposed in this bill, that $1,243,000 becomes $4,900,000. The increase in postage is $3,700,000. The net profits of these 86 magazines for the year 1916 was $1,107,403. The estimated increase in the cost of paper for this year over last year is over three millions of dollars. I do not think, gentlemen—or rather, I do think, if the committee who framed this bill had had the idea of really raising revenue for this Government, I do not see how they could have used these figures, which were certainly available for them, and have framed any such bill, because it does not produce revenue. It absolutely destroys revenue.

Now, as a member of the Periodical Publishers' Association, representing a group of magazines which have the second largest circulation in that association, we say—and the other publishers are with me in this—take every cent that these publications make during the term of this war and we will gladly and freely give it, but you can not take our publications and put them out of business and expect to get revenue for this Government, because that is utterly impossible.

Senator STONE. Have you a list of these publications?

Mr. MOORE. Yes, sir. Price, Waterhouse & Co. is an auditing concern, and I will file their letter.

The CHAIRMAN. It will be printed.

(The letter referred to by Mr. Moore is here printed in full as follows:)

PRICE, WATERHOUSE & CO.,
New York, May 14, 1917.

HON. F. MCL. SIMMONS,
Chairman United States Senate Finance Committee,
Washington, D. C.

DEAR SIR: We inclose herewith a copy of a supplemental letter which we have to-day written Mr. R. J. Cuddihy, secretary of the Periodical Publishers' Association. This letter includes the figures from all complete returns from publishers which we have received to date.

Yours, very truly,

PRICE, WATERHOUSE & CO.

PRICE, WATERHOUSE & CO.,
New York, May 14, 1917.

R. J. CUDDIHY, Esq.,
Secretary Periodical Publishers' Association,
New Willard Hotel, Washington, D. C.

DEAR SIR: At the request of your association 35 publishers have submitted to us statements on uniform blanks and signed by responsible officers of the respective publishing companies. From these statements we have compiled the following:

Number of publications (as enumerated on accompanying list	86
Aggregate average circulation per issue in 1916	21,204,404
Total amount of postage in 1916, at 1 cent per pound	$1,243,465.99
Amount of postage in 1917, at 4½ cents per pound (the estimated average rate)	$4,959,376.05
Total increase in postage for 1917, on above basis	$3,715,910.06
Total net profits of publications for 1916 reported by 35 publishers	$1,107,403.73
Total estimated increase in cost of paper to be used in 1917 over cost in 1916	$3,034,560.83

Yours, very truly,

PRICE, WATERHOUSE & CO.

The list of publications, not all of whom reported, follows:

The Gentlewoman.
McCall's Magazine.
Woman's Home Companion.
American Magazine.
Farm and Fireside.
Every Week.
Pictorial Review.
McClure's.
Ladies' World.
National Sportsman.
Outer's Book.
Spare Moments.
Photoplay Magazine.
Collier's Weekly.
Farm and Home.
The Modern Priscilla.
Metropolitan.
Leslie's Weekly.
Judge.
Film Fun.
People's Home Journal.
Mothers' Magazine.
Christian Herald.
Motion Picture Magazine.
Motion Picture Classic.
Field and Stream.
Smart Set.
Popular Science Monthly.
Puck.
Yachting.
Outing.
All Outdoors.
Theater Magazine.
Municipal Journal.
World's Work.
The New Country Life.
Garden Magazine.
Short Stories.
Travel.
American Penman.
Current Opinion.
Harper's Magazine.
American Art News.
Orange Judd Weeklies (5).
Weekly, Monthly, and Quarterly Religious Publications (35).
Vogue.
Vanity Fair.
House and Garden.

The CHAIRMAN. In the Senate, gentlemen, they are voting on a very important amendment. We will take a recess for about five minutes, in order that the Senators may go up and vote.

(Thereupon, at 3.22 o'clock p. m., the committee took a recess until 3.27 o'clock p. m.)

The CHAIRMAN. The committee will next hear Mr. Cuddihy.

AFTER RECESS.

(At 3.27 o'clock p. m. the committee reassembled, pursuant to the taking of the recess, Senator Furnifold McL. Simmons presiding.

The CHAIRMAN. The committee will come to order. Mr. Moore having concluded, the committee will now hear Mr. Cuddihy.

STATEMENT OF MR. D. J. CUDDIHY, REPRESENTING THE LITERARY DIGEST, NEW YORK CITY.

Mr. CUDDIHY. Gentlemen, I do not think I need to take the full 10 minutes. I simply want to amplify the remarks of Mr. Moore. It may be important to the members of this committee and of the general public to have in mind the names of the periodicals represented, to the number of 85, to which Mr. Moore referred when he showed the great increase in the cost of postage and paper under present conditions.

I will read them, because it is important for you to at least get some of them in your minds.

The World's Work, a very well known paper; McClure's Magazine; Pictorial Review; Farm and Home; Metropolitan Magazine; Leslie's Weekly; Judge; The Modern Priscilla; McCall's Magazine, with 1,100,000 circulation; Woman's Home Companion, with 1,100,000 circulation; American Magazine, with 600,000 circulation; Every Week, more than a million circulation; Collier's Weekly, with

1,100,000 circulation; Christian Herald, somewhere in the neighborhood of 300,000 circulation, and with a wonderful record back of it for doing good in this great country of ours; Popular Science Monthly; Country Life; Current Opinion; Harper's Magazine; Vogue; Vanity Fair; and a score of others.

Senator STONE. Have you the Saturday Evening Post?

Mr. CUDDIHY. The Senator asked if the Saturday Evening Post is in this list, and I will have to say to the Senator that it is not; but now that the name of the Saturday Evening Post has been suggested by Senator Stone, it might be well to say a few things concerning that publication.

The Saturday Evening Post and the Curtis Publishing Co.'s publications are the one conspicuous example of prosperity among the publications of this country, and they are brought up in every debate and discussion in Congress and pointed to as a terrible example of what the Government is giving in the way of a subsidy to the publishers of this country. Why should not the Government think along this line? Is it a subsidy to the Saturday Evening Post or to the publisher of any other monthly or weekly or daily publication that the mails are figured at 1 cent a pound? That is the basic rate established by the Government years ago. It is the basic rate on which this great industry has been built up. It was the basic rate upon which men were justified in embarking in publishing enterprises and in launching great fortunes in speculative enterprises. The Saturday Evening Post was published more than a hundred years ago. Mr. Curtis took it up and started it and carried it forward for several years at an immense loss. He took the profits out of his Ladies' Home Journal and put it into the Saturday Evening Post, and the country ought to be glad that we have such a paper as the Saturday Evening Post. It is not in this list, but I can say to the Senator that if the Saturday Evening Post and the figures of the Curtis Publishing Co. were in this list it would show that the bulk of the publications will meet with a loss under this new proposal brought in by the Ways and Means Committee. The paper with which I am connected, the Literary Digest, is not in this list, and I think it is known to every Senator and to every Member of Congress.

Senator STONE. A very excellent publication.

Mr. CUDDIHY. Your opinion is the same as 700,000 men who read it. You live in Missouri, Senator Stone. Senator Williams lives in Mississippi. I do not know the names of some of the other Senators or from whence they come. I want to say, talking about the educational side of magazines, which was declared by our good friend, the chairman of the Ways and Means Committee of the House, the other day, as a great deal of bunk, and I regret to say that his characterization of this feature of his publications are echoed by—I will not say a conspicuous publisher, but a publisher. I want to tell you this. The Literary Digest is an educational institution. It goes into the high schools of Georgia, Senator Smith; in Atlanta there are several hundred copies of the Literary Digest being used in your high schools once a week to give the boys and girls a chance to study current events, current history, to know what you are doing here in Congress, and to know what is taking place across the ocean,

to know what is going on in the rest of the world. In other words, to give our boys and girls a chance when they graduate from the public schools to be nearer to men and women and abreast of the times.

Now, do you want your boys and girls, Senator Smith, to pay us 8 cents a copy for the Literary Digest, while the boys and girls of Newark, N. J., will pay 5 cents under this zone system, because that is what will happen?

Senator JONES. How much of an increase would there be in the Literary Digest in New Mexico if the proposed bill is enacted?

Mr. CUDDIHY. I will have to make a little guess on it. I would say it would be 5 cents, and 6 cents in California. If there is a California Senator here he should know that 553 copies of the Literary Digest went last week to the boys and girls of California. We got half price for that paper, and we paid probably seven or eight dollars for the postage for carrying those papers to California, while under this new zone system we shall have to pay somewhere between forty and fifty dollars. We will pay it. We are a conspicuous example of saying we can pay it, not because of any profit in the paper, but because of the worth of the paper.

Do you want your boys and girls to pay it, when the boys and girls in Newark pay 5 cents. Why should you adopt a system so undemocratic, so un-American, and so archaic, according to the reports of the Hughes and Overstreet committees, which have been wrestling with these problems of post-office difficulties in years past, and have decided—nobody will question the sanity of ex-Justice Hughes or President Lowell, of Harvard, or of Mr. Wheeler, of Chicago. I want to say to you right now that a zone system, or any kind of system of postage that raises the postal rates for magazines is a business advantage to me. Why? Because it will simply destroy so many competitors that it will make our business so much the better.

How do we help this Government in our effort to distribute the Literary Digest?

Senator SMITH. How does your volume of reading matter compare with your volume of advertising?

Mr. CUDDIHY. I can not tell you exactly, but I will admit that it is not any better than any other publication.

Senator SMITH. Oh, but it is. You do not carry near as much advertising in proportion to your reading matter.

Mr. CUDDIHY. We are trying our best to get all we can. [Laughter.] Now, you see, Senator—I think you have been the publisher of a daily paper. You may be to-day. Right around here there are gathered a hundred publishers of daily newspapers. Last week when I got it through my mind what this postage rate meant to us, I knew it did not mean any loss, because we would not let it become a loss. We know how to conduct our business, and we have got something that we can pass on, but I knew we might have to readjust, so I was compelled to send a telegram to all of your friends down in Atlanta, the publishers of the Atlanta papers, and to the publishers of the papers in Providence, R. I., from which Senator Gerry comes, and the publishers of Secretary Daniels's paper in Raleigh, N. C.,

and the publishers of all the papers that are gotten out in Senator Stone's territory, to this effect:

"To the publisher of the St. Louis Post Dispatch: Please cancel the 680-line reservation for our advertisement in your issue of Saturday, May 19. The recent advance in second-class postage rates in the Ways and Means measure reported to Congress makes the future so uncertain that we have decided to suspend all publicity until we can fully determine how much additional we must charge the people of Tennessee, Minnesota, Utah, New Mexico, and California for the Literary Digest."

Now, do you want to adopt a measure that is going to put the great press of the country out of business? I do not think you do. I think if you will go up to the Treasury Department to-day and ask advice, you will get advice to the contrary.

I heard a conspicuous citizen last night say—a very distinguished citizen, a man who is known to every one of you—make this very radical suggestion, that if he had his way he would wipe out second-class postage that day and make everybody go to work for the Government. Talking about everybody going to work for the Government, that is the great thing that you must insist that the magazines and newspapers shall do. I know we are ready. Those of you who read the Literary Digest—and you all say you do, and I have not any doubt that you could not get along here if you did not do it—you would not know what was going on in the world if you neglected that opportunity—will probably have noticed that part of the education which we have been giving the public for the last four months has been the necessity for charity, and so in four months we have handed over to Mr. Herbert Hoover, as chairman of the commission for the relief in Belgium, $500,000 altogether. I do not mention that to advertise the Digest. I mention it for this very serious purpose. Those bonds have got to be sold. I heard Senator Stone speak a few weeks ago in the Senate on this question of bonds, and I know that he did not approve of a certain feature of that bond issue. Some ought to be bonds and some ought to be something else; but Senator Stone did say that we must sell the bonds, and as citizens we all know they have to be sold, because the necessities of the country require that they be sold.

How are you going to sell them? There has been no conspicuous example of rushing to the public treasury, though so far, notwithstanding the headlines that have appeared in the daily newspapers 48 hours after they were first announced. I have not seen any headlines for the last 10 days. I have not seen any figures showing that the bankers of the country are coming to the rescue.

Mr. Baldwin. There is a cartoon on helping to sell the bonds, run by 16 trade papers last week [exhibiting cartoon referred to].

Mr. Cuddihy. We will sell the bonds, and this is a duty that must be performed by the daily and trade papers. Do not forget that many of the daily newspapers in this country, many of the weekly newspapers, many of the monthly magazines, have taken subscriptions running for the next three years based on the present rate of postage. How are they going to fill those subscriptions if you insist on taxing them out of existence?

The Chairman. We will now hear Mr. Norris.

STATEMENT OF MR. D. W. NORRIS, EDITOR OF THE TIMES-REPUBLICAN, MARSHALLTOWN, IOWA; ALSO INTERESTED IN THE OWNERSHIP OF THE NONPARIEL AT COUNCIL BLUFFS, IOWA.

Mr. NORRIS. Mr. Chairman, I am the editor of the Times-Republican at Marshalltown, Iowa, and also am interested, together with ex-Senator Lafayette Young, of the Des Moines Capital, in the Nonpareil at Council Bluffs, Iowa. We are here to-day representing a group of publishers of country dailies in the State of Iowa. We wish to bring to your attention that the proposed increase in the postal rates is unjust, unscientific, and destructive to a legitimate publishing business. The unfairness of the rate can be seen within the bill itself. For instance, the bill proposes a gross sales tax of five per cent upon luxuries, such as automobiles and phonographs, for instance, and then proposes a gross sales tax of 20 per cent upon the selling price of my daily newspaper to the farmer at $4 per year. We can not stand a gross sales tax of 20 per cent any better than the merchants can stand a gross sales tax of 20 per cent. The postal rate to us publishers is equivalent to the cost of our transportation or our freight rate, if you please.

This bill proposes an increase of 3 per cent upon freight rates, upon luxuries, and upon other commodities, and on the next page proposes an increase of 100 per cent upon the transportation or freight rate or postal rate of the newspapers. I am speaking from my standpoint. I am interested and affected only in the first two zones. The publisher who goes beyond the first two zones gets it worse than we do. We say that the proposed rate is unfair, because it proposes to the publisher back of me, whose paper goes beyond the two zones, that he must be penalized again because he is carrying information and knowledge from his center of publication to the remote parts of this country.

This is the time, gentlemen, to cultivate nationalism, not provincialism. We want the best dissemination of information and knowledge, if our people are to sustain this conflict. Personally I am not affected by the extra cost outside of the first two zones, but I wish to protest against the principle of it, because Mr. Young and I believe that it is un-American. We say that it is destructive to the public business, because we will have to pass this tax on to the reader. To me at Marshalltown, too, it means that I must go out and make a new contract with each and every one of 14,000 individuals. With the man who publishes from Chicago, he will have to make a new contract with hundreds of thousands of individuals. One man from Chicago just told me that he has in force contracts with 50,000 subscribers he has paid in advance. He will have to carry out those contracts, regardless of the price you put rates of postage. Mr. Young, at Des Moines, has 25,000 subscriptions paid in advance which he will have to carry out regardless of the postage which you charge him.

That bill is destructive to the legitimate publishing business. It has been asked, how are you going to raise revenue if you do not reach publishers as well as other people. I will offer merely a personal suggestion. The publishing business already has been disturbed, and in some cases destroyed, by war conditions. Sixty per

cent increases upon the cost of print paper? There are many enterprises in this land to-day that have reaped new profits—unheard-of profits—out of war conditions.

I can name to you corporations that have multiplied their normal profits, prior to the war, 10 and 20 times out of war conditions. If the men of this Congress have to raise all of this money by direct taxation they can reach these war profits, and by war profits I mean profits that are in excess of the average or normal profits during the period prior to the war, and you will find your press agent in England, where the people are two years ahead of us in this war game, and you will find them there taking 80 per cent of war profits; but the man who makes new profits out of war and gives up 80 per cent to the Government to sustain the war is still left with 20 per cent, which is more than he had prior to the war.

The CHAIRMAN. Your time is out.

Mr. NORRIS. Very well, I will file with the committee a brief protesting against the proposed rates for second-class postage. I thank you.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Norris was subsequently submitted and is here printed in full, as follows:)

BRIEF OF LAFAYETTE YOUNG AND D. W. NORRIS, PROTESTING PROPOSED RATES FOR SECOND-CLASS POSTAGE.

Chairman Senate Committee on Finance, Washington, D. C.

DEAR SIR: We respectfully submit the following protest against the proposed increase in postal rates for newspapers:

The proposed increase of 1 cent per pound in the first and second zones amounts to an increase of 100 per cent in our present postage cost, and is the equivalent of a gross-sales tax of 20 per cent upon the subscription price of our newspapers to our subscribers. Such a percentage of increase is excessive, unjust, and destructive in its effect upon our business. A gross-sales tax of 20 per cent is far in excess of the 5 per cent gross-sales tax proposed upon other classes of merchandise, many of which are luxuries, and the increase of 100 per cent in transportation cost of newspapers is excessive when compared to an increase of 3 per cent in freight rates upon other commodities.

The publishers' only recourse is to pass this increased expense on to their readers, which requires the negotiation of a new contract and new sale with each and every subscriber multiplied into the millions, and this disturbance of established contracts is a serious added damage to the publishing business. In many instances subscriptions are now paid in advance, which can not be disturbed, and hence the publisher can not secure relief from this new burden of postage cost.

We protest against the plan of this new revenue bill because it seeks to impose excessive and destructive taxes upon established business which derives no increased profits from war conditions but which has already been punished by increased cost of print paper approximating 60 per cent. War does create new and abnormal profits for certain classes of industry. Those profits which are in excess of the normal and average profits earned prior to the war should properly and equitably pay the cost of the war which creates them. England has found by experience that war profits should pay war taxes, and this bill now before the United States Congress makes no effort whatever to tax war profits as distinguished form general profits in industry.

The increased postal rates proposed for remote zones are prohibitive and will result in limiting the circulation of newspapers to the first two zones of approximately 150 miles from the point of publication. This is unwise public policy for the reason that we need in these times a strong nationalism. The successful prosecution of this war and the welfare of the country in the future demand that our people be enabled through the wide circulation of newspapers and periodicals to familiarize themselves with the thought and progress of all parts

of their common country. Provincialism would be cultivated, and it carries with it a distinct menace to our Nation in the present crisis.

From our experience of many years in the publishing business we are convinced that such prohibitive rates as are proposed in this bill will destroy many publications whose publishers are unable to pass their tax on to the public, and that the tonnage thus driven from the mails will result in a net loss of postal revenue to the Government.

If the Government would retrench and reform as to its second-class mail it should first discontinue to carry publications free of charge within the county of publication, as is now being done at tremendous cost; and secondly, the Government could require of every publication that a fixed minimum proportion of its cost of production be collected from its readers. Wise application of such a requirement would eliminate from the mails the source of all abuse of the second-class privilege and restore the original purpose of the present rates which always has been the wide and general dissemination of knowledge among our people.

Respectfully submitted.

LAFAYETTE YOUNG,
Publisher Capital, Des Moines, Iowa.

D. W. NORRIS,
Representing Times-Republican, Marshalltown, Iowa, and Nonpareil, Council Bluffs, Iowa.

The CHAIRMAN. Now, gentlemen, I want to present the matter to the gentlemen who are interested. We want to hear you in an orderly way and when our attention is not distracted. The espionage bill has just come out of the Committee of the Whole into the Senate and several very important votes in which members of this committee are very much interested are coming up in a few minutes. We can not hear you this afternoon without being constantly diverted and having to run constantly up into the Senate Chamber. Now, would it be satisfactory if we would postpone this hearing until in the morning at 10 o'clock, and then if it is necessary we can give you a little bit more time to enable you to take a new hold?

The committee will stand adjourned until 10 o'clock to-morrow morning.

(Whereupon, at 3.50 p. m., the committee adjourned to meet at 10 o'clock a. m. to-morrow, Tuesday, May 15, 1917.)

REVENUE TO DEFRAY WAR EXPENSES.

TUESDAY, MAY 15, 1917.

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

The committee met, pursuant to adjournment, at 10 o'clock a. m., in the committee room, Capitol, Senator Furnifold McL. Simmons presiding.

Present: Senators Simmons (chairman), Stone, Williams, Smith, Jones, Gerry, Penrose, Lodge, Smoot, La Follette, and Townsend.

The CHAIRMAN. The committee will please come to order and gentlemen will desist from conversation. Upon adjournment last evening we were considering Title XII, relating to postal rates. Who is the next gentleman you desire to speak?

TITLE XII. POSTAL RATES—Resumed.

Sec. 1201. SECOND-CLASS MAIL MATTER.

STATEMENT OF MR. C. E. KELSEY, REPRESENTING THE YOUTHS' COMPANION, BOSTON, MASS.

Mr. KELSEY. Mr. Chairman, in addressing a committee on finance, I take it that figures and facts are more eloquent than oratory, and I wish to give you a few figures beyond which you have received from others who have spoken before you.

Senator STONE. Are you representing the Youths' Companion?

Mr. KELSEY. Yes, sir. You have in your mail a statement of our business for the year 1916. In addition to those figures, I would like to give you some additional figures. We paid the Government last year for postage $39,000. Under the zone system of this bill we would be obliged to pay $164,000, an increase of $125,000 for postage. Our 1917 paper bill, for the same supply of quantity and quality, would cost us $94,300 more in 1917 than in 1916. Our paper has advanced, because we began to pay our advanced price November 1. We have been dealing with the same paper people for 60 years—S. D. Warren & Co.—and I believe we enjoy as close relations as any house in the country, and our advanced bill this year will be $94,300 for paper.

Take the matter of inks. We have been accustomed to buy first quality of colored inks for 25 cents a pound. During the last few

months we have been obliged to pay $1.50 and $1.75 a pound for those same colored inks.

During the last 10 days there has been a fever in the country and we have had cancellation of advertisements. In fact, of our June advertisements I have had 20 per cent canceled within the last 10 days, all due to the war conditions. I think the important thing before this committee is the fact that this country has very recently entered into a war state. The publishers began their war period in August, 1914, for in that month we lost a third of our advertising contracts—in 1914—and for the year following that there was no fun in the publishing business. In all the mingling that I have had with the publishers in Washington for the last two or three days I have never heard a whisper of complaint as to the proposed increase from 2 to 3 cents on first-class mail or the increase from 1 to 2 cents on postal cards. Let me give you the figures for our current year. In our outgoing mail we had 895,765 2-cent stamps and 121,141 postal cards, a total of 1,016,906, or a total of $10,169 additional for this 12 months on the 1-cent advance in postage. In our outgoing mail we had 582,513 2-cent letters and 113,937 postals, or 696,250, which will make $6,962 there; or we will pay, in other words, or produce for the Government, on the increase from 2 cents to 3 cents on first-class mail and from 1 cent to 2 cents on postal cards—our own business will produce for the Government $17,131 in 12 months' time.

The purpose of the Government in making the second-class rate was to permit publishers to carry reading matter of an entertaining and educational character all over this country. It was a noble purpose, and our paper has traveled over every mile of railroad in this country every week since the first rail on a railroad was laid down in 1827. We go out to 57,096 families south of us here every week, and we go into California and Oregon to 21,594 families. Under the zone system we must stop our traveling.

The great purpose of the Youths' Companion has been to serve this country. We have been trying to put out a paper which shall be so edited that there will be brought together in the reading of one paper the families in all parts of this country. We believe it is no small service to have so edited a paper of a nonpartisan ideal, to so edit the paper that the people of the North and the people of the South can be brought together in the reading of one paper, and the people of the Far West and the people of the East in the same way. We believe this is a service of some value, a real benefit to the national life of this country. I believe there is no greater thing in this country to-day than the distribtuion of high ideals. We carry as a subtitle of our paper these words: "The best of American life in fiction, fact, and comment." We have been trying to carry all through these 90 years the best—not the worst—but the best of American life in fiction, fact, and comment, and we want to continue to do so.

One of the famous adages of Ben Franklin was that a full bag stands erect. Gentlemen, the publishers' bag is not very full to-day. The only thing we have that we can boast of is our courage, and we will ask you, Mr. Chairman, to let us keep our courage, so that the bag may stand erect with courage, full of patriotism for our work.

The CHAIRMAN. The committee will now hear Mr. Howard.

STATEMENT OF MR. PHILIP E. HOWARD, PRESIDENT OF THE SUNDAY SCHOOL TIMES, PHILADELPHIA, PA.

Mr. HOWARD. Religious papers in America have a combined circulation of approximately 20,000,000 copies per issue. More than 300 of these papers have circulations ranging from 2,000 to about 300,000. Large numbers of them carry no advertising, or an amount restricted by trade conditions to a very few columns. No one of the avowedly religious papers has carried in recent years an amount of advertising at all proportionate to the normal usefulness of such papers to the good advertiser. Nearly all must at this time depend to an entirely disproportionate degree upon their subscription price for income.

Most religious papers, to a degree that is for special reasons probably unparalleled in the publishing field, are facing almost impossible conditions. In general, such papers were founded and have been conducted by individuals, or by small or larger groups who thus seek expression of their desire to minister to the spiritual needs of the constituency which they wish to reach, and not primarily as business enterprises. Indeed, this field is not now and never has been attractive to a man who seeks adequate money reward as editor or publisher. No man able enough to conduct a successful religious paper would undertake the personal sacrifices involved in such a work as this, akin to those required of the ministry itself, for the very modest income in prospect for him.

When a paper is already published at practically no profit, or at a continuing loss, as are very many in this field, that loss being met only by the generosity of those who help to support such papers as a form of religious service, any substantial advance in existing second-class postal rates, added to the 60 or 80 per cent advance in paper cost, must find scores of such papers unable to survive. Their subscription rates are, in very many cases, already higher than the rates of the larger periodicals and even their low advertising revenue is by no means stable. And yet, gentlemen, these papers—few of them large from a business standpoint—are the most trusted and, may I say, the most indispensable of all periodicals in conserving and quickening the deepest spiritual issues of our national life. Yet, under the bill I believe the financial burden of very many of them would increase to the breaking point.

The Sunday School Times, which stands on its own feet financially, has had more than a half century of service to the Sunday School teachers and readers of all denominations. It has no financial support apart from its earnings. If the zone plan and the proposal rates became effective, on our 114,000 present circulation our second-class postage bill alone would jump from about $12,000 a year to about $36,000, an increase that would of itself not only destroy our net earnings but cause an actual deficit several times larger than our average profit for any group of 5 years in the last 20, with the exception of 1 year. This condition would present very real problems to us but to many others it might easily mean extinction.

Moreover, the bill proposes (see page 52, line 19, to page 53, line 11) to advance the postage rates on a certain type of religious

papers by a flat one-half cent a pound, while requiring other religious papers in the same general field of service to pay the zone rates. The distinction is made in the bill between religious papers from which profits inure to individuals and religious papers published not for any profit to individuals but by and in the interest of religious organizations not organized for profit.

The Ways and Means Committee in framing this portion of the bill doubtless did not have fully in mind the real conditions under which religious papers exist—whether privately owned or not. I do not believe that the distinction made in the bill can rightly be sustained in the light of the fact that privately owned religious papers are not, as a class, conducted primarily as money-making enterprises, but primarily as a distinct form of religious ministry much needed in the field they seek to reach.

I might cite as an illustration the Churchman, which is not owned by the Presbyterian Church, but is privately owned. Or, I might cite the Christian Observer, of Louisville, which is a privately owned paper. These gentlemen have conducted the paper in the interests of their faith, and there are many others of the same kind, conducted as private enterprises, but of course under very great difficulties.

The bill as it now stands would make a very great difference between the cost of conducting the sectarian paper owned by any given sect and the paper privately owned, but serving the same denomination of many. In fact, many denominations have no denominationally owned religious newspaper at all, but are served by those who undertake to publish privately owned journals, often at great personal sacrifice. And there are several large interdenominational journals, widely serving their important mission to many or all denominations, that would by this discrimination, within this special field be at a great disadvantage as compared with the papers owned and conducted by a sect or denomination if this proposed difference in postage rates as between the two kinds of religious papers should be made.

I should say, probably, that the large majority, if not all, of the Roman Catholic papers would be owned privately.

I submit that the Senate Finance Committee and Congress should most carefully consider this provision of the bill, because it so clearly favors within the same field organized religious groups as distinct from the individual who is seeking in the same spirit to render a like service. There is a principle here involved that will readily be manifest to this committee and to Congress when the conditions are fully understood, involving the question of whether it is right, under all these circumstances, to include one and omit another religious paper from the obvious purpose of the bill at this point in its furthering and sustaining the religious life of our people to the largest possible degree.

Senator Townsend. Are you going to file a brief in this case?

Mr. Howard. I shall be very glad to.

Senator Townsend. Can you set out in this brief the number of these papers that are published in the United States, their circulation, and whether they are privately owned or owned by denominations?

Mr. HOWARD. I could give a great many illustrations. I can give a list of the papers, but it would be a little difficult to give very quickly those facts you ask for.

Senator TOWNSEND. And give the circulation of each?

Mr. HOWARD. Yes, sir.

The CHAIRMAN. When you present your brief it will be printed.

(The brief referred to by Mr. Howard was subsequently submitted, and is here printed in full, as follows:)

Religious papers in America have a combined circulation of approximately 20,000,000 copies per issue. More than 300 of these papers have circulations ranging from 2,000 to about 300,000. Large numbers of them carry no advertising, or an amount restricted by trade conditions to a very few columns. No one of the avowedly religious papers has carried in recent years an amount of advertising at all proportionate to the normal usefulness of such papers to the good advertiser. Nearly all must at this time depend to an entirely disproportionate degree upon their subscription price for income.

Most religious papers, to a degree that is for special reasons probably unparalled in the publishing field, are facing almost impossible conditions. In general, such papers were founded and have been conducted by individuals or by small or larger groups who thus seek expression of their desire to minister to the spiritual needs of the constituency which they wish to reach and not primarily as business enterprises. Indeed this field is not now and never has been attractive to a man who seeks adequate money reward as editor or publisher. No man able enough to conduct a successful religious paper would undertake the personal sacrifices involved in such a work as this, akin to those required of the ministry itself, for the very modest income in prospect for him.

When a paper is already published at practically no profit, or at a continuing loss, as are very many in this field, that loss being met only by the generosity of those who help to support such papers as a form of religious service, any substantial advance in existing second-class postal rates, added to the 60 or 80 per cent advance in paper cost, must find scores of such papers unable to survive. Their subscription rates are, in very many cases, already higher than the rates of the larger periodicals and even their low advertising revenue is by no means stable. And yet, gentlemen, these papers, few of them large from a business standpoint, are the most trusted and, may I say, the most indispensable of all periodicals in conserving and quickening the deepest spiritual issues of our national life. Yet, under the bill I believe the financial burden of very many of them would increase to the breaking point.

The Sunday School Times, which stands on its own feet financially, has had more than a half century of service to the Sunday school teachers and readers of all denominations. It has no financial support apart from its earnings. If the zone plan and the proposed rates should become effective, on our 114,000 present circulation our second-class postage bill alone would jump from about $12,000 a year to about $36,000, an increase that would of itself not only destroy our net earnings, but cause an actual deficit several times larger than our average profit for any group of 5 years in the last 20 with the exception of one year. This condition would present very real problems to us, but to many others it might easily mean extinction.

Moreover, the bill proposes (see page 52 line 10 to page 53 line 11) to advance the postage rates on a certain type of religious papers by a flat one-half cent a pound, while requiring other religious papers in the same general field of service to pay the zone rates. The distinction is made in the bill between religious papers from which profits inure to individuals and religious papers published not for any profit to individuals but by and in the interest of religious organizations not organized for profit.

The Ways and Means Committee in framing this portion of the bill doubtless did not have fully in mind the real conditions under which religious papers exist whether privately owned or not. I do not believe that the distinction made in the bill can rightly be sustained in the light of the fact that privately owned religious papers are not, as a class, conducted primarily as money-making enterprises, but primarily as a distinct form of religious ministry much needed in the field they seek to reach. The bill as it now stands would make a very great difference between the cost of conducting the sectarian paper owned by

any given sect, and the paper privately owned but serving the same denomination or many. In fact, many denominations have no denominationally owned religious newspaper at all, but are served by those who undertake to publish privately owned journals often at great personal sacrifice. And there are several large interdenominational journals widely serving their important mission to many or all denominations that would, by this discrimination, within this special field, be at a great disadvantage as compared with the papers owned and conducted by a sect or denomination, if this proposed difference in postage rates as between the two kinds of religious papers should be made.

I submit that the Senate Finance Committee and Congress should most carefully consider this provision of the bill, because it so clearly favors within the same field organized religious groups as distinct from the individual who is seeking in the same spirit to render a like service. There is a principle here involved that will readily be manifest to this committee and to Congress when the conditions are fully understood involving the question of whether it is right, under all these crcumstances, to include one and omit another religious paper from the obvious purpose of the bill at this point in its furthering and sustaining of the religious life of our people to the largest possible degree.

PHILIP E. HOWARD.

The CHAIRMAN. Now, Mr. Pepper, you may proceed.

STATEMENT OF MR. CHARLES M. PEPPER, REPRESENTING THE CHRISTIAN HERALD.

Mr. PEPPER. The Christian Herald is a philanthropic as well as a religious paper. I think some of you know its character. It has conducted for the last 20 years a philanthropic organization. It is the medium through which, during that period, some $4,000,000 have been collected and disbursed in charities. When there have been famines in India, it was the first to raise funds. It has raised a million and a quarter dollars for the famine in India and for the maintenance of orphans. The same thing has happened in China. It has happened in Russia and Finland. It has happened recently since the great war began. It was among the first to place at the disposal of the suffering Belgians the food that was necessary. I think Mr. Herbert Hoover made some acknowledgment to that effect, that the very first means of relieving the Belgians was through the Christian Herald fund. This is possible because the paper has an effective business organization. It conducts these charities on that basis. Its subscribers, who number some 300,000, and who reach probably 2,000,000 persons, contribute what is known as the Christian Herald famine fund. The paper makes no charge for this service. It carries on all of these philanthropies free, but it does it on a business basis, and I am trying to emphasize that fact, because the paper is privately owned by a corporation. Its philanthropies are known to many of your Senators.

I might say incidentally that when these philanthropies, international and otherwise, have been undertaken, it has had the cooperation of the Government. You will find the State Department, the Navy Department, the Red Cross, and all of these organizations cooperating with it and giving it every facility. It finds itself in the position of all of these other papers, as to the increased cost of labor, as to the increase which this zone law would have, and, gentlemen of the committee, when you come to examine the bill in detail, that section with regard to the postage exemption, under it the Christian Herald would be in the same position as the Sunday School Times and several other papers which have been mentioned. It will be com-

pelled to pay the zone rate, which is absolutely prohibitive under the present conditions. The effect of that would destroy, I think without any question, its usefulness as a philanthropic institution.

I think we may speak of this frankly. There is competition among religious papers as among other papers. If the provision as it stands in the House bill should go into effect the papers which are exempt from this zone rate would solicit advertising and subscribers on the basis that they were not paying what the other papers were, and give guaranties of circulation, and the inevitable result would be to discriminate against papers like the Christian Herald and like the Sunday School Times. The reason why the paper is maintained in its present form, as I have said, is that it is able to conduct these philanthropic enterprises on a much more satisfactory business basis than otherwise. All that our paper asks, with its enormous circulation, with the great good it is doing all over the world, with the support it has had from the Government of the United States, is equal treatment. If religious papers are to be exempted, it desires to be exempted also. If no exemptions are to be made it is entirely willing to take its chance with the other papers and to be placed on the same basis as other papers. But it does ask the committee to consider this matter thoroughly, to consider not only the feature about exempting one portion of religious papers, but it asks the committee to consider the feature of such discrimination on the Christian Herald.

Senator STONE. You speak of exemptions. If the law should provide a classification for publications, and should designate religious publications as exempt, would your publication come within that classification?

Mr. PEPPER. I think unquestionably it is a religious publication; yes. But it is owned privately. It is distinctively religious. I think, when you come to look at a copy, you will unquestionably say that it is purely religious.

Senator STONE. I thought it was more philanthropic.

Mr. PEPPER. No, sir. And with the permission of the committee, the paper will file a brief, stating these facts and giving other facts; and other representatives of the paper, if the committee desires, will appear before it and give any details as to its business, so you can see the effect of this proposed legislation.

The CHAIRMAN. The committee has received a letter signed by the president and secretary of the Christian Herald which will be printed in the hearings, preceding your brief, when it is received.

(The letter referred to by the chairman is here printed in full, as follows:)

THE CHRISTIAN HERALD,
New York, May 12, 1917.

To the Finance Committee, United States Senate.

GENTLEMEN: The Christian Herald avails itself of the courtesy of the Committee on Finance to present a brief on the section of the war-revenue bill which relates to second-class postage. It desires to state succinctly the field it occupies as an evangelical religious newspaper, and an established philanthropic institution whose usefulness would be destroyed if the language contained in the House bill in regard to the religious press should be retained. This is because of a possible construction which would discriminate against the Christian Herald and subject it to exactions from which other religious papers are exempted. It asks to be placed unequivocally on the same basis as these other religious papers and nothing more. If it is not exempted many

large philanthropies supported by it will be irreparably injured and suffering will result.

To prove this the following short paragraphs are submitted:

The Christian Herald is one of the most influential religious and philanthropic institutions in the United States, if not in the world.

It is supported by over 300,000 families living in every city in the Union and it is passed around in the small towns and villages until it is estimated that at least 2,000,000 persons read it every week.

These 2,000,000 persons, known everywhere as the Christian Herald family, have contributed millions of dollars to relieve distress all over the world.

The Christian Herald is their chosen channel of distribution.

In 10 years they have sent the sick, the homeless, and the starving over $4,000,000.

In the last two years alone they contributed over a quarter of a million dollars for the relief of the suffering widows and orphans of the war in Europe.

In 1914 they shipped the first food—$40,000 worth—to reach the suffering Belgians. Ask Herbert Hoover.

Since 1914 they have sent hundreds of thousands of dollars to the other countries at war. Ask the United States State Department, which transmitted the money.

They have sent more money to sufferers from great catastrophes—such as the famines in China, $676,604.59; in India, $732,187.59; in Japan, $241,822.80; in Russia, $32,000; the Italian earthquake, $71,799.08; the Mexican flood, $8,350.60; the Galveston flood, $2,035.81; the floods at Dayton, Ohio, West Virginia, etc., $17,988.49; the Louisiana flood, $8,677.05—than any other similar institution. Ask the Red Cross.

When the famines of China, India, and Japan were over, leaving thousands of orphans homeless in their wake, the Christian Herald family engaged to support these orphans until they were able to support themselves. There were 5,000 of these homeless children in India, 348 in Japan, and 2,000 in China. Each child was supported on the bounty of this organization for a period of seven years. Many hundreds of them are still being so supported.

In cooperation with the Red Cross, it poured cargoes of food into Cuba during the Spanish-American War, helping save the lives of tens of thousands of reconcentrados, and it cooperated with the Government commission on helping the farmers of Colorado, Nebraska, and Kansas in 1895, sending them trainloads of food and clothing. The cooperation of the Department of State has been freely given in all of its movements for the relief of sufferers throughout the world. The diplomatic and consular officers of the United States, acting under instructions from Washington, have cooperated in every great emergency. The Navy Department on several occasions has provided ships for conveying the cargoes of food to famine-stricken countries. Missionaries and denominational boards of the different churches also have cooperated, and in some cases have had exclusive charge of the funds.

The Christian Herald family supports by its contributions Mont-Lawn, the Christian Herald Children's Home on the Hudson, where 3,000 children, taken from the heat of the slums each summer, are given a splendid vacation in the country.

The Christian Herald family supports the Bowery Mission, where the down-and-outs of the Bowery are given a chance to become regenerated, placed in jobs suitable to their mental and physical condition, the latter of which is first restored on a farm to which they are sent for the purpose and where they may learn useful occupations if necessary. Often during the bitterly cold nights of winter over 1,000 men are fed in the bread line which the Bowery Mission operates.

In short, the charities and the general uplift activities of the Christian Herald family are so widely extended that the very list of them would make an extensive catalogue.

Now, in expending all of these moneys which are contributed by these people in every State in the Union, not one cent of compensation ever has been or ever will be exacted by or paid to an official of the Christian Herald. Their services are given free, so that the amount sent in is used for the purpose for which it is intended practically undiminished. Not one cent of profit has ever been made on any of these philanthropies.

Having given this outline, which necessarily is incomplete, of the philanthropic activities that are dependent on the continued exstence of the Christian

Herald, the effect of the proposed legislation on its future is brought to the attention of the Committee on Finance, with the confident hope that action will be taken which will assure the journal continued existence. In common with other publications, the enormous advance in the cost of white paper, labor, etc., has greatly increased the expense. The committee is fully informed on this subject, so that details are not necessary. Following this increase in the cost of production, due to advanced prices of paper, should the increased postal rates under the zone system go into effect they would be absolutely prohibitive of the general circulation of the Christian Herald, if it should be held that it is not entitled to the free rate provided for religious, educational, agricultural, labor, or fraternal publications.

The business organization of the Christian Herald, under which its philanthropic activities are conducted, requires that it be maintained on the same basis as corporations or companies nominally organized for profit. Should it be held that it is not entitled to the rate given to other religious publications, the effect would be to give its competitors in the same field a part of the circulation and of the advertising of the Christian Herald, and this would be discrimination to the point of destruction for the journal. The Christian Herald, therefore, asks that the language of the House bill be so modified as to insure it the same treatment that is accorded other religious papers.

In conclusion, the Christian Herald, while appreciating the demands on the time of the committee and the difficulty it would experience in going into the full details of the business of different publications, desires to state that an authorized representative is ready to place before it for confidential information a financial statement of a very brief character which will enable the committee to understand and verify the correctness of the statements made above concerning the destructive effect of the proposed legislation in its present form on the business of the Christian Herald and the philanthrophies supported by it.

Respectfully submitted.

OTTO KOENIG, *President*.
THEODORE WATERS, *Secretary*.

(The brief referred to by Mr. Pepper was subsequently submitted and is here printed in full, as follows:)

The Christian Herald avails itself of the courtesy of the Committee on Finance to present a brief on the section of the war-revenue bill which relates to second-class postage. It desires to state succinctly the field it occupies as an evangelical religious newspaper and an established philanthropic institution, whose usefulness would be destroyed if the language contained in the House bill in regard to the religious press should be retained. This is because of a possible construction which would discriminate against the Christian Herald and subject it to exactions from which other religious papers are exempted. It asks to be placed unequivocally on the same basis as these other religious papers and nothing more. If it is not exempted, many large philanthropies supported by it will be irreparably injured and suffering will result.

To prove this the following short paragraphs are submitted:

The Christian Herald is one of the most influential religious and philanthropic institutions in the United States, if not in the world.

It is supported by over 300,000 families living in every city in the Union, and it is passed around in the small towns and villages until it is estimated that at least 2,000,000 persons read it every week.

These 2,000,000 persons, known everywhere as the Christian Herald family, have contributed millions of dollars to relieve distress all over the world.

The Christian Herald is their chosen channel of distribution.

In 10 years they have sent the sick, the homeless, and the starving over $4,000,000.

In the last two years alone they contributed over a quarter of a million dollars for the relief of the suffering widows and orphans of the war in Europe.

In 1914 they shipped the first food ($40,000 worth) to reach the suffering Belgians. Ask Herbert Hoover.

Since 1914 they have sent hundreds of thousands of dollars to the other countries at war. Ask the United States State Department, which transmitted the money.

They have sent more money to sufferers from great catastrophes, such as the famines in China, $676,604.59; in India, $732,187.59; in Japan, $241,822.80;

in Russia, $32,000; the Italian earthquake, $71,799.98; the Mexican flood, $8,350.60; the Galveston flood, $2,035.81; the floods at Dayton, Ohio, West Virginia, etc., $17,988.49; the Louisiana flood, $8,677.05, than any other similar institution. Ask the Red Cross.

When the famines of China, India, and Japan were over, leaving thousands of orphans homeless in their wake, the Christian Herald family engaged to support these orphans until they were able to support themselves. There were 5,000 of these homeless children in India, 348 in Japan, and 2,000 in China. Each child was supported on the bounty of this organization for a period of seven years. Many hundreds of them are still being so supported.

In cooperation with the Red Cross it poured cargoes of food into Cuba during the Spanish-American War, helping save the lives of tens of thousands of reconcentrados, and it cooperated with the Government commission on helping the farmers of Colorado, Nebraska, and Kansas in 1895, sending them trainloads of food and clothing. The cooperation of the Department of State has been freely given in all of its movements for the relief of sufferers throughout the world. The diplomatic and consular officers of the United States, acting under instructions from Washington, have cooperated in every great emergency. The Navy Department on several occasions has provided ships for conveying the cargoes of food to famine-stricken countries. Missionaries and denominational boards of the different churches also have cooperated, and in some cases have had exclusive charge of the funds.

The Christian Herald family supports by its contributions Mont Lawn, the Christian Herald children's home on the Hudson, where 3,000 children, taken from the heat of the slums each summer, are given a splendid vacation in the country.

The Christian Herald family supports the Bowery mission, where the down-and-outs of the Bowery are given a chance to become regenerated, placed in jobs suitable to their mental and physical condition, the latter of which is first restored on a farm to which they are sent for the purpose, and where they may learn useful occupations if necessary. Often during the bitterly cold nights of winter over 1,000 men are fed in the bread line which the Bowery mission operates.

In short, the charities and the general uplift activities of the Christian Herald family are so widely extended that the very list of them would make an extensive catalogue.

Now, in expending all of these moneys which are contributed by these people in every State of the Union, not one cent of compensation ever has been or ever will be exacted by or paid to an official of the Christian Herald. Their services are given free, so that the amount sent in is used for the purpose for which it is intended, practically undiminished. Not one cent of profit has ever been made on any of these philanthropies.

Having given this outline, which necessarily is incomplete, of the philanthropic activities that are dependent on the continued existence of the Christian Herald, the effect of the proposed legislation on its future is brought to the attention of the Committee on Finance, with the confident hope that action will be taken which will assure the journal continued existence. In common with other publications, the enormous advance in the cost of white paper, labor, etc., has greatly increased the expense. The committee is fully informed on this subject, so that details are not necessary. Following this increase in the cost of production, due to advance prices of paper, should the increased postal rates under the zone system go into effect they would be absolutely prohibitive of the general circulation of the Christian Herald; if it should be held that it is not, it is not entitled to the free rate provided for religious, educational, agricultural, labor, or fraternal publications.

The business organization of the Christian Herald, under which its philanthropic activities are conducted, requires that it be maintained on the same basis as corporations or companies nominally organized for profit. Should it be held that it is not entitled to the rate given to other religious publications, the effect would be to give its competitors in the same field a part of the circulation and of the advertising of the Christian Herald, and this would be discrimination to the point of destruction for the journal. The Christian Herald, therefore, asks that the language of the House bill be so modified as to insure it the same treatment that is accorded other religious papers.

In conclusion, the Christian Herald, while appreciating the demands on the time of the committee and the difficulty it would experience in going into the full details of the business of different publications, desires to state that an

authorized representative is ready to place before it, for confidential information, a financial statement of very brief character which will enable the committee to understand and verify the correctness of the statements made above concerning the destructive effect of the proposed legislation in its present form on the business of the Christian Herald and the philanthropies supported by it.

Senator TOWNSEND. Does your company pay dividends to its stockholders?

Mr. PEPPER. I would have to ask the secretary. Mr. Waters is the secretary of the company and he informs me that they did not pay any dividends last year.

The CHAIRMAN. Now, Mr. Collins, the committee will hear you.

STATEMENT OF MR. P. S. COLLINS, OF THE CURTIS PUBLISHING CO., PHILADELPHIA, PA.

Mr. COLLINS. Senator Stone, I think, asked a question concerning the effect of the increased zone system on the Curtis Publishing Co. I was not here when the question was asked, or I should have been very glad to have answered the question.

I will say that the increase in postage required under this zone system, plus the cost which we are paying for paper, as against the normal rates of last year, would altogether be something more than $50,000 in excess of the entire profits of the company for last year. That does not take into consideration at all the additional cost of everything else which has entered into the production of magazines, including labor.

The CHAIRMAN. You are next, Mr. Wilie.

STATEMENT OF MR. LOUIS WILIE, REPRESENTING THE NEW YORK TIMES, NEW YORK CITY.

Mr. WILIE. Immediately following the religious newspapers, perhaps the Times could not be regarded as a religious newspaper, although its motto of "All the news that is fit to print" must have a salutary influence on the Republic.

I desire to say to the members of the committee, first, that the newspapers and publications of the country have no desire to shirk any of the legitimate burdens imposed by the war in making the world safe by democracy, but in making the world safe by democracy it is essential that the agents of intelligence should be maintained and should not be annihilated, as this proposed tax threatens to do. I think, by the respective data furnished by the members of our committee, it has been clearly demonstrated that this tax is oppressive, burdensome, unjust, and unduly restrictive of industry. The example of the Times was cited yesterday by Mr. Seitz in his able presentation of the case. I would like to show an instance of this in the State of Ohio. In the State of Ohio the Times has a daily circulation of 2,564 copies, and the Sunday edition of 4,815 copies. Under the provisions of this zone system, this would entail an additional expenditure for the delivery of copies to the State of Ohio of $20,000 a year.

In the State of California the Times has but 681 copies daily and 2,496 copies Sunday, which would require an additional expenditure of $10,000 a year. It would make it absolutely obligatory upon us to cease the circulation of the New York Times in those States.

The effect of a 10 per cent tariff on white paper from Canada would require the expenditure of $200,000 more to the New York Times. The total expenditure under the proposed postal law of the Times and its subsidiary publications would be $300,000 per year. That would be half a million dollars.

We are now required to pay by the increase of cost in white paper $900,000 more this year than last. That would be $1,400,000, and the mere submission of these figures would indicate to the members of the committee that such a tax is harsh and simply destructive of industry, and will curtail the opportunity of the newspapers of the country to disseminate intelligence and keep the people of the United States enlightened as to the progress of this war. The cost of wrapping paper and of ink and of all of the ingredients that enter into the ingredients of newspapers have been heightened and advanced by various circumstances beyond the control of the newspapers or the members of this committee, but there is no reason for this committee to project this unfair burden upon the newspapers. The newspapers are already suffering. Publications throughout the country have suspended publication because of the increase in the cost of white paper, and now to add this burden would be unfair indeed.

The CHAIRMAN. Proceed, Mr. McAnerney.

STATEMENT OF MR. GEORGE McANERNEY, REPRESENTING THE NEW YORK TIMES, NEW YORK CITY.

Mr. MCANERNEY. Mr. Wilie might have added that the $1,400,000 of additional cost on the New York Times if these additional acts of legislation are passed, would be more than double the average profit of the paper during the past three years. In other words, from the great metropolitan journal, right down the list, this series of legislative acts we fear would prove to be literally confiscatory.

Gentlemen, we all must assume that you consider the stimulative side of the case of the newspapers, the extraordinary increase in the cost of news-print paper. It has been one of two or three things that have been singled out by the Government for governmental investigation, both by the Federal Trade Commission and by the Department of Justice. Those investigations are proceeding, and the best evidence of what the newspapers have been obliged to spend has been contained in the reports of the Government. Recognizing a condition of that kind during the war, the Government of Canada has reduced through fiat direction, the price of paper in Canada to $50 a ton, while those who buy in Canada for consumption and use in the United States are paying on an average of $65 a ton. To those who, under the encouragement of the Government at the time the tariff was removed on print paper, went to Canada for their supply, there happened to be ourselves, including others, and one-third of the consumers of the United States not only will be obliged to pay the excessive cost of duty, but the additional tax of 10 per cent. All of this before we come to the question of what the result will be of this postal legislation.

The example of the Canadian Government I do think we may fairly suggest to our Government and to our own Congress. The newspapers can not be made to suffer these things and give to the

Government and the people of the United States the service that they ought to give during these trying times. In innumerable ways—it is not necessary to enumerate them, and that is a fact—Senator Smith remarked yesterday something with relation to the proportion of advertising carried in the papers.

Senator SMITH. I really was referring to magazines and not newspapers. I had in mind especially those magazines that are used almost entirely as advertising agencies and carry but little reading, simply to justify the advertising.

Mr. MCANERNEY. I appreciate that, but in the case of nearly all of them the carrying of that advertising is the thing that permits them to give the low-rate service in the matter of the reading material, and in all the figures quoted here the receipts from advertising have been included and discounted, and after they have all been cashed in there still remains the condition that newspapers are facing, and in some cases it is bankruptcy, and the enactment of this provision would put them out of business. Is it not fair to ask why one public industry should be singled out as one of those who are, I might say, punished excessively, and then ask, possibly, what they would suggest in the way of a substitute tax? They do not wish to suggest any alternative other than that contained in the general proposal that the natural sources of the new taxation lie in the extra profits and what you might call the higher incomes of the country. In that field, with the expert and highly professional advice with which you are furnished, no doubt solutions will be reached, and we of the publishing business ask nothing more but that we be treated like every other industry, and we shall accept any tax that is laid commonly upon every industry and pay it cheerfully, and more, if there be any reason whatever why we should.

But these particular figures which are presented to you by the highest certified accountants in the country, these figures must convince you that this can not be done and the publishing business of the country continue and the newspapers be in a position where they can serve the country.

Senator WILLIAMS. Before you take your seat, why is it that the newspapers can not make the price twopence instead of a penny—2 cents instead of 1 cent—for a paper, and why is it that a lot of these magazines, many of them spreading misinformation at 15 cents apiece, can not raise the price to 20 or 25 cents?

Mr. MCANERNEY. A great many newspapers throughout the United States have already done that in their effort to keep up with the excessive charges.

Senator WILLIAMS. A newspaper that is worth only 1 cent is not worth anything.

Mr. MCANERNEY. There are a great many people who believe that no newspaper should be sold for less than 2 cents, but there are very few left at 1 cent. As to the magazines, there have been a great many increases.

Senator WILLIAMS. You buy a thing for 15 cents that calls itself a magazine, and the first 20 pages are taken up in advertisement and the last 20 pages are taken up in advertisement, and there are about 15 pages in between that are devoted to platitudes.

Mr. MCANERNEY. I would not, from the side of the publisher of a daily paper, assume to criticize what may be done in another field,

or defend it, but I do feel that advertising makes it possible to bring to the general readers of the publications an immense amount of information, most of which is mighty good.

Senator SMOOT. What do you pay for your print paper now?

Mr. McANERNEY. We are paying $65 a ton at our office. We paid $42 last year. We are told by manufacturers throughout the country that the price in the fall will be higher, and considerably higher, still. We do not know how we can stand it.

Senator WILLIAMS. I am not in favor of this tax, and never have been, and am not in favor of it now; but I rather dislike putting this thing upon the footing that you people can not live. All you have got to do to live is to advance your price to a reasonable extent.

Mr. McANERNEY. We do not like it either, but we are obliged to put it upon that footing; and if you expect that a good proportion of this tax should be made out of increases still to be made, I must remind you that these increases have largely already been made.

Senator WILLIAMS. Your appeal is just what we have met with from everybody: Nearly everybody says they can not pay the tax.

Mr. McANERNEY. That is not our position. We are perfectly willing to submit to every ounce of taxation that is imposed upon others in common with ourselves. We do not see why an industry which is called upon to perform extraordinary service should at that same moment be called upon to pay such taxes.

Senator WILLIAMS. They are not called upon to perform extraordinary service. They perform it because it sells the paper.

Mr. McANERNEY. I beg to differ with you. I think there are finer and larger motives than that behind the publishing business.

Senator WILLIAMS. I do not deny that; but the main business reason is to sell the paper.

Mr. McANERNEY. That is right.

STATEMENT OF MR. W. F. JONES, REPRESENTING THE MINNEAPOLIS JOURNAL, MINNEAPOLIS, MINN.

Mr. JONES. Mr. Chairman and members of this honorable board, I come from a country of magnificent distances. From Minneapolis and St. Paul, which I will refer to as the Twin Cities, to Spokane is a distance of 1,700 miles. In that territory there are no metropolitan papers. There is a very good paper at Fargo, there is a paper in Billings, there is a paper in Butte, there is a paper at Helena, and there is a paper at Great Falls. Only those five cities in all that territory west from the Twin Cities have an Associated Press service. For 1,200 miles of that 1,700 miles the people in that community depend upon the Twin Cities for their newspapers—for the news of the world—because the home papers have no Associated Press service. I venture to say that out of the 1,200 miles there are 800 to 1,000 miles where there is not a hamlet or a home but what has some sort of a Twin City publication, either daily or weekly or Sunday.

The framers of this proposed postage bill no doubt had an idea that this extra tax could be passed along. I want to tell you, gentlemen, as a publisher of over 30 years' standing, and I am an old bird in the game, that it can not be passed along to rural communities. In 1907 the Minneapolis Journal and all of the Twin City

publications decided it was time to pass a proportion of the white-paper cost along to its subscribers, and we raised our subscription price from $4.80 a year to $6. The paper with which I am connected had 25 men on the road talking it over, because we gave every subscriber on our list a 60-day opportunity to renew his subscription at the old price. Regardless of that fact at the end of 12 months we had lost 25 per cent of our total country circulation, and were forced to go back to the $4.80 to stop further shrinkage. Advertisers were beginning to complain, and that was true of every Twin City publication.

What applies to the Twin Cities refers equally well to every Mississippi Valley and every Missouri River city that reaches out as we do.

The Minneapolis Journal's circulation, lying as it does, not in the first and second zones—it is, of course, there also—but it goes into the fourth and it goes into the fifth zone. Last year we paid $64,000 newspaper postage. On our circulation the average price per pound will be 2¾ cents, which forces us on the same circulation to pay $176,000 newspaper postage as against $64,000, an increase of $112,000. If that could be passed along, do you suppose we are so dumb, that we are so lacking in enterprise and newspaper foresight that we did not pass it along years ago? I tell you it is a physical impossibility, and we can not see anything in the situation but absolute destruction and loss of that circulation.

You are going to take away from the people of the Plains and in these most remote districts the news of the day. The newspaper is the greatest force in any community. It is almost more powerful than government, because it carries every sort of message. The schools furnish the fundamentals, but the newspapers furnish and discuss the great important topics of the day. They have raised the standard of agriculture, they have raised the standard of civilization, of Americanism. I tell you, gentlemen, that we are not here to escape taxation. All we ask is to be let alone that we may spread the spirit of optimism and ward off the financial panics and aid in carrying the prosperity of this country. I thank you.

The CHAIRMAN. Go ahead, Mr. Glass.

STATEMENT OF MR. FRANK P. GLASS, VICE PRESIDENT OF THE NEWSPAPER PUBLISHERS' ASSOCIATION AND REPRESENTING THE SOUTHERN NEWSPAPER PUBLISHERS' ASSOCIATION, BIRMINGHAM, ALA.

Mr. GLASS. I come from one of the rising cities of the South, the city of Birmingham, where everything has been quite active, but nevertheless, on account of the great increase in price of raw print paper, the newspapers of Birmingham in the last few months have had to increase their subscription prices 25 per cent, every one of them, and yet there is not one of them to-day that is not suffering because of the news print paper situation. We have done everything in our power to relieve it, and it will be an impossibility to take this new postage rate and pass it on to our subscribers.

We are under moral, if not legal, obligations to the bulk of our subscribers to deliver the paper to them for something like a year in advance, and we could not morally change our subscription rates under present conditions.

There are some of us who have gained the impression, through gossip probably more or less magnified and distorted and, I believe, unjust, that there is an antagonism in Congress to some of the newspapers of the country and that it is the purpose—that it is the plan; I will not say the purpose—that it is the plan in some directions to unload on the newspapers in the shape of a new postal rate this antagonism.* There have been some private expressions, possibly, that warranted this gossip, that there is a disposition to punish the newspapers at this juncture. I am sure that the newspapers of the South are certainly not in any way responsible for any of the troubles that have existed in any direction, that they have not given cause for this gossip, and certainly the great American Senate, the great American Congress, will not want to punish any large body of innocent newspaper men from one end of this country to the other because of the possible sins of some newspapers in some States.

Senator THOMAS. We can not pass it on very well.

Mr. GLASS. No. But I think Mr. Seitz made a very vigorous point here yesterday when he said that the proposition now under consideration of doubling the postage rates of this country was really an attempt under the guise of a war tax to readjust the postage rates of this country.

Senator WILLIAMS. In that connection, I want to say that there seems to be amongst some of you an idea that the Postmaster General or the Post Office Department is responsible for this. The Post Office Department and the Postmaster General never had a thing to do with the thing and never recommended it and are opposed to it.

Mr. GLASS. I was informed of that same state of facts yesterday by the chairman of the Senate Committee on Post Offices and Post Roads, Senator Bankhead, of my own State. I was informed that in January Mr. Burleson came before that committee and withdrew any suggestions he had previously made as to the zone system, on the ground that the newspapers of the country were being sufficiently punished in this white-paper situation. I think it was a very sound ground, and while there may be some who think that the war conditions may have changed the viewpoint, I think it is an illogical and unsound and unsafe view to take. Newspapers must be depended upon in this juncture to rally the people in every way. It would be a crime to single them out in any way or have them think they are singled out in any way for punishment or special taxation. It would be a very imprudent and unwise thing to do, and I do not believe that this great Congress will think of doing anything of the sort. They will realize the inexpediency of it as well as the injustice of it.

It so happens that I have been chairman of the paper committee of the American Newspaper Publishers' Association during the last year, and that I have had a good deal to do in looking into this paper situation and have taken some steps to relieve it, but I want to say to you that it is not yet relieved, notwithstanding work of the Federal Trade Commission in trying to fix the price, and notwithstanding other things being done in the way of building new mills. New mills are being built and will probably bring in 700 or 1,000 tons of new tonnage every day in the next 12 months. We are doing everything in the world in a business and commercial way to relieve ourselves, but at the very best there can not be relief under one year's time, and so we newspapers appeal to you, for God's sake,

gentlemen, do not add to our troubles at this time. Do not put on a tax on the carriage of our newspapers to different parts of this country when we are bound to stand this present situation from the print-paper manufacturers.

There is a bill, introduced before your body yesterday, as I understand, by Senator Robinson, of Arkansas, to enable the Federal Trade Commission to arbitrarily fix the price. I do not know the state of that bill, but there is no certainty of what will develop in the newspaper-print situation. As Mr. McAneney pointed out, the manufacturers for the most part think there is going to be a higher price this fall than last winter.

There is before your body for consideration a 10 per cent tariff on all imported paper. That means yielding to the Government on a 1,500 tons per day of paper brought into the United States probably $30,000,000, but it means also probably passing into the pockets of American manufacturers $90,000,000 annually. Is that sound business—to get for the Government thirty million for foreign paper, and put in the hands of the manufacturers $90,000,000 at the same time—3 to 1 for what the United States gets? You gentlemen must take all of these things into consideration in conjunction with this postal matter. Let the thing alone for the present. Let it alone, and wait until this war is over. Wait until this print-paper situation is adjusted on the sound basis, even by governmental regulation, and then, if it is proved necessary to have this postal regulation, let it be done through the Post Office Committee. Let the Postmaster General and the Committee on Post Offices take that matter in hand and not mix it up in this, it seems to me, unbusinesslike and unreasonable fashion.

With the permission of the committee, I will submit a brief relative to the proposed tariff on print paper, which can be inserted at the conclusion of my remarks.

The CHAIRMAN. The committee will be glad to have it.

(The brief referred to was subsequently submitted by Mr. Glass and is here printed in full, as follows:)

THE PROPOSED TARIFF ON PRINT PAPER.

Under the direction of your honorable body the Federal Trade Commission spent months in an exhaustive investigation of the conditions of the print-paper manufacture in this country. That body has only recently made a report to the Congress, declaring that there was a combination among manufacturers, establishing the fact that there were abnormal profits in that trade, and that the newspapers of the country were oppressed as a result. Acting upon this report, the Department of Justice has caused indictments to be found in the Federal courts against a number of the manufacturers concerned.

The oppressive conditions surrounding the newspapers of the country, therefore, can not be disputed. You have heard about them from many sources yesterday and to-day.

Now comes the provision of the House bill to include print paper and the raw materials out of which it is to be made in the schedule for the horizontal tariff of 10 per cent on all imported materials. I respectfully submit that this proposal is inconsistent with the facts officially declared by two arms of the Government, growing directly out of your own initiative. A further recognition of this oppressive taxation was given yesterday by the introduction by one of your members, Senator Robinson of Arkansas, of a bill to declare print paper a public utility and to authorize the Federal Trade Commission to fix its price.

I can not believe that the Senate wishes to aggravate this paper situation by any contributory assistance. A tariff on paper now will not work out revenue nearly so much as it will yield protection to American manufacturers who, it is demonstrated, have no need of it. Let me give you some details prepared by the American Newspaper Association's expert in paper matters.

The method of raising revenue from publishers by adding a 10 per cent tariff on the one-third of our paper supply which comes from Canada is most unjust and inequitable.

It means that other publishers will have to pay a 10 per cent increase on the two-thirds of the domestic production, as the domestic prices would naturally be advanced to equal the imported price under existing conditions. The Government then for the sake of collecting $30,000,000 from one-third of the print-paper consumption of the United States would force the other two-thirds of publishers to hand over to the domestic paper manufacturers $90,000,000, from which they would only get 16 per cent by the excess profits tax. These manufacturers are already, according to the report of the Federal Trade Commission, after its elaborate and thorough investigation, in receipt of enormous profits extracted by excessive prices and by combination from the publishers of this country. The Government would by this tariff merely assist these manufacturers.

During the last 18 months all publishers in the United States have been sorely tried by increasing cost of all materials and labors, but particularly by the cost of white paper, which, through the course of the manufacturers, has practically wiped out the entire profits of the bulk of the newspapers and forced many of them to operate at a loss or to discontinue entirely. The hardship now proposed in addition to this will be followed by a wave of suspensions of publishers across the United States who, without hope, would give up entirely. This proposed tariff will give some justification to the manufacturers' claims as to cost of production, because now the million cords of wood obtained from Canada annually, of the total 3,000,000 cords used in this country to manufacture news-print paper, would pay a tax of 10 per cent, on top of the excessive prices of wood resulting from the shortage of Canadian labor and the high cost of lumbering supplies. The wood cut in this country and sold in the market will also appreciate in value on account of this import tax.

There are in the United States about 15 news print paper mills, which have been termed by the Federal Trade Commission as marginal mills; that is, mills which can not ordinarily make news print paper at a price comparable to that of modern and properly located mills. Such mills are buying all or part of their ground wood and sulphite supplies in Canada. The margin, which even at these high prices has been small to them, will now force them to increase their already burdensome prices. These few mills have only been able to live under these costs at the present excessive prices, while all the large and average mills have been making enormous profits.

The publishers of this country, after facing the present enormous shortage and seeing the prospect of its continuance for years to come, have been attempting to encourage and stimulate new production of paper under these conditions of excessive cost of construction. This new tariff will have serious deterent effect upon this expansion, since much of this development has been made in Canada on account of the lack of sufficient wood supply in this country. The publishers have encouraged the development as far as practicable in the United States in western territory, but the pulp supply for the bulk of this development must be found in Canada. There have been also a large number of independent developments carried on in Canada, which would help the situation and relieve the suffering publishers. This 10 per cent tariff now imposed will, of course, stop this development.

Such tariff will bring the publishers of the United States back to their old conditions when domestic paper manufacturers under the protection of the tariff were able to force innumerable hardships upon consumers. The free entry of Canadian paper and pulp went very far toward relieving this situation without injuring the manufacturers in this country. Present extreme conditions have brought about a shortage of paper which has in spite of this brought many of the same hardships to us again. A tariff now imposed under these conditions would make an aggravated situation very hard to estimate.

The CHAIRMAN. Now we will hear Mr. Keeley.

STATEMENT OF MR. JAMES KEELEY, REPRESENTING THE CHICAGO HERALD, CHICAGO, ILL.

Mr. KEELEY. Gentlemen of the Finance Committee, I am going to be mainly statistical, and I am going to take my own paper as an example: There seems to have been a general impression that unless the newspapers pay this excessive postal tax that they will be paying no taxes whatever, or will not be paying their due proportion of the war taxes.

Last year, or until the 1st of April of this year, I paid 2 cents a pound for white paper delivered in my pressroom. To-day I am paying 3.35 cents per pound for paper delivered in my pressroom. That means an increase to me of over $400,000 a year. Fortunately at this moment I buy my paper from an American manufacturer. I will not have to pay at this moment the 10 per cent tax that it is proposed to lay on all duties that formerly came in free; but, ultimately, I will have to pay it, and, as Mr. Glass said, you gentlemen won't get it. I think it is fairly reasonable to assume that the American paper manufacturer will get as much for his product as the Canadian manufacturer will. So we can add $100,000 to that $400,000 increase that I face in the calendar year.

Pulp that comes in from Canada will also be taxed 10 per cent, and every stick of wood that comes from Canada to be made into paper will be taxed 10 per cent. So I think it is very fair to assume that will be an additional $100,000.

Everything that goes into the manufacture of a newspaper in the last one or two years has gone up anywhere from 10 to 500 per cent. Inks have gone up 40, 60, 80, 100, and 150 per cent. Zinc, on which we make cuts, shows an increase of 173 per cent. Lead, antimony, and tin, from 50 to 200 per cent. The chemicals used in the engraving department—cretol—is up 432 per cent. They need that to make asphyxiating gases, I believe, and a number of other chemicals that are used and are necessary for the manufacture of munitions. On top of all these increases, you can add the 10 per cent that this bill proposes. The railroads are asking a 15 per cent increase in rates. The increase of letter postage will mean to me I will pay to the Government this year on the increase in letter postage between $4,000 and $5,000 as my share of the tax; postal cards, over a thousand dollars; drafts, notes, checks, the stamps, $2,500. The tax on insurance policies will cost me about $150. The 3 per cent on freight bills will cost me $1,800. The increase in express rates will cost me at least $3,000. The tax on electric power and gas will cost me between $500 and $700. The tax on telegraph messages will cost me over $1,500. Long-distance telephone calls will cost me about $100, and on top of that—these are taxes that I will pay, one paper will pay if the provisions of this bill go through, and I am not kicking about them. There has not been a voice raised in opposition to these incidental taxes that we will have to dig into our pockets for. Now, on top of that, the proposed postal increase will be over $150,000—about $155,000.

Now I have in existence to-day 56,000 individual contracts with people outside of Chicago, subscriptions paid in advance, and I have contracted with each of those 56,000 people to deliver a paper at a certain price. Now I can not pass this increased postal rate on to them, and in over 40 per cent of those cases I will have to pay more

for carrying the paper than I get for the finished product. To-day my daily mail circulation, if this rate went into effect, outside of Chicago, the postage would cost me $230,837 and the white paper $261,300, and I receive for those papers $372,470, or $129,657 less than the white paper and the postage cost me; and on the Sunday circulation outside of Chicago the same figures would show a deficit of $50,500, or a total of $180,157 less than I receive for the finished product that I will pay for the unstained white paper and postage.

Now, gentlemen, the man who figures that this increase on second-class postage is going to produce $19,000,000 does not know what he is talking about. Put it on and the $19,000,000 won't be there, because the papers won't be in existence; and if there are any governmental accounts that have to be paid with this $19,000,000 and no other money is available to pay those bills, they never will be paid. I simply want to add one word. Allow us to stay in business and help to raise revenue. Do not put us out of business, because if you do you are abolishing a great tax-raising power. I thank you.

The CHAIRMAN. Now, Mr. Ommen, you may proceed.

STATEMENT OF MR. ALFRED E. OMMEN, REPRESENTING THE UNITED TYPOTHETÆ.

Mr. OMMEN. Mr. Chairman and gentlemen of the committee, I represent an angle in this situation that has not up to this time been presented, and I think that, Senator Thomas, you will appreciate our unfortunate situation differently from the magazines or newspapers, in that we are not able to pass it on.

I represent the employers of the printing press in this country. Not every publisher is a printer. Lots of people are in the publishing business, and some have their office and carry on their periodical and send out their printing to the printing plants in their districts. So we represent an element in this situation that we can not pass on. In other words, we agree to print a magazine or a periodical at so much. If the magazine men can not live, as the gentlemen here have indicated, if the newspaper men can not live, we can not live, because we have nothing to print. We are out of business. If you add the second-class postage rate to the periodicals and newspapers we can not demand any increase in our price from them. We can not say to them, "You are making a great deal more money; you have got to give us so much money, because labor unions demand from us an increase in wages." We can not say that, because the magazine man and the periodical man, even if he can pass it on, simply gets to a situation where he barely can live. So we are in no position at all to pass any such situation on.

Now, the Government of the United States very carefully considered that the periodical and the newspaper and the printing business are the same thing, and in the census reports and in any reports of this Government you will find that they are all related and considered, so that when you interfere with the newspapers, when you interfere with the magazines and periodicals, you interfere with us, and you injure our business; and whether an individual shop for the moment does not print a periodical or a newspaper does not make any difference. It is going to be affected. So I submit to you that the printing industry of this United States—that is, 31,500 printing

shops, employing over 500,000 men, there is not a town or hamlet or little village in this whole United States that has not got a printing shop. There is not any town of any size that has not got a newspaper. There is not any State in the whole country that has not got in the larger towns periodicals. So that you affect an industry by this tax that reaches from Maine to California. You do not affect any section. You affect all the people. You gentlemen know that it has been common since Ben. Franklin that the printers are poor. Poor Richard was known as Ben. Franklin, and that has been the same all the time. I have been in touch with these people, and I have known in many and many a print shop in this country to-day that during the last two or three years, since the beginning of the war, it has been possible for these people barely to get along. Their labor cost is fixed; they have got to pay it, because they are in the labor union. They have compositors; they have pressmen; they have electrotypers and stereotypers. When I say there are 500,000 people working in the print shops of the United States you have got to remember that some of them are married, and you probably are affecting at least 2,000,000 people by this legislation.

So that it is a serious situation. It does not affect alone the distinguished men who run great periodicals and newspapers, but it affects the common laborer. It affects the ordinary employee, and you must also realize that sometimes my clients, you have been fortunate enough to make a contract with the Youths' Companion or the Christian Herald or somebody else, that we go out and spend $25,000 for a press, and it takes us sometimes three years to get the money back before we get anything out of the press, and sometimes the Christian Herald or the Youths' Companion or somebody else nabs us under the contract, and they take it away after a year and we do not know what to do with that press, and there are thousands of such instances that go on constantly. You injure the printing industry of this country, and you affect the press makers—these great mailing machines and great presses. You affect the ink industry; you affect this terrible pirate crowd—the paper people; but you affect each individual crowd, and so I say that for three years we have been trying to live, and then you come down and hit us on the head with an ax. We can not do that, and you can not do it. The Congress of the United States has no right to put anybody out of business. The Congress of the United States at this time should help the people, because God knows the people are willing to help this Government in every way they possibly can, and you must help the people to help the Government and not put people out of business.

I have listened to these conferences here, there, and everywhere for the last three or four days, and I tell you these people are sincere, and what they are telling you is true. There is not a man trying to put one over on this Senate committee. Every man is perfectly willing to come here with all his plans and specifications and show you how he is situated; and so you come to a serious situation, and you must not destroy an industry that has been going on in this country and that is so universal as the printing industry.

What else do you do that affects everybody? The printer in California or in Georgia or Wisconsin, or any other place, has a right to know what is going on in the printing industry. There are magazines throughout this country that go to the various printing plants,

and they contain information as to the conditions of trade. The man in California knows what the wages are in New Jersey; but the very moment that you raise this postage so that you make a discrimination between the man in California and the man in New Jersey, you denationalize the magazines. You do not make the universal magazine. You find as a result of this that you will have a New York Everybody's, a California Everybody's, a Southern Everybody's; and that there will be sectionalism created by any such situation. The best possible thing for this country is a universal educational system.

Primarily, I refer to the 31,500 employers of printers; the man who day in and day out employs labor. He has no interest in postage whatsoever, but he is affected when his clients are put out of business, and those are the people I want you to consider, because we can not pass it on. We can not go in and earn money for our labor if you put the periodicals and magazines out of business, and I hope you will realize that angle of this situation, because it affects a condition that has not up to this moment been brought to your attention, because all you have heard is publishers and newspapers and things of that kind; but you have not heard of the man who can pay rent on printing presses, who are as common in this country as barber shops, whom you can find in every place, and I want you to consider that they are affected by this kind of legislation, and that it will be a serious injury to them.

I thank you very much.

The CHAIRMAN. The committee will next hear Mr. Richardson.

STATEMENT OF MR. ALAN H. RICHARDSON, REPRESENTING McCALL'S MAGAZINE.

Mr. RICHARDSON. I want to answer one question that has arisen very naturally in the minds of some Senators, and that is as to why it is not possible for publications to meet this increased cost of doing business by passing it on and increasing their subscription prices. I think I can point out why that is so. Publishers of periodicals, weeklies and monthlies and quarterlies, that is a business carried on very far in the future, and there is no element so far in the future as this subscription list. My own publication has subscriptions on its books for two, three, four, and five years. So that, under normal conditions, no periodical publisher should be requested to increase this cost of postage within less than one year's previous notice, and even under existing conditions no amount of advanced notice would enable the publication with which I am connected to meet this increase in cost of postage for this reason: The profits of the publication of the McCall Co. for 1916 were $210,000, for 1915 were $205,000. The increased cost of paper and other supplies this year will be $285,000. By discontinuing our dividends sufficiently early last year we accumulated a sufficient surplus, which with borrowing, perhaps, twenty-five or thirty thousand dollars will enable us to get through this year. The subscription price when it is in full effect will not more than take care, if, indeed, it meets, the increasing cost of paper, and therefore I repeat that no advance notice would enable McCall's Magazine at the present time, when it is meeting the increased cost of paper, to pass it on. I have here a brief prepared by the Periodical

Publishers' Association, of which I am chairman of the postal committee, which I submit for the consideration of the committee. I thank you.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Richardson is here printed in full, as follows:)

Brief of the Periodical Publishers' Association on proposed zone rates for second-class mail matter.

To the Finance Committee of the United States Senate:

The publishers of periodicals have come to the Finance Committee of the Senate, asking, not for voidance or diminution of any proposed taxes, but for the right to pay taxes.

All that they have from which to pay taxes is their earnings. Any part whatever of these are at the disposal of the Congress. Scores of periodical publishers have voluntarily offered to give their entire net earnings through the war emergency, without question, willingly and proudly, if the Congress sees fit to ask for so much. They are not quibbling over a 16 per cent tax on excess profits, but go so very much further in their willingness to make sacrifices than the utmost that has at any time been proposed, as to offer, with no exemption whatever of normal profits, to pay any proportion of their income that the Congress asks for.

But that their industry should be suddenly strangled, through ruthless and inequitable interference with its necessary processes is simply depriving them of their right to work, to earn, and to turn over their earnings to the use of the nation in its time of need.

This, then, is the position of the periodical publishers in opposing the utterly antiquated, impracticable, destructive, and thereby futile proposal to increase the present second-class postal rate of 1 cent per pound by the inauguration of a zone system exacting from 2 to 6 cents per pound.

CAN THE PERIODICALS PAY SUCH RATES?

Less than 6 per cent of newspaper circulation goes through the mails (testimony of Don Seitz, publisher of the New York World, report of the Overstreet Commission), and this most largely in the first zone. But magazines, such as the Outlook, Review of Reviews, Youth's Companion, Scientific American, send practically all of their subscription copies, which constitute 85 per cent or more of their total circulation, through the mails. Furthermore, these nationally circulated periodicals would pay the highest zone rates to almost as great an extent as the lowest.

Careful analysis of the distribution of their circulation geographically shows that in the case of nationally circulated periodicals the net direct result of the zone schedule now before the Congress is an increase from the 1 cent per pound rate, on which they have built up their business for the past generation, to 4.20 cents per pound, or 320 per cent.

Under the present second-class rate of 1 cent, provided in 1885 entirely on the initiative of Congress and without a word of suggestion from publishers, more than 95 per cent of the existing periodical circulation has come into being.

It is the freight rate of the periodicals. It was not given to them, but to the people of the United States; until after the legislation of 1885, the subscriber, not the publisher, had always paid the postage on periodicals. For the further convenience of the people the publishers voluntarily assumed, in 1885, the cost of delivery. For 93 years, since 1792, more than a score of changes in post-office rates on newspapers and periodicals have been consistently reductions, not increases, and publishers felt that they could safely take on the expense of delivery of their periodicals as part of the costs of their business.

The periodicals have, then, built up their business on the basis of this hitherto stable freight rate of 1 cent per pound.

But the freight rates of other shippers change, it may be objected.

It is true. The Interstate Commerce Commission is now hearing protests from hundreds of shippers against an increase of 15 per cent in their freight rates, asked by the railroads in their dire emergency created by the rising costs of an utterly abnormal period.

What is the proposal as to publishers embodied in the proposed zone legislation?

A sudden increase in their freight rate, not of 15 per cent but of 320 per cent.

But the enormity of the proposal is not fully measured even by the fact that it provides for an increase on periodicals twenty-one times greater than the sternly contested increase in general freight rates.

For, the manufacturer of shoes or steel or automobiles can quickly pass on the increase in his costs to the comparatively few jobbers, retailers, large purchasers, or agents with whom he deals in wholesale transactions. On the other hand, the publisher dealing with 50,000 or 1,000,000 individual subscribers in transactions of minute dimensions that will bear but little expense of negotiation, can only slowly, expensively, and wastefully change their habits formed through a generation of stable practice. Furthermore, the publisher is in the impossible position as regards the exactions of the present zone-rate bill of having already sold his product for from six months to three years in advance to customers from whom he could not collect 1 cent to make up for the exorbitant increases prescribed in the present bill and scheduled to go into effect at once.

Such a blow would fall on publishers after a sudden increase in paper costs—their raw material—amounting to 75 per cent, which alone has brought many of them, hitherto prosperous, to a state of simply trying to hang on, with no net earnings at all, until paper prices shall tend toward their prewar levels.

The chairman of your committee has in his hands sworn statements from officers of a large number of periodicals of their present profits and newly arrived increased paper costs, together with approximate figures of what the revenue bill now before Congress would demand, which show any business man that there are no present earning possibilities in the periodicals to pay the proposed rates.

We ask to offer in this brief one out of the many instances as a concrete example—a prosperous periodical, published at $3 a year, the Review of Reviews, not by any means so badly off, in the face of the proposed rate increases, as many others.

The figures of the operations of this typical periodical during the four months ending March 31 last, an average season of the year for advertising volume, are as follows, this particular period being selected because it is the only one that shows the effect of the unheard-of new paper costs on even the high-priced periodicals of substantial circulations, and even in a year of unprecedented advertising volume:

Sales of advertising	$99,800.65
Circulation sales	99,696.74
Total expenses	199,497.39
Total expenses	182,075.38
Net profits	17,422.01
Pound rates paid during this period	8,670.04
Pound rates demanded by the zone-system bill	36,339.37

Please consider for a moment the other dealings of this periodical with the Post Office during this period. Its books show that in the four months the magazine purchased 2-cent stamps—soon to be 3 cents—to the amount of $20,202.06, 1-cent stamps to the amount of $24,255.49, and paid parcel-post charges of $3,196.20—total direct payments to the Post Office of $50,320.79.

Please go a little further: During these four months the Review of Reviews received 258,272 sealed letters, with postage stamps affixed, in addition to post cards and parcel-post deliveries.

So far, we have payments to the post office of $61,495.23 in transacting the direct business of the magazine.

But, in addition, during this period advertisers spent, as shown above, $99,800.85 for advertising in the Review of Reviews to the people of the entire country, an investment which, in the vast majority of instances, can only be returned by operations involving the purchase of 2-cent stamps, adding further to the profitable business of the post office.

We ask you, Is it good business for the Government, can it possibly help the Nation's revenues, to destroy these operations?

Can it possibly avoid damaging the revenues of the Nation to strangle such a periodical circulation?

The stamp purchases shown above would disappear; the profits would, of course, disappear, as also the corporation income-tax receipt, while the personal income-tax receipts would suffer by just so much.

We offer this as a concrete proof of our opening statement that we are before the Finance Committee of the Senate struggling, not to avoid paying taxes, but to be allowed to pay them.

It is obvious that the utmost levy that can be made on this periodical is the entire amount it has earned, such a levy being, of course, far greater than any tax exaction in any of the warring countries.

Strangle the life of such an industry by choking its vital processes and there can obviously be no fruit to collect. We ask you to let the fruit grow under our husbandry and take what part of the harvest you deem right and wise.

That the exhibition of this particular periodical is no exceptional case is clearly demonstrated by the report from Price, Waterhouse & Co. quoted below, in which the figures for 86 periodicals of general circulation are given to show that, although confronted with the problem of absorbing new paper costs aggregating more than their net profits for 1916, these periodicals are now asked by the proposed zone-rate measure to pay increased postage amounting to about four times their aggregate net profits for the last calendar year.

Number of periodical as printed below	86
Aggregate average circulation per issue in 1916	21,264,404
Total amount of postage paid in 1916 at 1 cent a pound	$1,243,465.99
Amount of postage per year demanded by the proposed zone-rate measure	$4,959,376.05
Total addition to pound-rate charge per year on new proposed basis	$3,715,910.06
Total net profits of all publications for year 1916	$1,197,403.73
Total estimated increase of cost of paper to be used in 1917 over cost in 1916	$3,034,566.83

These periodicals have not been selected because they were horrible examples. They are representative of the rank and file of American periodicals.

This list of priodicals does not include those published by the concern which is the one conspicuous example of exceptional prosperity.

But does the fact of the existence of a single concern of exceptional prosperity, which has been so frequently referred to in Congress and elsewhere in discussions of the second-class mail rate, justify strangling nearly all other periodicals?

And even in this wholly exceptional case the exactions of the proposed zone-rate measure plus the increased paper costs now paid would more than wipe out its total profit for the past calendar year.

List of publications furnishing figures for consolidated accounts reported by Price, Waterhouse & Co., and printed above: The Gentlewoman, McCall's Magazine, Woman's Home Companion, American Magazine, Farm and Fireside, Every Week, Pictorial Review, McClure's, Collier's Weekly, Farm and Home, The Modern Priscilla, Metropolitan, Leslie's Weekly, Judge, Film Fun, People's Home Journal, Mothers' Magazine, Christian Herald, Motion Picture Magazine, Ladies' World, National Sportsman, Motion Picture Classic, Field and Stream, Smart Set, Popular Science Monthly, Photo Play, Puck, Yachting, Outing, All Outdoors, Theater Magazine, Municipal Journal, World's Work, The New Country Life, Garden Magazine, Short Stories, Travel, American Penman, Current Opinion, Harper's Magazine, American Art News, Orange Judd Weeklies (5), Weekly, Monthly, and Quarterly Religious Publication (35), Vogue, Vanity Fair, House and Garden, Outer's Book, Spare Moments.

Of the many commissions provided by Congress to study the problems of second-class mail rates the last, and a very distinguished one, was composed of Charles E. Hughes, then justice of the Supreme Court of the United States; A. Lawrence Lowell, president of Harvard University, and Harry A. Wheeler, president of the Chamber of Commerce of the city of Chicago.

Dealing with the question of a zone system this commission spoke as follows (H. Doc. 559, p. 140):

"The policy of zone rates was pursued in the earlier history of our Post Office and has been given up in favor of a uniform rate in view of the larger interests of the Nation as a whole. It would seem to the commission to be entirely impracticable to attempt to establish a system of zone rates for second-class matter."

This was the latest commission. The next latest was the Penrose-Overstreet Joint Commission of Congress on Second Class Matter, which held voluminous hearings in 1906. On page 28 of the report of this commission the zone-rate system is considered as follows:

"Neither, for reasons almost equally obvious, is a solution to be found in a zone system of charges * * * which would artificially restrict the diffusion of the periodical agencies of intelligence. * * * Would it not be politically and socially unwise to create arbitrary barriers against the processes of national unification and solidarity?

"Apart from the social and political considerations, which to our minds are conclusive, there are serious administrative difficulties in the way of a zone system of charges."

Thus we have the two distinguished commissions on second-class mail of recent years, the only two, both deciding flatly against the zone system.

With all the recent authorities to whom the Congress would look and the most eminent that have ever passed on the subject, solidly arrayed against this radical innovation, why should a zone system be now considered at all?

It is plain to students of the Post Office operations that even if so unwise a measure should be enacted into law, a change back to a flat rate would soon be made.

For those fortunate publications which would survive at all under so ruthless a measure could only do so by adding the increased cost of delivering subscriptions in California, Oregon, and Texas, and other sections remote from the publishing centers, to the price of subscriptions in those States; and few will maintain that the citizens of the Southwest and those of the Pacific coast would submit tamely to being charged 25 per cent to 50 per cent more for the same periodical than was paid by other citizens living near to the publishing centers.

Please observe that the zone system discriminates not only between one citizen and another; it is grossly discriminatory also in that every publisher happening to be located near the periphery of the United States loses a large portion of the low-zone rates as compared with publishers that happen to be located in the interior.

Your committee is, of course, quite aware of the practical reason why the present proposal for taxing second-class matter is in the form of a zone system; you are aware that it is considered more expedient, and by some who have not studied the question, more just, to increase the rates on magazines and other periodicals very much more than on newspapers, which is automatically accomplished by any such zone arrangement. In fact, it is safe to say that the fraction of newspaper profits that would be required to pay the increased postal charges of the present bill is to the fraction of periodical profits required for the same purpose as less than 1 to 20.

But hear what the Hughes commission has to say after many months of study of the absolute and relative costs to the Post Office of the several subclasses of second-class mail matter (H. Doc. 559, p. 144):

"The commission is further of the opinion that it would be a mistake to discriminate between newspapers and magazines or other periodicals. So far as educational value is concerned no satisfactory distinction can be made. And we have no basis for the conclusion that the comparative cost of transporting and handling would justify a difference in rate."

And again (H. Doc. 559, p. 145):

"These figures are the only basis we have for judgment as to the comparative cost of transporting and handling the different kinds of publications above mentioned; and it is evident that they furnish no sufficient foundation for a discrimination in rates between newspapers and periodicals."

This decision was arrived at by the distinguished commission, not on the basis of any merely general view of the situation, but because it was found that the admitted longer haul of the magazines was only one, and not the larger factor, in comparing the post Office cost of a pound of periodicals with the cost of delivering a pound of newspapers. The other and larger factor than the transportation item, was found to be the handling cost, and in this item the very much greater average number of pieces of newspaper mail to the pound than pieces of magazines to the pound, and the resulting greater cost of handling a pound of newspapers than a pound of magazines, more than compensated for the longer haul cost of the latter.

You find then the zone system rejected unequivocally and flatly by the two important commissions provided by the Congress in the present century to in-

vestigate second-class mail rates, and the only practical argument for any zone system—that national periodicals are hauled farther and therefore cost the Post Office more—based on utter error.

We ask you to refuse consideration to any proposal of a zone system of rates for second-class mail, because such a system is thoroughly discredited by the best authorities, because it is impracticable in operation, because it is inequitable both as to publishers and as to the subscribers to their periodicals, and because it is subversive of the national spirit and interest.

THE ZONE RATE BILL BEFORE CONGRESS WOULD NOT BRING THE REVENUE ANTICIPATED.

The final net effect of the present measure would almost certainly be to reduce the Nation's revenues, instead of increasing them by $10,000,000.

In 1916 second-class mail paid, in round figures, $11,000,000 at the 1 cent a pound rate.

Assume for a moment that so enormous an increase in the freight rate of newspapers and periodicals would not be prohibitory for a majority of publishers and would not contract or destroy circulations.

We find (H. Doc. 559, p. 144) that 53 per cent of all second-class mail consists of newspapers, the balance of 47 per cent being divided among scientific periodicals, educational periodicals, religious periodicals, trade-journal periodicals, agricultural periodicals, magazines, and miscellaneous periodicals.

Of the circulations of the largest class, newspapers, only a small fraction would pay the higher zone rates, certainly not so many pounds as would, among the magazines and other periodicals, be diverted from the mails. This leaves 47 per cent of 1,100,000,000 pounds to pay the average increase of rate. This average increase of rate would be for all these subclasses outside of newspapers not so large as for the magazines (3.20 cents). It would be approximately 2.90 cents, which, applied to the 47 per cent of 1,100,000,000 pounds, would give a theoretical increased revenue of approximately $15,000,000, less the receipts from the class exempted by the present proposal.

But can it be reasonably assumed for a moment that, the periodicals, already struggling for their lives after a sudden increase of 75 per cent in the cost of paper, their raw material, could pay a freight rate suddenly increased by about 300 per cent, which they have no means of passing on to the public, without at least radical contraction of their circulations?

It is certain that they could not, and it is also true that in the rapid contraction of their circulations the revenues of the Post Office would shrink by far more than the amount of lost pound-rate payments. In the specific example cited above, the Review of Reviews, it was seen that even the direct stamp and parcel-post payments and incoming first-class mail amounted to more than seven times the total pound-rate payments.

But putting a prohibitory rate on the delivery process of such a periodical would do still more: it would stop the stimulation of the first-class mail from the $300,000 of annual advertising in the magazine cited—advertising that has to give a profit to the advertiser, and can only do so through operations requiring the purchase of first-class postage.

But we have not finished yet with the deadly effect on its contributions to the Nation's revenues of the proposed interference with the business processes of their particular periodical. For, after all, this magazine is making a profit, in spite of an $80,000 yearly increase in the cost of white paper, and it will pay a corporation income tax on this profit, and the profits, as distributed to its stockholders, will be mulcted by the personal income tax and surtaxes.

Furthermore, the publisher is, with hundreds of his publishing brethern, willing and anxious to give up for the war emergency any part of this corporate income that Congress may ask for, only begging to be allowed to produce the income and do his bit.

Can it possibly be wise to tax the mechanism of such a business so heavily that the machine must stop, with no product issuing from it for Congress to levy upon?

Has any member of your committee the slightest confidence, after examining these figures, that the proposed increases in the second-class mail rates will add $1 to the country's revenues, or that these will not be actually diminished?

PROFITS TO THE POST OFFICE FROM MAGAZINE ADVERTISING.

In the preceding section of this brief we have claimed that in the destruction of the periodical circulations wrought by the zone-rate measure, the Post Office revenues would suffer from the loss of first-class postage originated by

periodical advertising. Let us see more specifically how this first-class postage is created by advertising.

About $75,000,000 is invested yearly in magazine advertising. Nearly $400,000,000 is invested in advertising in newspapers and periodicals other than magazines. It is manifestly impossible to obtain even approximate figures of the postage originated by this vast body of advertising, but a number of specific examples of actual advertisements with the actual stamp purchases resulting from them will clearly show the principle and give a valuable measure of its importance.

Here is the postage bill of one of the many great "mail-order" magazine advertisers—a company which sells excellent clothing to women who can not come to the great cities and their department stores. The president of the company writes:

"As we are a mail-order concern, our business is derived entirely, either directly or indirectly, from our magazine advertising. During the year we paid the Post Office Department for carrying our first, third, and fourth class mail matter the sum of $433,242."

What an advertisement in one issue of one magazine did for another women's "wearing-apparel" house is recorded on their books, as follows:

The postage required to answer the 15,000 replies from the one-column "insertion" in the magazine, also to send the merchandise required by 2,000 of the inquirers, also to "follow up" other inquirers, etc., was $5,460.

The Government charge for carrying this advertisement through the second-class mails was $38.83.

That $5,460, by the way, did not include the several hundred dollars spent on postage by the inquirers themselves.

The president of a concern which publishes encyclopedias, natural histories, classics, etc., investigated the correspondence created by a recent page of his advertising, inserted in a single magazine.

The stamps and money orders bought by the inquirers and by the publishing company as the result of the 4,000 answers to this one advertisement amounted to $884.

The publishers paid the post office to carry that page, at second-class rates, $12. A good business man would be willing to lose several times $12 in order to do $884 worth of business as profitable to himself as first-class mail is to the Government.

Scores of apparently small advertisers are found in any issue of any popular magazine. They are just as good customers of the post office, in proportion, as the big concerns using columns or pages.

A modest 1-inch magazine advertisement is printed by a company which reports that its yearly postage account from that cause is $5,132. Adding the approximate postage on the 1,500 letters a month sent to the company, the yearly total of postage created by this inconspicuous concern through the magazines is found to be $5,492.

Only half-inch magazine space is used each month by a certain electric manumanufacturing company in the Middle West. But its postage records show stamp purchases for a single month resulting from that half-inch "ad." of $590.

Two quarter-column announcements of a dress fabric appealing to women, in a single magazine, brought 7,000 replies, involving postage stamps worth $230.

Pretty good business getters for the department, these "ads," which cost the publishers to mail, at second-class rates, $10.40.

Even better in proportion was a one-fifth column appeal to mothers in one issue of the same magazine. It produced postage to the amount of $240.

To carry the little advertisement at second-class rates the Government charged $7.76.

A single-column magazine "ad." of a Chicago clothing firm with a number of retail stores over the country brought 4,000 inquiries, which, with follow up, etc., caused postage of $380.

That column cost the publisher to mail, at second-class rates, $38.67.

The Woman's Home Companion sent a letter to the advertisers in a November issue, asking for an exact memorandum of the letter postage on the inquiries from their November advertising and the answers to these inquiries. Seventy-five advertisers reported with definite figures an aggregate letter postage expenditure of $3,385.90.

The Woman's Home Companion paid the Government just $583 for carrying that portion of the magazine on which these 75 advertisements were printed.

Any advertising man can point to hundreds of "mail-order firms" like the above. These firms can trace directly to their magazine advertising every year purchases of millions of dollars' worth of the stamps that make big profits for the Post Office.

It is even more surprising to learn the enormous postage bills caused by an entirely different class of magazine advertisers—the "general publicity," or "national" advertisers—who wish the reader to ask for their fine soaps or mattresses or silks or stationery at his local store. These firms do not depend on direct replies, yet they receive so many that thousands of dollars are spent for stamps per year in scores of cases—even per month in many.

A moderate-priced shoe is sold through a number of retail stores in different cities. The manufacturers advertise in magazines for national "publicity" to bring buyers into those stores. Incidentally they mention their department to fill orders by mail. Thus an enormous correspondence has been built up, of which the average annual increase alone during the last three years has involved 264,000 first-class letters—a minimum postage of $5,280. This is simply one yearly addition to the company's already large first-class business, of which it writes that "all but a nominal percentage" has been "induced by our magazine advertisements."

More than $15,000 is spent annually for postage by a mattress manufacturer, "following up" inquiries received from his magazine advertising, though that is designed to create a demand for the mattress at local furniture stores.

This $15,000 is entirely over and above his steady correspondence with dealers, etc., which was built up in the first place by magazine advertising.

One of the many recent "contests" conducted by magazine advertisers was that of a stationery company. Theirs is also "publicity," not mail-order advertising. It is designed to create a demand for their paper over the stationery store counters. But their "contest," announced exclusively in the magazines, brought 59,000 replies, which, with follow up, etc., averaged 12 cents first-class postage—a total of $7,080 in one month.

Here is still another "publicity" experience. In the course of familiarizing women with a new trade-mark for silk by means of magazine advertising, the manufacturers incurred postage bills, during the 11 months, amounting to $7,979.75. About $2,000 more ought to be added to represent the stamps purchased by the prospective silk-dress wearers themselves.

Another "contest" held by a national advertiser brought 12,089 replies from a single insertion in one magazine, to handle which postage stamps had to be bought for more than $600.

The publishers paid to have that page carried through the mails at second-class rates $97.66.

A half page in one issue of another magazine brought 4,000 letters from inquirers, which, with "follow up," etc., meant stamp purchases of $200.

The carriage of that half page at second-class rates was $25.62.

Magazine advertisements of a popular cold cream brought 170,000 letters to the manufacturers last year, though the controlling purpose of the campaign was to get the public to ask for that kind of cold cream at the drug stores.

Not including postal orders, special delivery stamps, etc., the stamp revenue to the Government from those letters was $8,500.

And, of course, that does not include the profuse correspondence between the manufacturers, the jobbers, the drug stores all over the country, and so on.

For another facial preparation, a single advertisement in a leading weekly magazine brought more than 13,000 replies. The stamps involved here add up to $900.

The publishers paid the Post Office to carry this advertisement at the second-class rate $48.83.

A household remedy seen in most drug stores was mentioned to the extent of one-quarter page in a single issue of one magazine. The requests for samples numbered 1,685. The postage involved was $202.20.

The carriage of the quarter-page at second-class rates was $24.42.

Another "drug store" preparation frequently brings the manufacturers 2,000 to 6,000 letters each month from their magazine advertising of it, though that is, of course, for "publicity," first of all. A single insertion last fall brought 12,000 inquiries, which created first and last the purchase of $750 in stamps.

A system of physical culture for women put quarter pages in several magazines during the month of November, from which 3,905 letters were received. In this case the total postage including follow up and correspondence back and forth, was $1,101.09 for that month of November alone.

Narrow limits would be expected in the demand for expensive silverware. Yet a silversmith's two advertisements in the November and December magazines brought 45,000 requests for catalogues. These had already involved, by January 13, with following up, etc., a postage bill of $5,510.

Another big postage bill was also incurred incidentally by a company which uses magazines advertising to bring buyers into drug stores, etc., asking for certain shaving soaps, and the like. Still their postage bill as a result of inquiries from their advertising was $3,656.08. This does not include the stamps bought by the inquirers—probably $1,000 more.

A similar soap was described in a page advertisement which, printed in one magazine one time, brought more than 30,000 letters. First-class postage on them and the answers to them aggregated more than $900.

The charge for carrying that page at the second-class rate was about $120.

A DESTRUCTIVE MAIL RATE WOULD ESPECIALLY HARM WORKMEN AND WORKWOMEN.

Let us turn to the harm that this zone rate measure would work on thousands of citizens less able to bear the loss of their employment than the publishers themselves.

The representative of the American Federation of Labor intrusted with a study of the effect of the proposed legislation on labor reports that the baneful results of such strangling interference with business would be felt directly and indirectly by no less than 700,000 workmen and workwomen.

They are to a notable extent skilled and specialized workers, and the tens of thousands of women among them would not have the alternative of fighting for their country.

In a single magazine office of moderate size over 200 women are employed. In the binding and other trades affiliated with the publishing business a majority of the workers are women.

We ask you to read the convincing words of Mr. Samuel Gompers on this phase of the destruction that would be wrought by increasing the freight rate of the periodicals at this time.

Mr. Gompers says of the proposed zone measure:

"To place a double and triple tax upon the public press is without warrant and excuse, and simply means that many publications will be forced out of existence. Such a condition will seriously menace the conditions of life and work of the men and women employed in the printing and closely related and kindred trades by throwing thousands of them out of employment. Shall we sit idly by while the very livelihood of thousands of our fellow workers is placed in jeopardy and while the labor and sympathetic public press is seriously menaced?"

SECOND-CLASS MAIL RATES NO PLACE FOR EMERGENCY TAXES.

Publishers of periodicals can not in the least be reproached for unwillingness to be taxed in this war emergency, for they are offering any part whatever of their entire profits that Congress sees fit to take.

They can therefore with perfect confidence and propriety urge with all their power that it is unwise, dangerous, and futile to interfere with this process of their industry at all for the purposes of raising emergency revenue.

The agitation for an increase in the second-class rate had its origin entirely in a hastily formed and erroneous theory that second-class mail cost so much more than the revenue received that newspapers and magazines were responsible for Post Office deficits.

The distinguished Hughes Commission referred to above was in the year 1912 asked by the Congress to report a finding "of what the cost of transporting and handling different classes of such second-class mail matter is to the Government." (H. Doc. 559, p. 53.)

The very first paragraph in the commission's decision, rendered after months of study of the Post Office figures and public hearings and examinations and cross-examinations, is found as follows:

"The evidence submitted does not justify a finding of the total cost of transporting and handling the different classes of second-class mail."

This, the latest and most authoritative word on the costs to the Government of second-class mails, puts in the realm of tradition and rumor such glibly quoted figures as 9.23 cents on the cost per pound, or $89,000,000 as the annual

loss to the Government in transporting and handling the whole of second-class mail.

These and other such statements have been bandied about and urged as a reproach on publishers so long and constantly that they have come, from mere repetition, to be accepted by those without an opportunity to study the real evidence as established facts.

What is apparent to any reasonable man as to the effect of the 1 cent a pound rate on the finances of the Post Office is that its income account has over a period of 32 years always shown better results when the volume of second-class mail increased rapidly, and has shown results not so good when the volume of second-class mail increased with smaller acceleration.

The following figures are from the annual reports of the Postmaster General:

In the year 1870 there was a deficit in the operations of the United States Post Office of 21.4 per cent of its turnover.

In 1879 was passed the act putting second-class matter on the pound-rate basis. An immediate increase in the volume of second-class mail began.

In 1880 the Post Office deficit was only 9.6 per cent of its business.

In 1885 was passed the law giving the 1 cent a pound rate, which was followed by still more marked increased in the volume of second-class mail. It trebled in the decade ending with the year 1890.

The succeeding decade brought a phenomenal increase in the size of second-class mail, from 170,053,910 pounds in 1890 to no less than 382,538,999 pounds in 1900.

The deficit in Post Office operations in the year 1900 was only 5.2 per cent of its business.

In the prosperous years following 1900 the increase of second-class matter was stupendous; from 382,538,999 pounds in 1900 to 488,240,903 pounds in 1902, only two years. These years brought the great forward movement in the production of low-priced but well-edited magazines.

In 1901 there was a deficit in the Post Office operations of only 3.41 per cent of its business.

The deficit in the Post Office operations of the year 1902 was 2.4 per cent, the smallest percentage of deficit in 18 years, and the smallest but two in 57 years, a deficit which was really a surplus, as the following paragraph proves:

But in this year 1902 is seen for the first time, in important proportions, a new item of expense—$4,000,000 for rural free delivery. Our Government had wisely and beneficently extended the service of the Post Office to farmers in isolated communities, regardless of any commensurate return from that branch. The report of the Postmaster General for 1902 says: "It will be seen that had it not been for the large expenditure on account of rural free delivery, the receipts would have exceeded the expenditures by upward of $1,000,000."

It will be clear from these figures, which are taken from the reports of the Postmasters General, that, beginning with the advent of the second-class pound rate system, the deficit of the Post Office had steadily declined, the rate of decrease being always coincident with the expansion of circulations and advertising of periodicals, until in 1902 there was a substantial surplus, which the Government wisely saw fit to use for a purpose not related to the needs of magazines and periodicals or to their expansion.

Since 1902 there has always been a surplus in the operations of the Post Office Department, outside of the money the Government has seen fit to expend for rural free delivery, in spite of, or more truly, because of, the growth of second-class mail from 488,240,903 pounds in 1902 to no less than 1,202,470,676 pounds in 1916.

In the last year, 1916, there is a reported surplus of $5,820,236.07, which, when the loss on rural free delivery is accounted for, brings the total figure of the year's surplus comparable to the years before the rural free delivery service began, to more than $50,000,000.

It has been shown earlier in this brief that an interference with this vital process of the periodical publishing business by any increase of rate that would theoretically produce appreciable additional revenue would in practise operate to constrict business and reduce Government revenue.

Second-class mail is not a place on which the impact of a war emergency tax should fall. The second-class rate is a cog in such an elaborate and delicately balanced commercial machine that it can not be wisely changed without the most careful and extended consideration of all the possible results of a given change.

We call to your attention the fact that Canada, a country of magnificent distances, carries second-class mail, without limitation of haul, at one-half cent per pound; that her post office habitually shows a profit from operation; and that, even in her dire need of revenue for this war, greater by far than our present need, Canada has not in her war emergency increased her half cent per pound rate at all.

The Post Office of the United States has prospered marvelously, with a vast and constantly increasing volume of business, largely created by the vitalizing growth of second-class mail carried at 1 cent per pound; the Post Office reported last year, even after losing $45,000,000 on rural free delivery—a beneficent institution of no beneficence to periodical publishers—a profit of more than $5,000,000.

Do not destroy the sources of revenue at the particular time when revenues mean victory for the Nation in the world war.

Remember that over and above all the direct destruction we have described—and that would certainly result from any appreciable increase of our freight rate at this time of fearfully high costs—there would be the correlative disruption of the sales organizations of hundreds of manufacturers who can only market their product by the aid of advertising.

Periodical publishers have offered to contribute their all—the results of their labor and capital. Nor are they in the position of refusing ever to consider a rearrangement of mail rates. They absolutely oppose an increase of their freight rate at this time, as a necessarily little-considered item in a necessarily hasty emergency campaign for revenue. The question of increasing second-class mail rates has been debated time and time again in Congress; always after thoughtful consideration of the full evidence Congress has seen the unwisdom of increasing the rate. Publishers would be spineless and utterly lacking in their sense of duty as citizens if, with the facts before them showing that the proposed measure would hurt the revenues of the Nation while destroying their business and throwing their work people out of employment, they did not oppose it with any power they had.

The ruthless schedule now before you is in its net results wholly destructive. We avoid the word "confiscation," because the zone-rate measure under your consideration is not worthy of it. Government confiscation implies a taking for the Nation of property, a gain for the Nation though a loss to the citizen. We are offering to submit to that in tendering any part whatever of the entire net results of our capital and labor, and we would hope to feel that there was sweetness and propriety in giving up all to our country. But this proposal, made at such a time, gives nothing to our country in destroying our business activities. It does not deserve the word "confiscation." It would result in loss or death to every interest concerned.

THE PERIODICAL PUBLISHERS' ASSOCIATION,
By ALLAN H. RICHARDSON,
Chairman Postal Committee.

The CHAIRMAN. The next gentleman, Mr. Scott, will proceed.

STATEMENT OF MR. MARSDEN G. SCOTT, PRESIDENT OF THE INTERNATIONAL TYPOGRAPHICAL UNION.

Mr. SCOTT. The men who set the type of the newspapers and periodicals want to be helpful to the Government in the critical situation which confronts us all, and that is why we are here to protest against this increase in the rates on second-class matter. We know precisely what the effect of this increase will be to us. We have had one illegal tax placed upon the industry since the war began by the manufacturers of all kinds of paper used in printing, both the newspapers and the commercial shops, and the commercial printing industry has been shot to pieces by the increased cost of materials which enter into commercial printing. In the newspaper field the publishers have been compelled to reduce the sizes of their papers in many instances, and therefore they have reduced the number of printers employed in the composing rooms. A great many weekly

publications have suspended, and the men who formerly set the type on these papers have been thrown out of work.

We do not need any sermons on patriotism. Our members are doing their bit now. Our little Canadian unions, with a membership of only about 6,000, have sent 600 of their members over to Europe, and they are over there in the trenches to-day fighting the battles for you and I, and the International Typographical Union is standing back of it. We have not followed the example set by the big insurance companies and increased the dues of those members. The boys here at home are paying the dues, and we have $200,000 in liabilities over there in the trenches to-day. Twenty-seven of our members have been killed up to the 1st of March, and we have paid nearly $8,000 to the widows, fathers, and orphans of those men.

As I have stated, we know exactly what will happen if this suggestion becomes a law. More papers will be snuffed out of business. There is not the slightest doubt about it. Other papers will reduce the forces in their composing rooms, and if the men who set the type are to be called upon to take care of an army of unemployed members we can not be of much help to the boys who are in the trenches in France. The employers represented in the publishers' association and the employers represented in the United Typothetæ have cooperated with us to the fullest extent and have said to their employees that our boys who enlist in this war will have their situations remaining for them when they return. We want to do everything that is possible to be helpful, and if this were a tax on profits and on net income we would not be here to raise the slightest kick. If you want to raise the rate of exemptions still further to a thousand dollars, go ahead and do it, and that will be a tax on everybody and we will not protest. We will pay our share, but if you put this suggestion into law you are going to add to the army of unemployed and you are going to make it impossible for us to be very helpful in the critical situation which confronts us.

The CHAIRMAN. Now we will hear from Mr. Freel.

STATEMENT OF MR. JAMES J. FREEL, PRESIDENT OF THE INTERNATIONAL STEREOTYPERS AND ELECTROTYPERS UNION.

Mr. FREEL. Mr. Chairman and members of the committee, I would like to say that I appear here as the representative of one of the five international printing unions, representing collectively a membership of 135,000 men and women who are engaged in the printing industry. Our members are employed in the newspaper publishing industry, in the periodical industry, and also in the industry that Mr. Ammon represents—the printing industry.

I have listened very patiently here to the presentation of this case on the part of the publishers. The publishers have unanimously declared that the passage of this legislation would be the ruin of the industry, and they have told you that they can not pass it along. I want to say, representing the other most important factor in the industry—the first factor has already spoken—and representing the men and women that work at the industry, we want to say as emphatically as we can, and we have expert knowledge on the subject, that it can not be passed along and that it will mean ultimately the ruin of our industry. Let me say to you gentlemen here that as a

result of the increased cost in press paper we have lost 10 per cent of our membership already. They have been deprived of employment. Why? Because the publisher and the printer were compelled to economize, and they economized by reducing their forces, and we suffered as a result. If this legislation goes into effect, we are going to lose at least half of our membership; that is, they are going to lose employment. That is the effect it is going to have on us. No doubt about it at all. We know it. It is our business to know it, and we have thoroughly investigated that proposition.

Yesterday I heard one of the successful periodicals quoted, a periodical that occupies in the publication of periodicals exactly the same position that the man who controls the stock in the Standard Oil bears to the average business man, and on the strength of the success of that periodical the proposition was to tax the others. Now, it was pointed out that that periodical perhaps would be able to stand the tax, and there is not any doubt of it, because they could shove it along and put it on to some people, but the other periodicals could not do that; and I am satisfied that it would be just as these gentlemen say; and we want to say as emphatically as we can that we are in absolute accord with the statements that they make, and there has not been any dispute here at all. We come here and we make that statement. The representatives of the two most important factors in the industry make that statement, and it has not been denied by anybody.

Gentlemen, I just want to say one or two other things. I realize that my time is limited. I would like to say that we represent people who are patriotic American citizens. We have not done anything; we have not committed any crime against this Government; and we do not think that the Congress of the United States are justified in ruining the industry at which we make our living. We believe that we should be allowed to continue to work at the industry at least until we are called upon by our country to make sacrifices, and I want to say to you that we represent just as patriotic citizens as there are in these United States. We are willing to do anything that we can to help the Government, even to sacrificing our lives if we are called upon to do so.

I want also to call your attention to the fact that I believe this industry represents one of the greatest forces in civilization, and it certainly is the greatest bulwark of democracy. You do not believe in preventing free speech or free press, and I think that this proposition would prevent free speech and a free press in a different way—it is proposed to tax it to death.

I want to say that we realize that Congress has got a great problem to solve, and we maintain that it can be solved without destroying legitimate industry. It has been solved in Canada, a country with only 8,000,000 inhabitants, who have already sent to the trenches in Europe 400,000 men. They have solved it without destroying any industry except the liquor industry, and that was absolutely a war measure for the conservation of the health of the people of Canada and for their soldiers.

The men and women of the printing industry that I represent demand at least the same treatment that the men and women of Canada have already received from the Canadian Government. I thank you.

The CHAIRMAN. Prof. Linn, the committee will be glad to hear you.

STATEMENT OF PROF. J. W. LINN, UNIVERSITY OF CHICAGO, CHICAGO, ILL.

Prof. LINN. It seems plain, from what has been presented to the committee, that if the proposed postal rates should be adopted the result would be the extermination of a very large number of magazines, and, as far as the rest are concerned, both a contraction in circulation and a large increase in price to the subscriber. Now, I am not speaking from the slightest financial interest in the publishing business. I have no connection with it whatever. I am a teacher of English in a university, and have been for 18 years. What I should like to do is to point out the result on the Nation if you increase the price and limit the circulation of newspapers and magazines.

Many of these newspapers and magazines have a definite, even what might be called a formal, educational influence—particularly the magazines. The outlook, the Independent, the Literary Digest, the Review of Reviews, the World's Work, the Atlantic Monthly, the New Republic, the Scientific American, the Popular Science Monthly, to name a few only, are constantly used in our schools and colleges all over the country as textbooks—used in courses in literature, in composition, in history, in civics, in science. Hundreds of thousands of copies weekly or monthly are so employed. They have taken a recognized place in modern education. The whole effort of that education at the present day is to vitalize the schools; to connect up boys and girls with affairs and to develop their vocational opportunities. The magazines are serving this effort splendidly. There is hardly a big university, in the West at any rate, there are few small colleges, which do not employ them in classroom work; and the number of high schools in which they are used runs into thousands. You say magazines of the cost I have mentioned will not be eliminated. They must, however, pass on the tax; they must greatly increase their rates; the expense to the students must be much greater; and so their use will be much less and their influence will be crippled.

But this formal educational work, though important, is not the most important educational service of magazines and newspapers. Their great effect is in their spread of ideas. They get people to read. Books do not serve so well. There is such a thing as intellectual inertia, and books are not so likely to overcome it. The habit of book reading is a good habit, but for millions in this country it is a habit hard to cultivate. They will not sit down to a book; they will pick up a newspaper or a magazine. Now, is such reading, call it desultory, if you please, really educational? Emphatically it is.

Of course, our newspapers and our magazines print an enormous amount of what is, from your point of view and mine, poor stuff. You find such poor stuff even in so-called good magazines, and you find a fairly large number which are distinctly what we would call cheap magazines and even cheap newspapers. You find scores of serials of no very remarkable significance, hundreds of short stories, the climax of which is "he kissed her on her ruby lips," or "she rested her head upon his manly shoulder, murmuring 'yes,'" but the question is, how are you going to start people on the road to education? How are you going to start the reading habit? Even when you have your boys and girls into the high schools, you have to be careful what you

give them to read, or you will kill off any desire to read at all; and there are millions and millions of our people who don't get as far as the high schools. They are a tremendous force in the Nation. And they will either read, to start, what you call poor stuff, and what is poor stuff, or they won't read at all. Which do you prefer, gentlemen? When I was a boy there were not so many magazines, so I read books; but what books? Good books? Why, when I was on my good behavior I read Harry Castlemon, and the Elsie books and Oliver Optic, and you know what they were like. When I wasn't, I read nickel novels—Three-Fingered Mike, or a Bucket of Blood. They are hard to get now; the magazines have driven them out. The point is that I established the reading habit on poor stuff; then I read better stuff; now I can take even the Congressional Record and understand quite a good deal of it. [Laughter.]

If you say to your country population, "Here, we'll cut off these magazines and newspapers," they won't read at all; and you will strangle them as surely as you would strangle a baby if you said, "Here, we'll cut off your supply of milk and water, and you can either eat bread or starve." You give the baby what it can digest, and by and by it can eat bread. You let these people start the reading habit, and by and by they will get up to Shakespeare and the Congressional Record.

I am not going to say more than a word about the tremendous amount of real information, real education, that the magazines and newspapers give. You shut off the farm journals, as these proposed rates would shut them off, and you decrease the productive power of this country by millions of dollars. You shut off the trade journals and you decrease the manufacturing power of this country by many more millions. You shut off such a journal as the Christian Herald and you shut off an agency that has raised over $4,000,000 for charitable and religious organizations in 10 years, and that in so doing has enormously increased the interest of people in giving, which is one of the things that a democracy absolutely has to learn the value of. You shut off the Woman's Home Companion and you shut off an agency that in the last few years has sent out elaborate, personal, expert, individual instructions to over 300,000 women on the care of their children—how much do you calculate that one magazine has done to improve the health of the children of this Nation? You shut off the newspapers, with their careful, scientific information about the care of the health, information that hundreds of them are dispensing daily, and you might as well go out and shoot down 10,000 doctors; you would do less actual harm. You say these newspapers and magazines would not be destroyed by these proposed new laws? You know what would happen—you know that the prices to subscribers would rise, and circulation would narrow—and just who would lose out?

Why, just exactly the people who must have the reading habit if this is going to be a democratic Nation—the small-town people, the country people. These publications are printed in big cities; the first zone, the cheapest zone, would be in and near those cities. That means you have shut off education just where it is needed. The cities will read anyway; there are many educational opportunities in the cities anyway; but the small towns and the rural districts depend to a large extent on newspapers and magazines.

You shut out those boys and girls, those men and women, from the reading habit. You shut them out from the freest possible circulation of ideas, just at the time when that freest possible circulation is most essential. I say, as a college teacher, a man who has been in the educational profession almost a generation, that in my judgment you could hardly stab nearer the heart of the Nation than by stabbing at the country circulation of newspapers and magazines; and yet that is exactly where this increase in second-class postal rates, this zone system, is directing the knife.

The CHAIRMAN. The committee will now hear Mr. Woll, who represents the American Federation of Labor.

STATEMENT OF MR. MATTHEW WOLL, REPRESENTING THE AMERICAN FEDERATION OF LABOR, WASHINGTON, D. C.

Mr. WOLL. I have here a communication addressed to Mr. Simmons, chairman of the Senate Finance Committee, from Mr. Gompers:

> Owing to engagements and duties that I must perform in connection with my position as a member of the advisory commission and chairman of my committee on labor in furtherance of the work of national defense, it is impossible for me to be present at the hearing before your committee to-day.
>
> I have designated Mr. Matthew Woll, president of the International Photo-engravers' Union of North America, and Mr. Arthur Holder, legislative committeeman of the American Federation of Labor, to represent labor's interests in the hearings this morning.
>
> Very truly, yours,
>
> SAMUEL GOMPERS,
> *President American Federation of Labor.*

I also represent here the trade-union and labor press, and in addition the international allied trades-unions, two of whose officers you heard just a few minutes ago.

Organizd labor is interested in this proposition in three ways: We are interested as producers of labor. We are interested as mechanics and workmen producing these publications, and we are interested as readers of the various newspaper, magazines, etc. In so far as the trade-union and labor press is concerned, we have to-day in this country over 275 trade-union and labor publications, with a circulation approximating a million and a half copies. Under this proposed legislation practically one-half, if not most of them, will be forced out of existence. While it is true that the bill submitted by the Ways and Means Committee does not contemplate raising the tax upon fraternal or labor publications not for profit more than a quarter of a cent a pound, it is also true that 50 per cent at least do not come within that exemption and are classified with the general magazines and newspaper publications, and thus that increase proposed by the Ways and Means Committee in its report would absolutely destroy those publications. There is not one single labor publication that has a margin of profit. They have been maintained almost entirely by the contributions of trade-unionists, and if this Federal tax is placed upon the press it will mean its entire destruction, and when you destroy the avenues of communication and the means of voicing our protests and remove that means of conveying our ideas to the people, then there will come into existence, I warn you, a different form of communicating with each other and moving our thoughts and ideals forward.

Outside of the trade-union press, we are interested as producers. In the printing industry it is true that there are over 400,000 workmen directly employed in the mechanical printing department in the printing industry. If we count in the clerical force and the men in the accounting offices of the papers, there are over 500,000 men and women directly employed in the printing industry. Those are not, however, the only men dependent upon the printing industry for a livelihood. From the man who cuts the timber way down to the man in the pressroom, there is a larger proportion of men constantly employed, and so from the mine where the ore is mined until the machine is manufactured and erected into the pressroom, there is a great multitude of workmen involved. Approximately there are 700,000 or 800,000 men directly employed and dependent upon the printing industry, and when this tax is to be placed upon that industry, and when 30 to 50 per cent of the publications will be forced to suspend their publication, and many more have to reduce the size of their publications, it will mean that approximately 30 to 50 per cent of that 700,000 or 800,000 men will be forced out of employment.

Is that what we want to do at this time, to throw his vast army of men out of work? Surely such a proposition is preposterous.

We want you, in making your report, to bear this in mind: That organized labor is in full accord with the sound economic policy laid down by the Ways and Means Committee, that the present generation ought to bear its just share of taxation. Organized labor previous to the war met here in this city, at which were represented every international organization throughout the country and which conference the railroad brotherhoods participated in, a conference which represented approximately 3,000,000 of workers, including the highest skilled workmen in this country, and at that conference we said to the Government that if this Nation becomes involved in war we shall tender our services to the United States in order that this war may be carried on to a successful conclusion. We are willing that our children and the youth of the Nation shall give its service in order to maintain its military forces, and in the munition factories it will do its share to see that the Nation shall carry on the war to a successful end, but we say, on the other hand also, it is unfair to merely conscript and to take labor, and that wealth, incomes, and profits should likewise be taken just as well as the man power, and at that time we declared for a policy which is well known by the labor men throughout the country and which it is well for you gentlemen to bear in mind—that we insist that when our labor and our boys are taken from shops and put into training camps and trenches, and when we are asked to speed up in the mills to make munitions, we look to you to see that the men who earn the excess profits shall be taxed and if need be their profits entirely confiscated in order to carry on this war. We protest against placing a tax on the processes of production, because such a thing can only stifle production and will mean unemployment, and can only mean that the condition of the workers will be aggravated and made much more severe than ever before.

We are interested as readers in all the publications, because we know that the schooling of the working classes does not come from high schools and colleges. Our education comes from newspapers and magazines and publications of that sort. It is well for some to say

that many of these publications ought to be put out of business. We might say as trade-unionists that many publications we would desire placed out of business because they did not agree with our viewpoint, economically or politically or in some other fashion, but we as American citizens have placed that equitable self-restraint upon ourselves, and it is a matter of record that there is not a single publication in the country that has ever been boycotted or interfered with by a labor man because it dared to express an opinion contrary to the viewpoint of organized labor. We have been strong champions of a free press, much as it may hurt us or retard our movement, but at all times believing that a free press, even though it may hurt us or retard our movement, is what we ought to have, and when some representatives in Congress here will say that certain publications ought to be stopped, we will say they are enemies to the guaranties of a free press because they do not agree with the ideals and policies of such publications.

And so we are interested in this way: We know when these publications are put out of existence that it will be the press that pleads the cause of labor and that pleads the cause of the needs and wants of the great mass of our people; that it will be that publication which pleads the cause of the workers which will be forced out of business, because that is the only press to-day which is not making a profit of any kind. Place this heavy tax upon it and you will place that press which has been sympathetic to the needs and wants of the great labor movement and to the working class out of existence, and a condition will be created whereby a small coterie of men of wealth will be able to dominate the avenues of opinion and thus have practical control of the opinions of the great masses of our people.

We say to you that the Post Office Department ought not to be used for war revenue any more than should our judicial department, any more than should our Agricultural Department, and the Department of the Interior, and the various departments of service of Government. Why should this particular department be made the avenue for war revenue? It was never established for that purpose. It was established to give service to the people, and we object most strenuously to that ideal being diverted from at the present time. We say to you that if you need money from the publishing industry, take the money from the Saturday Evening Post or take the money from the Literary Digest and those that are making these profits which you feel they are making. Tax those profits, confiscate them entirely if necessary. You are taking our youth, you are going to take our children, you are going to force them into the training camps, and you are going to force them into the trenches. They are going to handle the guns, sacrifice their lives, and if that is true, we say you have an equal right to confiscate their profits, if there are profits. We object to that sort of logic and that method of reasoning which would except the Saturday Evening Post and the Literary Digest and a few more of these publications of excessive profits, and by that rule adopt a general standard by which 50 per cent of the publications of this country will be absolutely destroyed and 50 per cent of the men dependent upon the industry will be absolutely thrown out of employment.

Neither do we object to the income taxes. If they are not low enough, as Mr. Scott stated to you, make them still lower. We do not object to paying our due proportion, but we feel that our employment, the very means of our livelihood, ought not to be attacked in this fashion and particularly through an agency of Government which is intended to give service to the people and not to become a war revenue measure.

We protest most emphatically against the approval of the bill as proposed. We insist that no processes of industry be taxed. We insist that the rewards of industry and of industrial activities be compelled sufficiently to maintain this war proposition to a successful issue.

That, in brief, is our situation in this matter. We know that if you disturb the means of communication, the means of disseminating information to our people, that, with all of the other burdens placed upon us in that bill, we can not rise from early morning until late at night except that we are paying war taxes one way or the other, but take from us in addition to that our means of employment and throw upon the labor that is employed an additional burden of 50 per cent, where can we live under those conditions?

Many of the publishers we have not any friendship for. That is only too well known; and perhaps they have less for us; but that has no bearing in this matter at all. Many of these publishers do not own their printing offices, and printing is done in commercial establishments. Introduce your zone system, and you will force these publishers to move their publications into the center of their particular zone of distribution in order to minimize their charges, and it will take all work from the centers where they are established now, throw the men out of employment, and will compel thousands of employees to sell their homes at a sacrifice and break up ties of friendship and social bonds, in order that they may follow their employment, unjustly enforced by this vicious and discriminatory legislation proposed by the Ways and Means Committee. Can you see why we are protesting? Can you realize the situation in which we find ourselves? It is well to say, "Pass the buck on to the next fellow." Yes, we know that. They may succeed in passing it on to the next fellow; and who is the last fellow? Let me say to you that we give you warning now that we, as workers, will not stand to have all of it placed on our shoulders, and that the buck can not always be passed to us; and so we say to you in this matter it is well to pass it on, but ultimately the reader, the great mass of people—the workers—will have to bear the most of the burden. We are bearing sufficient now.

As I stated before, it means the breaking up of many of our homes. It means the taking away of many of our boys from their home ties and putting them into the training camps and trenches. We are willing to bear all that. There is not another group in society more patriotic than the labor group is to-day. We are willing to give our incomes, if necessary, to sustain our children in training camps and trenches, but we do protest most strenuously and most emphatically against having our very means of employment, our means of earning a livelihood, placed in jeopardy, which this bill does.

As indicated by Mr. Scott, every printing-trade union has obligated itself for years to maintain and care for those who may die or be-

come sick. With this war situation confronting us, almost to a man each one of these organizations is willing to assume its just burden of seeing that financial support is given to those who are left behind, of members who have been called to the front or who may be killed during the war time. They are assuming a gigantic proposition which the Government itself ought to provide for. We ask that the Government give help to us and aid us and not destroy the possibility for us to accomplish these very things. We say to you that the press to-day is more needed than it has ever been before. I can speak of that personally, having been the representative of the American Federation of Labor at the British Trades Union Congress last fall, and I know that the printing and publishing industry in England is considered an essential employment in the life of the British Government, and they have been of great use and great service, and there is not that intent and idea and desire to destroy the publisher because at some time or other he may have attacked me unjustly or unfairly, or because of some other reason.

We say to you that is one of the greatest services government can give to society, in a democracy, particularly where it is essential that the Government communicate with its people and the people communicate with the Government, and when you propose to tax that means of communication you are diverting the channels of government from the ideals under which it has been established, and you will stifle and suppress the free press, and in addition to that throw all of these other burdens upon us.

I do not want to take up any additional time in argument. I shall present a brief signed by Mr. Gompers in behalf of the American Federation of Labor and in behalf of the trade-union press of America and the International Allied Printing Trades Association, prepared by Mr. Gompers and myself on this subject, and we earnestly hope and pray that you men in your desire to see that taxation shall be just and fair and equitable will not tax the processes of production; that you will encourage industry and production; and that you will tax the incomes and that you will tax the profits. Mind you, organized labor has its eyes on Congress to-day, and we hope and we pray that Congress will tax incomes and Congress will tax profits, because if you take our children and put them into the armies and you do not take the wealth of the country, the profits of this Nation, and take it out of the productive processes, then who knows what the future may have in store for this Nation? There is a limit to every pressure and there is a limit to every burden. Realize the importance of labor in the conduct of the war to-day. Look to the European nations and see the importance of having labor in a mood and in a mind of loyalty and patriotism, and so they are here to-day. But it is with you gentlemen to continue that loyalty, to maintain that patriotism, or it is for you to make labor feel, as we have been made to feel in the past, that labor is a pawn of governing bodies and that it has no consideration and is given no attention whatever in order to improve the conditions of life. We want you to look to the human side of this problem as well as the financial side, and we represent the human side. We are willing to sacrifice. Make the man that is making money and profits contribute his share, and, if need be, take all of his profits, because you are taking the lives of our people.

On behalf of the American Federation of Labor, I desire to submit this brief in relation to this whole matter.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Woll is here printed in full, as follows:)

THE POSTAL SECTION IN THE WAR-REVENUE BILL.

Argument against it before the Finance Committee of the United States Senate Tuesday morning, May 15, on behalf of the American Federation of Labor, the trade-union press and labor press of America, and the International Allied Printing Trades Association, by Samuel Gompers, president of the American Federation of Labor, and Matthew Woll, president International Allied Printing Trades Association.

No American objects to a fair and equitable method and distribution of taxation. Every American expects to pay his just portion of taxes necessary for the successful conduct of the war. The war-revenue bill reported to the House of Representatives by the Ways and Means Committee lacks the element of fairness and equity.

Organized labor is in full accord with the principles of the sound economic policy laid down by the Ways and Means Committee, that the present generation should bear a fair and equitable portion of the burden of financing the war. Organized labor, however, dissents from and emphatically protests against the legislative approval of a number of provisions contained in this bill. Organized labor holds that every individual, concern, or institution should be required to pay its just proportion of war taxes. This should be done by increasing the income and inheritance taxes, a tax upon profits and land values. Organized labor holds that it is wrong, socially and economically, to tax the very sources and opportunities of employment; it believes that the rewards of industries and of industrial activity rather than the essential factors of production should be taxed for the conduct of the war.

The bill submitted to the House of Representatives not only taxes some of the necessities of life of the workers, both social and industrial, but likewise places a burden upon certain essential factors of industrial activities which can only result in stifling industrial and commercial enterprise and seriously aggravating conditions of the workers by throwing thousands and thousands out of employment.

That section to which particular exception is taken relates to the proposed increase of postage rates on second-class mail, applying the principles of the zone system as a method of computing the charges. The enactment of these proposals into law spells disaster and ruin to the labor press of this country, and will seriously hamper, retard, and to a very large extent completely destroy that part of the public press which is sympathetic to the appeals and needs of the working men and women of our Nation. The increased postage on second-class mail and to apply the zone method of charging, as proposed, will create a condition wherein only those publications which are supported and financed by large combinations of wealth can survive. Such a condition would be deplorable; it would lead to the exclusive control of the means of information by a small coterie of men of wealth, who would ultimately be afforded the opportunity of dominating the minds of the people of our country.

Unquestionably there are some persons who would desire and who would rejoice if some of the existing publications were forced out of existence. This is a matter of individual inclination, discretion, or judgment, determined by motives good, bad, or indifferent. Legislation intended to direct the activities and control of the destinies of a free people must be free from any taint of individual indiscretion or prompted by motives of vengeance or unfair advantage to one class over another. While the proposed increase of postage rate on second-class mail is unquestionably prompted by the highest motives of loyalty and patriotism, nevertheless the enforcement of this legislation will suppress a very large part of the public press and almost completely annihilate that part which pleads the workers' cause for an improved condition of life and work.

We have in this country the labor-union press, representing over 275 weekly and monthly publications, with a circulation approximating 1,500,000 copies. These publications during their entire period of existence have done much to enlighten the workers of our country upon all issues having confronted the American people from time to time. These publications have become indis-

pensable to the welfare of our Nation and have performed a public service that can never be estimated or calculated upon a monetary standard.

All of these publications have carried out their mission with little or no profit whatever to the owners of these publications. Indeed, many are produced at a loss and are only able to live by the voluntary contributions of members of trades-unions.

While it is true that publications not for profit, maintained by and in the interest of labor organizations, are not included in the most vicious provisions of this bill, it is also true that many of the labor papers do not come within the exemption, and it is these publications that would be entirely destroyed. We protest against the method of reasoning that would accept a few large financial and profitable publications as a standard and in order to decrease their margin of profit completely destroy that part of the public press so essential to the welfare of the working men and women of our country.

To increase postage of rates of second-class mail matter in a permanent form under the guise of a war-revenue measure is an unwarranted interference with the processes of the publishing business, and if put into effect many publications can not and will not survive.

The proposed increase in postage rates will in many cases require a very much higher payment of postage than the total income netted by many of the publishers. The only equitable method of taxing the publishing industry is to tax incomes and profits. By that method no excessive burden will be placed on any one publication, freedom of the press will remain unimpaired, and the industry may continue without forcing anyone out of business. In other words, we hold it wrong to place a prohibitive tax upon the processes of the elaborately constructed and delicately adjusted printing industry. We favor taxing the results of that industry obtained under conditions that have come to be recognized natural and normal conditions of production.

However serious the proposition to increase postage rates from 1 to 2 cents may prove in actual application, most of the publications able to survive under the first proposal are doomed to failure by the proposal to increase still further the rate of postage in applying the zone method of charging. The proposed charges under this system are not only unjust but the system is grossly discriminatory in that it penalizes the readers in the distant zones. It would be equally fair and sound to determine the postage rates by a zone system of all first-class mail. The fact that the Ways and Means Committee found such a system unjust and undesirable to first-class mail is in itself sufficient ground to condemn its application to the second-class mail. Why should that part of the public situated in distant zones be penalized by a higher tax than those more closely situated to the printing and publishing centers. There can be no justification whatever for a charge of 6 cents being placed upon one class of citizens in one State and 1 cent upon citizens of another State.

A more effective aid to sectionalism might be conceived but it would be difficult to devise and apply.

The monthly and weekly magazines and newspapers with a national circulation have served the nation as great exchanges of thought and feeling. They have proven powerful agencies in substituting a national for a sectional sentiment.

The proposed zone system would again bring into vogue the feeling of sectionalism. The burden of expense of the publishing industry is already staggeringly heavy upon periodicals of all sorts, including daily newspapers.

The cost of publication has risen enormously partly, in the general increase of all materials and especially because of the great increase in the price of paper. The additional imposts of the high postage undoubtedly will prove a last straw. The circulation of magazines and newspapers which are now national would again be restricted to sections and zones. Under the zone system no continental medium of national sentiment could exist for the crystallization of national opinion.

Under the proposed zone system a number of publishers would be undoubtedly compelled to change their publication offices to the center of zones of their publications in order to minimize their charge of distribution. Many of the present-day publishers do not own the printing establishments in which their publications are printed. Such a removal would logically lead to the destruction of many of the commercial printing offices in the country and many others would be compelled to remove their establishments to different localities. This would compel thousands and thousands of working men and women to dispose of their homes and to break ties of friendship and social bonds in

order to follow the trade unjustly diverted and restricted by the enactment of these unjust proposals of taxation.

No one more fully appreciates the seriousness of the conditions that this proposed legislation will establish than do the workers themselves. No one will be compelled to suffer more.

To increase the postage on second-class mail and to apply the zone methods of charging will not only destroy the labor press but will have a far-reaching and detrimental effect on the manifold business relationships involved in the printing and closely related industries. The great educational white way of our periodical literature is builded upon the wood pulp molded through the various processes of manufacture of steel and iron and the labor of hundreds of thousands of working men and women. Whatever legislation will reduce the demand and lessen the opportunities for printing matter necessarily will reduce the demand for the services of labor engaged in the production of the materials and machinery entering into the manufacture of printed matter. Thus the men engaged in the lumber camps, in pulp factories and paper mills, in mines and machine shops, and in the transportation occupations will be proportionately affected to their great detriment.

Thousands of workers indirectly dependent upon the printing industry will be forced out of employment. While the several divisions indirectly affected run into many tens of thousands, in the great divisions of the printing trades the number of workmen runs into the hundreds of thousands. We refer to the great printing and publishing trades—trades which turn the wood-pulp paper into periodicals, newspapers, books, etc. The number of persons in this Nation who to-day are earning their shelter, apparel, and subsistence (not including office or clerical forces) in the great printing and publishing industry is over 400,000. If the counting rooms and general office forces are included, the total number (not including the owners and publishers) will reach close to 500,000. If we total the people who would be affected by this legislation, which will force a shrinkage of approximately 50 per cent or over, counting from lumber cruisers to publication counting rooms, we will find the total to be not less than 700,000, probably 800,000. And, mark you, this total does not include the wives and children dependent upon the vast army of men employed in the printing industries. If they are counted, the figures must be doubled, probably tripled. It is this vast army of people—men, women, and children—who will be affected by this proposed harsh, discriminating, and therefore unjust, legislation.

Stress, no doubt, may be laid on the assertion that the cost involved in handling second-class mail is more than 1 cent per pound. To ascertain what second-class mail costs has been found to be a puzzling proposition. Many have tried to solve the problem and all have failed. It is admitted, officially and otherwise, that the tremendous development of every branch of the postal business has been due, primarily and principally, to the increased circulation and influence of newspapers, periodicals, etc., brought about by reduced postage rates. But even if the cost involved should be declared more than 1 cent per pound, it would not be good policy for Congress to increase it, because to increase it would cause much reading matter to be placed out of reach of many who are now receiving the benefits of it. The charge for carrying second-class mail was intentionally fixed low in order to encourage the dissemination of information of educational value to the people.

In harmony with this sound and judicious policy, Congress has deliberately established a low rate with the expressed design of encouraging and aiding the distribution of recognized means and agencies of public information. It is not a matter of favor, but of approved judgment. It is not for the publishers, but for the people.

In this connection we direct your attention to that portion of the Penrose-Overstreet Commission's report relating to the effect that an increase of postal rates upon second-class matter would have upon educational features involved, which reads as follows:

"Even if it should be found that second-class matter was being carried at a distinct loss, that loss would be entirely justified by the educational value of the periodical press. From the beginning of the Republic it had been the policy of Congress to foster and assist the dissemination of information and intelligence among the people. Next to the great public-school systems maintained by the States, the newspaper and periodical are the chief agency of social progress and enlightenment. So far from this being a subsidy to the publisher, the advantage of the low postage rate had been passed on to the subscriber

in the form of a better periodical and a more efficient service. Any substantial increase in the postal rates, while for the time being bearing heavily upon the publisher, must eventually fall upon the subscriber, either in the form of an increased price for his reading matter or of a deterioration in the quality of that matter."

As a matter of fact, the proposed increase upon second-class mail would not be a tax upon publication but would be a direct tax upon knowledge.

We protest most emphatically to adding this restriction and heavy burden upon one of the principal agencies of social progress and enlightenment of our people.

To increase the postage rates on second-class matter and to apply the zone methods of charging would simply bring ruin to the printing and publishing industry and throw hundreds of thousands of workers out of employment. The harmful effects would bring far-reaching wreck and ruin to the homes and lives of hundreds of thousands of workers and their families and in the end would fail to accomplish the very purpose the Ways and Means Committee intended for this taxation.

The people of this country to-day no more expect a revenue from the Government's postal service than they expect from the Agricultural, Interior, or other service departments. The people want service, not revenues from any Federal service department. The publishers one and all should be required to contribute their just share of taxes to the conduct of the war. The men and women employed in the printing and closely related trades welcome the opportunity of bearing their just share of the burdens arising out of the war. The profits of the printing industry should be taxed and, if need be, entirely confiscated, and the income of the men in the industry should likewise be justly and properly taxed. However, their means of employment should remain unimpaired. Neither should the arbitrary taxing power of Congress be invoked to curtail the liberty and independence of the press, which is an inheritance from the fathers, or to cripple the publishing enterprises and bankrupt those engaged in this calling.

We heartily concur and fully approve of the attitude expressed by the President of these United States, Hon. Woodrow Wilson, who, while governor of New Jersey, pronounced the following:

"A tax upon the business of the many widely circulated magazines and periodicals would be a tax upon their means of living and performing their functions. They obtain their circulation by their direct appeal to the popular thought. Their circulation attracts advertisers. Their advertisements enable them to pay their writers and to enlarge their enterprise and influence.

"This proposed new postal rate would be a direct tax and a very serious one upon the formation and expression of opinion—its most deliberate formation and expressions—just at a time when opinion is concerning itself most actively and effectively with the deepest problems of our political and social life. To make such a change, whatever its intentions in the minds of those who propose it, would be to attack and embarrass the free process of opinion."

Labor's voice is raised in earnest plea for what it considers itself competent to speak upon and with the hope that you will aid in maintaining for us our present conditions, which we esteem necessary for our welfare and the welfare of those dependent upon us. We leave this question in your hands and trust that you may fully agree and concur with the wishes, hopes, and aspirations as herein set forth.

The CHAIRMAN. We will hear Mr. McIlhenny now.

STATEMENT OF MR. GEORGE McILHENNY.

Mr. McILHENNY. We discussed before you at considerable length the effect upon the publishing industry of the part of the bill relating to postal rates. The tariff clause we did not discuss except by casual reference. As to the relative importance of the two matters, it can best be expressed in dollars. The promoters of the bill estimate that nineteen millions would be raised through the changes in the postal rates. We consider that a very inexpedient bit of legislation. The 10 per cent ad valorem placed upon news-print paper

and materials that go into its manufacture in connection with the rest of the list would cost the newspapers $30,000,000. We are bound to come back to our suggestion that the case of the newspapers is peculiar at both ends of the argument. It is peculiar in the sense that it has been so heavily taxed through the increase of news-print rates, a matter that the Government has taken up and is investigating and through its agencies has already been pronounced to be an unmerited imposition upon the publishing industry, and at the other end of the scale the fact which I must repeat that the newspapers are being called upon for greater service, and will be in the future as the war proceeds. We import from Canada something like 660,000 pounds of news-print paper a year, which is about one-third of the total amount. The business that yields that tonnage has been developed under the tariff of 1908. As I said this morning the newspaper publishers were not only permitted by this tariff but were encouraged by the Government to go to Canada and to relieve the urgency of the situation here where productiveness was becoming more or less a matter of difficulty, and to accept what was in effect a reciprocal arrangement with Canada in order that better conditions might be secured.

The effect of this tariff would be to place upon those who did go to Canada the payment of a tax that will not be borne by the other two-thirds of the newspaper consumption, at least only in a modified degree. There will also be a tax on wood pulp and wood entering into the manufacture of pulp so far as either is conducted on this side of the line. In one way or other the entire periodical industry, in fact all publishers, will be called upon to bear a part of this tax which will amount to about $7,000,000. That comes at the very moment that the Government has been looking for means of relief to meet the present intolerable situation. The Government has not been completely successful.

The Federal Trade Commission has done most of this. It has made an exhaustive investigation and has reported to Congress, which is clearly in favor of the assertions made by the newspaper publishers that there is an intolerable situation, and that the high price of news-print paper is the cause of it. If the Government, which has been seeking to relieve us, imposes this additional burden of $70,000,000, to be collected at the border, and about ninety millions more that we assume the home manufacturers will take out of our pockets, because they will be justified in their usual view of the case in taking what is charged in Canada plus the duty at the border. They will do that, and naturally they will feel that they are licensed to do it.

Senator GORE. Do you not think the excess tax would raise a great deal of revenue and protect you against that?

Mr. MCILHENNY. If that were done, it would not relieve the publishers.

Senator GORE. Do you not think the newspapers would be greatly disappointed if they were not permitted to pay for their own war?

Mr. MCILHENNY. I have heard that argument, Senator, suggested, but I can not believe it is given seriously in any quarter. That would mean that it is suggested that the newspapers do not represent the spirit of the United States in the position they have taken with regard to this war.

Senator GORE. They evidently do with reference to this tax.

Mr. McILHENNY. I believe the newspapers have represented the people of the United States, and I rejoice in the fact if they have had anything to do whatever in bringing about the present condition.

Senator GORE. You do not object to paying for it?

Mr. McILHENNY. They object to paying more than their share. They are more than content to pay their share.

Senator GORE. Have you made a suggestion as to what their share was?

Mr. McILHENNY. We contend that their share is that of any other producer and other participant in industry. We are perfectly willing to pay the general tax laid upon us that affects us in the same way it does others. What we are protesting against are the taxes added in our case without regard to all the burdens we must bear as a part of the general tax.

Senator WILLIAMS. Whatever is done, the argument of the publishers that they are protecting America from insults ought not to be attacked.

Senator GORE. The President was reported to have said that we had gone into the war without any special grievance of our own. However that may be, I know the patriotic newspapers would be perfectly willing to avenge the national insult with the blood of other people.

Mr. McILHENNY. To return to the basic question, it is proposed that newspapers shall be dealt with in this way, that this added burden be laid upon us, when we can not stand the present ones. I think we are warranted in consulting the other nations. Canada has taken the opposite course. The Canadian Government has in the single instance of newspapers used its war power to fix a price considerably below the price charged the other publishers. The newspaper press in Canada is enjoying lower rates, while we pay the higher ones. It was my privilege three or four months ago to discuss this matter with the Canadian minister in New York and Ottawa, and he repeatedly used the expression, "We must take care of our newspapers, because we must have their service, and you gentlemen must appreciate that they come first in anything we may do in arranging reciprocal trade." But now, gentlemen, we are to be placed in a much more difficult position the very moment that Canada has taken that policy.

Senator GORE. Do you mean they fixed an arbitrary price on paper?

Mr. McILHENNY. Yes, sir; that is what Canada has done.

Senator GORE. What is that?

Mr. McILHENNY. They have fixed a price of $50 a ton while Americans who buy in Canada are paying about $65, perhaps a little higher. The difficulties of England's newspapers have not been complicated by the Government. They are suffering from shortage of paper; they can not get the paper. They are obliged to use every expedient there, but they are not paying one cent of extra tax. There the Government has encouraged them to keep going in order that they might help in the general service of war time.

In the House yesterday Mr. Moon introduced an amendment excepting news print from the general operation of this clause. I earnestly hope that that will be your policy as well, not only as to

news print, but as to the commodities that enter into the manufacture of newspapers, the wood pulp and the wood itself.

The CHAIRMAN. I have let you exceed your time because of interruptions.

Mr. McILHENNY. I want to emphasize the fact that everything that has been said here the Federal Trade Commission itself has largely confirmed, and we ask you not to permit this thing to be done, but rather help the newspapers.

Senator THOMAS. I do not hesitate to say I think that entire chapter ought to go out.

Senator SMOOT. Have you raised the rate on the New York Times?

Mr. McILHENNY. We have not. It was suggested the extra taxes might be met by increased charges. The newspapers almost the whole country over have already used that remedy, Chicago, Philadelphia, Pittsburgh, Buffalo, and so on. We have signified our willingness to do it and expect we shall be obliged to do it, and that is the case with nearly every newspaper in New York, and we are prepared to go to 2 cents to recoup our present losses. I do not see how we can get through the new year without doing that. I thank you.

The CHAIRMAN. We will now hear Mr. Glass.

STATEMENT OF MR. FRANK P. GLASS, OF THE BIRMINGHAM (ALA.) NEWS—Resumed.

Mr. GLASS. Mr. McIlhenny has so thoroughly covered the subject that there is very little left for me to say. I beg leave to point to the fact that it was the Senate of the United States that something like a year ago directed the Federal Trade Commission to ascertain the fact in connection with the paper trade of the United States. That commission labored for months and months and went into the matter very exhaustively, and recently made an official report as to the situation in this country, saying that there were exorbitant prices being charged, that there was a combination among manufacturers, and acting upon that report the Department of Justice of the United States has been instrumental in filing indictments against a number of manufacturers for violation of the criminal clause of the Sherman Act, in the courts of New York. So you have from two departments of the Government official determination of the situation in the paper trade, and that determination was brought about largely through the instrumentality of your own body, the Senate. With all of the information that has been so far brought to bear on this question, and even with the indictments in sight there has been no substantial change in that situation so far as giving relief to the newspapers is concerned. You have heard the reports about the high cost of paper. That still continues. We are making every effort we can in an indirect commercial way to relieve this, and we hope to get some legal relief.

Now, for the Congress of the United States to carry out the proposition made by the Ways and Means Committee of the House, to add to the vexatious conditions by putting on a 10 per cent tax on outside paper will simply aggravate them in every way in the world and largely defeat its own purpose. The purpose of Congress in this bills is to raise revenue, and yet if our paper expert is correct in

his calculations, and he is wonderfully well informed on these matters, the only possible result that will come from the 10 per cent tax would be to yield the Government $30,000,000 of revenue, but at the same time the Government collects this $30,000,000 of revenue on paper imported from Canada you will impose upon the newspapers of the United States an additional tax of about $90,000,000 that will pass not into the hands of the Government but of the paper manufacturers.

In other words, instead of relieving in any way the situation that you have been endeavoring to relieve during the past year you will simply add to the enormity of the situation and provide a further cover behind which the American manufacturer can hold up these high prices.

It is the expectation in the trade that prices in print paper are going to be higher this fall than heretofore. How in the world is it reasonable, when you are after revenue, to go and sacrifice three-fourths of the money that would come out of the newspapers in this country and put it into the pockets of the manufacturers, and pay only one-fourth of the $120,000,000 into the coffers of the Government. I submit that instead of putting through a revenue bill you would be putting through a tariff bill, giving the greatest amount of protection possible to the American manufacturer of paper, a protection he does not need, according to the report made by your Federal Trade Commission. That is the substance of the point of view we wish to emphasize to you gentlemen. So keen is this situation that Senator Robinson of Arkansas has introduced a bill, of which I have a copy in my hand, to the effect that print paper is to be declared a public utility and empowering the Federal Trade Commission to fix a reasonable maximum price therefor, and for other purposes. That is the great lesson to be drawn from the investigation of the Federal Trade Commission and the work of the Department of Justice in this matter recently, and I submit it would be very inconsistent, indeed, to go ahead and put further power into the hands of the American manufacturers to get more money from the newspapers of this country and yield only a fourth of the money collected into the Treasury of the United States. I thank you.

The CHAIRMAN. That concludes the hearing on Title XII. We will now revert back to Title X, War Customs Duties, in accordance with the understanding of yesterday.

ADDITIONAL BRIEFS IN RELATION TO SECOND-CLASS POSTAGE FILED WITH THE COMMITTEE.

Letter from Mr. Cyrus H. K. Curtis, President of the Periodical Publishers' Association, to Senator John Sharp Williams, of Mississippi.

PERIODICAL PUBLISHERS' ASSOCIATION OF AMERICA,
New York, May 9, 1917.

Hon. JOHN SHARP WILLIAMS,
United States Senate, Washington, D. C.

MY DEAR SENATOR: As president of the Periodical Publishers' Association (a list of the members of which is inclosed) I address you at the request of that body to ask for such aid as you can properly give in a situation where many of them are unwisely threatened with a complete stoppage of their normal business activities and of their ability to contribute, in a great emergency, to the national revenues.

The proposed zone rates for second-class postage suggested by the Ways and Means Committee of the House of Representatives in the emergency revenue bill, would, by awkward and inequitable interference with the processes of our industry, utterly disrupt the business of a great number of publishers by exacting more than their entire earnings and put such obstacles in its conduct as would simply force them out of business. As a revenue-producing measure it must fail, for a great number of those whom it affects must inevitably discontinue.

We, the publishers of periodicals, are not only willing to contribute to the public revenues more than the utmost that has at any time been proposed as a tax on excess profits; we are willing to give without question or dissent any part of the earnings of our periodicals which Congress may demand. At the last meeting of our association, on May 1, a formal motion to this effect was made and enthusiastically approved.

But we feel that we have the right to remain at our work, and that it is clearly to the advantage of the Nation that no hasty and futile item in the new revenue measures should prevent us from so doing.

We ask, then, the aid of your influence to discourage any sudden dislocation or stoppage of our business through the taxing of its fundamental processes, offering, however, willingly and proudly, any part of the results of our work that Congress may ask for in the present national emergency.

I ask that you will read the inclosed statement which indicates as briefly as possible how the proposed second-class zone rates will cripple the business of publishing periodicals and will fail to produce the expected revenue.

Very truly, yours,

CYRUS H. K. CURTIS, *President.*

Since 1885 periodicals admitted to the second class have been carried in the mails at 1 cent per pound.

The Ways and Means Committee of the House of Representatives has now recommended a new schedule of second-class rates based on a zone system, ranging from 2 cents for the first zone of 50 miles to 6 cents for the eighth zone.

For periodicals of national circulation this would be equivalent to a flat rate of about 4¼ cents a pound, an immediate increase of over 300 per cent.

The additional charge would in a majority of cases amount to more than the entire earnings of the periodicals. In other words, they could not pay it.

That they could not do so is easily understood when it is considered that under this 1-cent-a-pound rate the national magazines and weeklies have been built and the advantage of it has been given to the subscriber in a reduced rate of subscriptions. All subscriptions on their books were taken at a price dependent on that rate, and those subscriptions must be filled to expiration with no opportunity for securing additional revenue to meet the enormously increased cost in so doing.

Under utterly abnormal conditions, calling for extreme and immediate measures of relief to the railroads, an increase of 15 per cent in railroad freight rates is now being carefully considered by the Interstate Commerce Commission and is being analyzed, criticized, and opposed by thousands of shippers.

But the proposal before the publishers is the immediate increase of the periodical freight rate by over 300 per cent.

It must be noted, too, that the average manufacturer would have no such obstacles to passing on increased freight charges as confronted the publisher, who deals with 50,000 or 200,000 or 1,000,000 or more individual customers, each of whom would have to be persuaded into forming a new habit in relation to a commodity that is not, like coal or food or clothing, a necessity. Furthermore, the publishers' contracts with these customers have already been made for from six months to several years in advance and these contracts much be fulfilled. Fnally, there would be intense dissatisfaction on the part of Texans in having to pay 30 per cent more for their magazines than was paid by New Yorkers, and still more by Californians in having to pay 50 per cent more.

As to the general question of zone systems, the latest and most authoritative word is that spoken by the last Federal commission intrusted with an investigation into second-class postal rates. After a bitter contest in 1911 over a proposal to raise the second-class rate, President Taft appointed Charles E.

Hughes, Justice of the Supreme Court of the United States, President A. Lawrence Lowell, of Harvard University, and Harry P. Wheeler, president of the chamber of commerce of the city of Chicago, to deal with the question. After months of study and public hearings this commission reported as to the zone system (H. Doc. No. 589, p. 140): "The policy of zone rates was pursued in the earlier history of our Post Office and has been given up in favor of a more uniform rate in view of the larger interests of the Nation as a whole. It would seem to the commission to be entirely impracticable to attempt to establish a system of zone rates for second-class matter."

The Ways and Means Committee have stated that the proposed zone system would result in additional revenue amounting to $19,000,000. As 53 per cent of second-class matter consists of daily and weekly newspapers (H. Doc. 589, p. 144) circulated almost exclusively in what would be the first zone, it will be apparent that an overwhelming part of this would, if it could be paid, have to be borne by the nationally circulated periodicals.

But can it possibly be assumed that the publishers of periodicals, already struggling for their financial lives after a sudden increase of about 70 per cent in the price of paper and great increases in every other item of manufacture, could continue to exist; that they would print as many copies as at present and pay over 300 per cent more postage on their output?

It is certain that they could not, and it is further true that as a result of the contraction of their circulations the Post Office revenues would shrink greatly at other points. About $70,000,000 is expended annually in advertising in the periodicals in the distribution of standard articles of every nature. This expenditure must and does lead to a vast business for the Post Office in 2-cent—soon to be 3-cent—stamps. Nothing can be more certain than that advertising will fall off with diminishing circulation, and with the inevitable discontinuance of a great number of publications that this highly profitable porton of the Post Office's business must diminish with the loss in national advertising.

Still further, the periodicals themselves are highly important customers of the Post Office in purchasing stamps. To take a single typical illustration: In the past six months the Review of Reviews, not one of the magazines of gigantic circulation, paid $11,800 in pound rates but purchased $75,000 worth of stamps from the Post Office in the conduct of its business, while 359,000 stamped letters came to its office.

Can it be a profitable thing to the Government to curtail or stop the operations of this industry, even apart from the loss of the contribution of taxes which it will gladly pay to the Government if allowed to continue in business?

It is worthy of note that the periodicals which would be the hardest hit by such a drastic increase in the postal rate as is now proposed, are those which the second-class rate was originally instituted to help and build up—the family periodicals taken by yearly subscription and agricultural periodicals of national scope. The publications of little merit are chiefly sold on the news stands and would pay no appreciable part of the increased rate, and the lower one proceeds in the scale of good taste and educational value the more would this immunity approach 100 per cent.

The Hughes Commission estimated the cost of carrying second-class mail at "slightly in excess of 5 cents a pound" (House Doc. 589, p. 138), which cost has since been greatly reduced by the freight system of shipments, lower payments to the railroads, and additional services demanded of publishers by the Post Office Department. But no one has ever claimed that subtracting a pound of second-class matter would leave the Post Office's business better off by the difference between the amount paid for it and its cost of transportation and delivery. It is obvious that the department's general organization will remain as it is, and that particularly all of its machinery must go on and be paid for, whether there are some millions more pounds of second-class mail or some millions less.

No benefit can come to the national revenues from killing off large numbers of publications and large portions of the circulations of those which survive, for the inevitable great reduction in the volume of matter shipped must result in an amount of revenue far below that estimated by the Ways and Means Committee, while the expenses of the Post Office Department will be only slightly reduced by the lessened volume shipped.

LIST OF PUBLICATIONS INCLUDED IN PERIODICAL PUBLISHERS' ASSOCIATION.

Century Magazine.
Harper's Magazine.
Review of Reviews.
Christian Herald.
Ladies' Home Journal.
Saturday Evening Post.
Country Gentleman.
Collier's Weekly.
Cosmopolitan Magazine.
Good Housekeeping.
Hearst's Magazine.
American Magazine.
Woman's Home Companion.
Current Opinion.
Country Life in America.
World's Work.
Farm Journal.
Literary Digest.
National Geographic Magazine.
Mother's Magazine.
Woman's World.
Independent.
Judge.
Leslie's.
People's Home Journal.
McCall's Magazine.
McClure's Magazine.
Metropolitan.
Pictorial Review.
Modern Priscilla.
System.
Machinery.
American Boy.
Theatre.
Outlook.
Vanity Fair.
Vogue.
American Agriculturist.
New England Homestead.
Southern Tannery.
Orange Judd Farmer.
Northwest Farmstead.
Farm and Home.
Dakota Farmer.

Letter from Mr. Robert J. Bulkley, counsel for the National One-Cent Letter Postage Association.

WASHINGTON, D. C., *May 16, 1917.*

Hon. F. M. SIMMONS,
Chairman Committee on Finance, United States Senate,
Washington, D. C.

DEAR SENATOR: In connection with the pending revenue bill, the National One-Cent Letter Postage Association respectfully brings to your attention the conditions brought about in Canada by a war tax of 1 cent on drop letters.

Before the outbreak of the war the postage rate for drop letters was 1 cent per ounce or fraction thereof. A 1-cent war tax was added to this rate, making a 2-cent drop-letter rate. Instead of producing additional revenue, the increased rate caused an actual decrease. The deputy postmaster general of Canada has freely admitted that since the increase in rate on drop letters there has been a marked decrease in the number of drop letters mailed, resulting in a loss to the postoffice department. He has stated that many of the corporations and large business houses which used the mails under the 1-cent rate reverted to the method of delivery by messenger when the rate was increased.

In view of the recommendations of the Post Office Department, substantiated as they are by Canadian experience, this association believes that it would be a great mistake to expect any increase in revenue to result from an increase in rate on drop letters.

We are opposed, on general principle, to using the Post Office Department as a means of raising revenue, believing that the Postal Service should be provided to the public at cost, with the burdens equitably adjusted among the several classes of mail matter. Realizing, however, the difficulties confronting Congress in raising sufficient additional revenue to meet the present national emergency, we do not think it proper to object urgently to a general increase of rate on first-class matter at this time, provided that simultaneously the rate on second-class matter be increased to an amount approximating more nearly the cost of service. As to drop letters, however, we feel confident that the increased rate would defeat its own purpose, and earnestly hope that your committee will determine not to increase the drop-letter rate.

Respectfully, yours,

NATIONAL ONE-CENT LETTER POSTAGE ASSOCIATION,
ROBERT J. BULKLEY, *Counsel.*

Letter from William Peart, vice president of the Salvation Army (Inc.).

THE SALVATION ARMY (INC.),
New York City, May 11, 1917.

Chairman Senate Finance Committee, Washington, D. C.

DEAR SIR: I have the honor, on behalf of Commander Miss Booth of the Salvation Army, to respectfully submit to your honorable body for favorable consideration specific reasons why the Salvation Army is making a plea for exemption under the proposed new postal section of the revenue bill.

From the inclosed brief your honorable body will observe that one of the principles of our periodicals is that we accept no paid advertisements, and any profits that may accrue as the outcome of our economical administration are devoted wholly and entirely to the furtherance of the Salvation Army's religious and charitable work.

We have every confidence, after perusal of our case, your honorable body will feel that the request the Salvation Army has respectfully made is worthy of favorable consideration.

Very respectfully, yours,

WILLIAM PEART,
Vice President Salvation Army (Inc.).

WHY EXEMPTION IS ASKED.—THE CASE OF THE SALVATION ARMY IN REGARD TO THE PROPOSED INCREASE OF SECOND-CLASS MAIL RATE.

We have four publications entered with the Federal authorities as second-class mail namely; the War Cry, the Young Soldier, the Stridsropet, and the Social News. The first three are issued weekly, the last named being a monthly periodical.

THE CHARACTER OF THESE PUBLICATIONS.

This will be best understood by examination. You will observe that the character of these is purely religious—that, and nothing else. There is no attempt whatever to invade other fields, and the unique position is held by our organs that not 1 cent's worth of space is sold for advertising. The element of commercialism is not allowed to enter into them in any shape or form. This was provided for by the founder of the Salvation Army, at the very inception of the movement, when it was decided that it should be a principle that no paid advertising should be accepted or any Salvation Army publication. Many highly-priced offers have been made us or space, involving large sums of money that were sadly needed in our work of aiding the poor, but the principle has been rigidly adhered to from that time to this.

The purpose in issuing these papers is obvious—the spiritual, moral, and physical uplift of the race. Anything that in the slightest contributes to the crippling of the circulation of our publications would be disastrous to the people we seek to benefit. The publications are a very necessary part of our propaganda.

The Salvation Army is an international association of faith and service. The press of a nation may be taken to be the windows to its soul, so you may take the press of the Salvation Army as revealing the great purpose of its existence. The window discovers what is within. The illustration has its limitations, and yet, if careful examinations be made of the Salvation Army publications, there would be little difficulty in regard to finding out what the true purpose of the Savation Army is.

The production of our publications in the mechanical end is all done under strictly union conditions. We have a union shop; and, of course, every compositor, pressman, engraver, and mailer is paid at least the minimum union wage, while some get more.

NO PAID WRITERS.

Commercially the War Cry and our other publications are made possible because of the spirit prevalent in Salvationists. This refers to both literary contributors and distributors. We do not pay anything for the copy that goes into these publications. Gratuitous service is the slogan both for writers and sellers. The devotion of these persons makes possible the stream of

refreshing, healthy, inspiring literature that rolls off our presses and passes to the darkest corners of the Union to radiate light and enkindle hope.

A careful analysis shows that—

27¾ per cent of our second-class mail stops in the first three zones, for which no increase is suggested.
14¾ per cent goes to the fourth zone.
21¼ per cent goes to the fifth zone.
13¾ per cent goes to the sixth zone.
10 per cent goes to the seventh zone.
12¼ per cent goes to the eighth zone.

Our average second-class mail for the year was 7 tons per week and should the proposed change go into effect our bill for bulk mail would be exactly trebled. That is, instead of paying the post office about $7,000 (in round figures) per year, we should have to pay $21,000. The change would cost us $14,000—a very formidable sum to extract from the meager funds of the Salvation Army and which would very seriously cripple its beneficial work.

Our publications are owned by the organization, and whatever profit or loss there may be goes to help or embarrass the cause. Any profits that are made as the result of our economical administration are used to further the relief and charitable work of the Salvation Army.

Should the proposed law go through, it would be disastrous to us and would impose the obligation to further self-denial upon a people who constantly practice same in the interests of their fellow men.

It is farthest from our minds to evade any responsibility that belongs to us toward the State. On the contrary, we are always trying to honestly yield our quota to the upkeep of the Government, and we apprehend that there can be no better way to that achievement than to make better men. Our periodicals are only and wholly for that purpose.

IN WAR TIME.

We recognize that the war is imposing additional financial burdens upon the Nation. It is not that we do not want to bear our share of this burden that exemption from increased postal taxation is asked, but because of the fact that our publications, which, as already stated, are issued for the general enlightenment and uplift of humanity, stand thus in a class altogether separate from the publications that are issued for private gains.

No body of people are more loyal and patriotic than the Salvation Army. The appended sheet will set forth some of the ways in which it will set forth its efforts to aid the Government in this critical war time.

We respectfully submit the above facts for your consideration, with the prayer and belief that you will pass favorably upon the same.

Letter of Mr. Timothy T. Ansberry, counsel for To-Day's Magazine.

WASHINGTON, D. C., *May 16, 1917.*

To the honorable members of the Finance Committee,
United States Senate, Washington, D. C.

GENTLEMEN: To-Day's Magazine desires to briefly state its attitude with reference to the provisions of the new revenue bill made necessary by the war. We do not care to be put in the position of seeking to shirk a duty, but a reading of this brief will convince any fair-minded person that it strikes a vital blow at this magazine, as well as many others. They are just recovering from the shock that the magazines all received in the increased cost of their paper, and it has not yet been absorbed. Many valuable publications making modest profits are now showing losses, and these proposed postal rates will only add to the burden, and at least 60 per cent of them will go by the board. Most of the income of these publications is based upon contracts at fixed prices covering long periods of time, which make it impossible to change them in order to absorb the increased cost of transporting through the mails. This and other magazines have been valuable to the Government in advertising the Liberty Loan bond issue and in many other directions, among these they offered their joint services to the Department of Agriculture in its effort to increase the production of food products, as well as to conserve them, and they have thus worked out a program which will be very helpful and important to the Government. This magazine is now paying $10,000 a month

more for paper than they paid last year and prior to that time; the new postal rates proposed and taxes will add approximately $90,000 per year, making a total of nearly $300,000 that this publication would have to absorb. The subscription and advertising rates are low and, as has been said before, on long-time basis, and they can not be changed within a year. We feel it would be better for the Government to draw upon these magazines for services rather than to ruin them by compelling them to discontinue their publications by a tax which they can not meet.

For the reasons above we protest against the proposed tax.

Respectfully submitted.

To-Day's Magazine,
By T. T. Ansberry, *of Counsel.*

Brief submitted by Mr. H. R. Devine, Winston-Salem, N. C., representing Twin-City Sentinel, Western Sentinel, and the Journal.

Representing the daily and semiweekly newspapers in a North Carolina city of approximately 35,000 population, I desire to present some figures as to the effect of the proposed increase in rate on second-class postage in the war-revenue bill reported by the House Committee on Ways and Means, which will be typical, I think, of conditions generally with reference to publications in the towns and smaller cities of the South and West. In doing so, I wish first to reprint a tabulation recently published by a southern newspaper giving some of the important articles used in the production of a newspaper, together with the comparative cost of those articles for two years and the approximate percentage of increase:

Material.	1915	1916	Per cent increase, approximate.
Paper, per ton	$43.20	$80.00	85
Ink, per pound:			
News, black	.04½	.05$\frac{5}{16}$	18
News, red	.22	.35	60
Ink rollers, per pound	.25	.40	60
Metal, per pound:			
Stereotyping	.08¾	.14¼	60
Linotype metal	.08¾	.14	60
Zinc, per sheet, 17 by 28	1.03	2.83	170
Wrapping paper, per pound	.03¾	.08½	126
Chemicals (approximately)	....	....	69

The average increase in all materials used in producing a newspaper was over 70 per cent in 1916 in excess of 1915, and in not a few of the items there has been a substantial increase during the past few months. The figures given are conservative. In fact I have personal knowledge of some instances where the increase has been decidedly more on some of the materials used. In at least one case the increase in paper cost has been 166 per cent.

This does not take into consideration, of course, the increase in the item of wages, which will run from 15 to 30 per cent for many papers.

The annual increase in the cost of news print paper alone to papers of the class of which I am speaking will far exceed in 1917, I feel sure, in the case of a majority of those papers, the largest profits ever made in any one year. Add to that the proposed 100 per cent increase in the second-class postage rate (the bulk of the circulation of most of these papers is in the first and second zones) and the burden will be greater than many can bear. They are facing a heavy loss indeed.

Papers in the towns and cities under consideration can not "pass on" the additional expense. In the first place, a majority of them have advertising and subscription contracts made for at least a year ahead, and an increase can not be made before their expiration. Their field of operation is necessarily limited. Then, too, the burden of increased news print paper expense has already forced them, in a great many cases, to increase their rates to the limit. Such papers naturally have a considerable part of their circulation in rural districts, and an increase in rates will merely mean a decided decrease in circulation.

The postage cost is the newspaper's freight rate. A recent proposition to increase freight rates to shippers generally 15 per cent caused a vigorous protest. Yet here is a proposed increase in the publisher's freight rate of 100 per cent and more, and with very little warning. It will be serious to the larger newspapers with their great resources. Certainly for publications in towns and small cities the prospect is indeed alarming.

This class of papers is of decided value in an educational way. Many people, particularly in country districts, rely upon them almost entirely for information as to world affairs. They are aiding to a degree second only to agricultural papers in stimulating interest in the movement for increased production of food. They are helping in the present emergency in various other ways. Certainly the passage of a measure that, added to their other burdens, threatens the very existence of many of them, would indeed be serious.

Respectfully submitted.

H. R. DWIRE.

Brief of the American Medical Editors' Association and the New York Medical Publishers' Association.

To the members of the Finance Committee of the Senate of the United States.

GENTLEMEN: On behalf of the American Medical Editors' Association, including in its membership representatives from practically all of the leading recognized medical publications of the United States, and also on behalf of the New York Medical Publishers Association, made up of duly authorized representatives from the following 14 medical journals of National circulation and importance—

American Journal of Surgery,
American Medicine,
International Journal of Surgery,
Medical Record,
Medical Review of Reviews,
Medical Times,
New York Medical Journal,
Critic and Guide,
North American Journal of Homeopathy,
Archives of Pediatrics,
American Journal of Obstetrics,
American Journal of Urology,
The London Lancet,
British Journal of Surgery,

we respectfully protest against the proposed plan of the emergency war revenue bill your honorable committee now have under consideration, to increase second class postage rates.

Our reasons for protesting against the imposition of a tax in this form and manner on all publications generally and on medical journals in particular, are as follows:

First. A tax such as the proposed increase of second-class postage rates is fundamentally and economically wrong, inasmuch as it places an increased burden on human effort, or the process of human production.

Second. The whole newspaper and periodical publishing industry—our medical and scientific press especially—has been built up, and is essentially based upon, the 1-cent-per-pound rate established under the act of Congress, March 8, 1879. Our subscription and advertising rates, the salaries paid to our employees, and the entire organization and make-up of our respective journals, have all been regulated by, and adjusted to, this definite agreement by and between the United States Government and the newspaper and periodical publishing industry of the country.

Third. The publications of the country—the medical and scientific press particularly—are already laboring under a terrible burden, the enormous and undoubtedly abnormal increase in cost of paper, which has in many instances "wiped out" all profits and brought innumerable journals to the verge of ruin. We are told that we can expect no rleief from this paper situation under two or three years, and possibly not then.

Fourth. The proposed increase in second-class postage rates means a sudden increase of nearly 400 per cent in the cost of getting publications—medical, scientific, and technical journals in particular—to their subscribers; or to state

the cost in cents per journal, an increase of 2 to 6 cents on each copy; and in respect to many of the larger publications, an increase each year amounting to considerable more than the subscriber pays for them.

Fifth. Unlike the grocer or purveyor of commodities of fluctuating price, the publisher can not "pass along" any sudden or unexpected increase in cost, inasmuch as practically all of the income of the great majority of publications is based on subscription and advertising contracts covering definite terms, usually one or more years, as also are many of their costs, especially in respect to labor, printing, paper, etc. Consequently, it is absolutely impossible to make any immediate adjustment of income or effect any immediate economies in the principal items of expense, to meet the additional cost this proposed increase of second-class postage rates will create.

Sixth. The amount paid by each publication for its transmission under second-class rates, represents only a small proportion of the total amount paid out for postage. In other words, the circulation of a publication involves much correspondence, and the distribution of many extra pieces of mail, at other than second-class rates, and under classes which the Post Office authorities admit to be very profitable. Increase of second-class rates, with the inevitable curtailment of each publication's activities will, therefore, lead to a real and substantial decline in the expenditures for first, third, and fourth class postage; this can not fail to mean a post-office revenue that obviously will materially cut down the expected returns from the proposed increase in second-class rates.

Seventh. There are over 300 reputable, eminently useful medical, drug, and scientific journals, many of them of small circulation to be sure, but all of which serve a very valuable purpose and perform a very important function. These medical journals meet the needs of the 140,000 practicing physicians of the country, serving as mediums for the interchange of ideas, the dissemination of medical and surgical knowledge, the announcement and report of important meetings, notable inventions and discoveries, and the advancement of everything pertaining to public health. Many of these journals are owned, controlled, and directed by physicians in active practice and published with no intent nor desire for monetary profit and solely in the interests of medical and surgical progress. Every dollar of profit goes to increase their efficiency and broaden their utility. To increase the second-class rates of these earnest, useful—we might say indispensable—publications under the proposed plan means either their destruction and annihilation, or a very great curtailment of their activities and restriction of their circulation. The cost of delivery of the great Eastern and Middle-Western journals to readers beyond the first and second zones will be so great that they will be forced to confine their circulation and activities to their nearby districts. This will mean a narrowing of each journal's breadth of view, and, therefore, influence for good, with serious loss to physicians in the outer zones, who will be denied the up-to-date, stimulating, and thought-inspiring literature they have depended upon and need to fulfill their whole duty and render their highest service to those who look to them for medical care and guidance. Deprived of the principal means of keeping in touch with the medical advances being effected throughout the world, the doctors in the zones farthest away from the great publication centers—Boston, New York, Philadelphia, St. Louis, and Chicago—will surely become less efficient as practitioners and less alert and capable in promoting public health.

Eighth. The second-class rate established in 1879 was designed to promote the publishing industry and—in respect to the medical, drug, and scientific press particularly—to aid and advance the spread of useful and valuable information; briefly, to educate the people and those engaged in especially needed or desired pursuits. Call it subsidy, Government aid or support, or whatever best describes it, the fact remains that the Government sought to advance the interests of the American people by thus promoting the growth and progress of the means recognized as holding greatest potentialities for educating them and bringing them in closer touch with each other; to make the United States of America one great country instead of a large number of sections. In regard to the influence on medical progress and the advancement of public-health matters the Government builded well, for the wonderful things that have been accomplished in medical and sanitary science have come to pass mainly through the development of the medical press, not only made possible by but resulting from the institution of a 1-cent-per-pound rate for delivery to any place in the United States.

Ninth. The medical journals are more needed to-day than ever before in the history of our country. Careful study shows that approximately 25,000 doctors

are going to be needed at once for military service. To carry this message to the doctors of the land, to crystallize their natural patriotism, to help them to decide and arrange their affairs so they can rally to the Nation's imperative need, and to keep the physicians of the Nation in touch not only with what is going on in Oshkosh or Denver or Providence, R. I., and their immediate environs, but with the triumphs, successes, and glorious sacrifices of medical men all over the world, is a service the Government can not afford to stop or restrict; but it surely will if it raises the second-class rates of postage.

In view, therefore, that an increase in the second-class rate of postage will mean the imposition of an impossible and intolerable burden on publications already staggering under the terrible load of increased paper cost; that many medical and drug journals will be destroyed—"wiped out"; that those able to struggle on will be forced to curtail their activities and restrict their circulations to near-by zones; that there is no way that the increased expense can be passed on, not alone because of the nature of the business, with its fixed incomes and costs, but because the doctors, due to the sacrifices they must make, can stand no advance in the price of their journals; that the medical journals of the country are conducted not for profit or gain but for the purpose of promoting professional ideals and increasing medical efficiency; that the doctors in the zones distant from the publishing centers will suffer irreparable loss through being denied the broad, up-to-date literature they have been enjoying and through which their wonderful efficiency has been acquired; that the principal and most effective means of securing the doctors so urgently needed for military service will be destroyed; and finally that the most powerful and most essential force in the country in promoting public health and in safeguarding the people against pestilence and disease will be destroyed entirely or greatly restricted in its capacity for service, we pray that no increase or change in the second-class rates be made at this time.

No profession is doing more, or will do more, to serve and protect the whole Nation than the medical and its collateral branches. No other group or class of publications has a deeper sense of obligation to the country, or more earnestly desires or intends to show our love and devotion to the Nation and all it stands for. Give us a chance to go on and work out our destiny, without asking us to assume a burden we can not possibly carry without "falling by the wayside" or faltering dangerously, and we will do our part, never fear. We see our duty; we know our possibilities; we shall be proud to place all we can do or any profits we can make at the command of the Nation in its hour of need. Permitted to live and forced to carry no more than the burden we have some prospect of becoming able to, we can render a service no other agency can. But killed, annihilated, or so loaded that we must bend every energy and effort to keep an abnormal burden from crushing us, and we will be able to do little or nothing.

Respectfully submitted.

H. Edwin Lewis, M. D.,
Jos. MacDonald, Jr., M. D.,
C. C. Taylor,
A. R. Elliot,
C. F. Taylor,
For the American Medical Editors' Association;
H. Edwin Lewis, M. D.,
Caswell A. Mayo,
Jos. MacDonald, Jr., M. D.,
For the New York Medical Publishers' Association.

Letter from Edwin R. Graham, chairman, and Oliver R. Williamson, secretary, representing the Denominational Publishers' Association of America.

To the members of the Finance Committee:

The Religious Weekly Publishers' Association has just changed its title to "The Denominational Publishers' Association of America."

There are in the United States 847 religious publications of general or semi-general circulation, representing Roman Catholic, Jewish, and some 301 Protestant denominations. Our organization stands for these publications, but does not include a small number of publications claiming to be religious papers but

not related to or controlled by any organized church interests and which are conducted for private profit.

While the rate mentioned in the bill will add to the already heavy burdens of our papers, due to increased cost of production, we recognize the need for increased governmental revenue at this time and cheerfully accept the necessity. In most cases our papers make no profits, and the tax will fall on contributions to meet deficits, and where profits are made for missionary purposes or to support disabled ministers and other organized church benevolences, the difference will need to be made up from other sources.

SUGGESTED CHANGES.

We respectfully suggest the following changes, which we feel more clearly represent the intent of the framers of H. R. 4280 than the language in the bill as reported:

Title XII, postal rates, page 52, line 20:

"*Provided further*, That in the case of newspapers and periodicals entitled to be entered as second-class matter and maintained by or in the interests of religious, educational, philanthropic, agricultural, labor, or fraternal organizations, said newspapers and periodicals not being conducted for profit and none of their net earnings to be paid to any stockholder or individual, the second-class postage rate shall be 1¼ cents a pound or fraction thereof, irrespective of zone in which delivered, except when the same are deposited in a letter-carrier office for delivery by its carriers, in which case the rate shall be the same as now provided by law. The publisher of such newspapers or periodicals, before being entitled to the foregoing rates, shall furnish to the Postmaster General, at such times and under such conditions as he may prescribe, satisfactory evidence that none of the net earnings of such newspapers or periodicals are to be paid to any stockholder or individual."

Our reasons for suggesting the foregoing changes are:

1. A large number of the most useful religious publications are not in a strictly technical sense owned and directly maintained by the religious bodies in whose interest they are published. This applies to all the weekly religious newspapers of the Northern and Southern Presbyterian Churches, to the Baptist, Christian, and Disciples' papers, to many of the Catholic and Jewish papers, and to periodicals of most other denominations.
2. These papers are in some cases owned by voluntary associations, and sometimes by stock companies, but their deficits are met by contributions made in the interest of the church.
3. The provision against private profit is sufficient insurance against evasion by commercial enterprises.
4. We believe this alteration intended to provide against a possible technical misapplication of the law is in harmony with the purpose of the plans of the bill.

Respectfully submitted.

THE DENOMINATIONAL PUBLISHERS'
ASSOCIATION OF AMERICA.
EDWIN R. GRAHAM, *Chairman*.
OLIVER R. WILLIAMSON, *Secretary*.

Letter from Clarence Poe.

Hon. F. McL. SIMMONS,
Chairman Finance Committee, United States Senate,
Washington, D. C.

DEAR SENATOR: The House revenue bill increases the postage rates on second-class mail by from 100 to 500 per cent.

The Senate may pass it. In matters of business you have the power to kill or make alive. But before you vote for such an increase we believe you, as a fair man, wish to know what it means.

And in order that you may have concrete facts, we are going to lay bare our business records, knowing you will accept them in confidence. Here are the facts:

Our average annual profits of the last nine years have been $12,818.32. Our total capital stock is only $50,000.

Yet the total annual increase in our newspaper postage under the House bill would be $45,126.70.

In other words, the Government proposes to levy on one single item an annual increase equal to more than 90 per cent of our total permanent capital stock and more than three times as much money as we have been making in any one average year.

These figures are too eloquent to need argument, and we leave them with you.

Yours, sincerely,

CLARENCE POE,
President and Editor.

P. S.—We favor a "pay-as-you-go" war by taxing incomes and excess profits. And then, instead of this postage increase, add any surtax on publishers' incomes you wish, or a 5 per cent tax on advertising. Anything, so we are left alive.

Letter from George E. Cook, Vice President of the David C. Cook Publishing Co.

NEW YORK, *May 12, 1917.*

Hon. F. McL. SIMMONS,
Chairman Finance Committee, United States Senate,
Washington, D. C.

HONORABLE SIR: In response to request for facts and figures about particular publications showing the effect of the proposed increase in postal rates, I submit, to be filed for record, the following statement concerning the David C. Cook Publishing Co., who have been for years the largest publishers of religious periodicals used in churches and Sunday schools of all denominations.

The circulation of the Mother's Magazine, monthly, is 600,000.

The total circulation of 35 other weekly, monthly, and quarterly publications is 4,000,000.

Second-class postage paid during 1916, $85,000.

Estimated increase in second-class postage if the proposed zone bill becomes a law, $229,500.

Increase in first class and postal cards, $15,000.

Increase in labor for zoning, $2,000.

Increase in cost of production for 1917, on account of high cost of paper alone at present rates for the same circulation, $142,000.

Total increased cost of postage and paper, $388,500.

The entire profits of the David C. Cook Publishing Co. for 1916, for all these publications and its large merchandise business, $42,800.

It is apparently the purpose of the Committee on Ways and Means to exempt religious publications from a proposed zone system, and not to interfere with charitable, religious, or missionary enterprise.

The Cook Co., however, being interdenominational, and serving all denominations, is not affiliated, and can not be affiliated with any denomination; and it would seem that the provision which requires the publications to be so affiliated was calculated to put the David C. Cook Publishing Co. in a class by itself, although it has done more to keep the prices of religious publications within the reach of Sunday schools and churches than any other concern.

Only 4 out of our 35 religious publications carry any advertising whatsoever, the gross yearly income from this source being about $25,000 per year. We depend wholly upon the subscription price to pay the cost of production, while the advertising revenue is incidental and largely voluntary.

We feel that to increase the cost of religious publications to the churches and Sunday schools would be a serious menace to the cause of religion, especially in these strenuous times.

We heartily approve the evident desire of the committee to protect the interests of the religious press particularly, but we believe that, inasmuch as the Cook Co. has never at any time made any considerable profits on its periodicals, and usually does not earn a dividend, because the money is put back into the business to develop more and better materials for the benefit of all denominations, and because whatever small profits have been made by the concern from its merchandise business and distributed among its stockholders have been employed for the benefit of or have been contributed to the international or other Sunday school organizations for the furtherance of their work, the Cook Co. should be entitled to the same exemption from the zone system as other religious publications.

The business of the David C. Cook Publishing Co. is no more for profit than the business of any denominational publishing house, and whatever profits accrue are used in the same way, except that the David C. Cook Publishing Co. serves all denominations and contributes to all.

The denominational publications charge a little more, as a rule, for their subscriptions than the Cook Co. for the same or better product, and the denominational publications carry paid advertising in more of their publications than the Cook Co.

The profits of the denominational publishers are the property of the denomination to distribute as they see fit. The profits of the religious periodicals of the David C. Cook Publishing Co. have gone into contributions for the maintenance of the International Sunday School Association or various church organizations and missionary societies.

We would urgently recommend, therefore, an interpretation or revision of that provision of the proposed bill which refers to the affiliation with religious organizations not organized for profit, in order that this largest self-supporting educational and religious publishing house be permitted to continue to serve all of the denominations and to contribute to their support as in the past.

It would be impossible, if we raised our prices so as to take up this deficit of $388,500, to feel any effect from this raise in price in less than a year, and that would be too late, for we have no affiliation with any organization upon which we might draw for funds to support us through the crisis.

Briefly, then, we are begging for the privilege to serve our country in our usual capacity, as we have been doing in the past. All of our publications are at the disposal of the Government and all of our profits, and more if necessary, but we feel that, inadvertently perhaps, a great injustice would be done not only to ourselves but to the various church and Sunday-school organizations that depend upon us and to the International Sunday School Association, which receives a large part of its maintenance from us, if this provision is permitted to stand as it now reads.

We can not believe that it was the intention of the committee to single us out f:- destruction, but, if so, it may be that the country will have some other use fcr our time and energies.

With regard to the Mother's Magazine: This publication was primarily designed for the use of Sunday schools, but owing to a general demand for such a publication and the fact that there is no other such publication a large individual circulation list has been developed, amounting to over half a million. This publication has never been pushed vigorously as an advertising medium, as we have depended largely on subscription price to cover the cost of publication.

The Mother's Magazine shows very little, if any, profit, so that if it is not included in the exemption given other religious publications it will undoubtedly cease publication with the other periodicals of the David C. Cook Publishing Co.

In this connection, not less than 500 families must find some other means of support, besides over 1,000 employees in the field who depend almost entirely for their livelihood upon our organization.

We hesitate at this critical time to interject our problems into your consideration, but we feel assured that it is not the purpose of the Government at this time to work any hardship upon any industry or group of people, and it is with a spirit of patriotism and a desire to be helpful rather than critical that we present the above facts.

Respectfully, yours,

THE DAVID C. COOK PUBLISHING CO.,
GEO. E. COOK, *Vice President.*

The CHAIRMAN. We will now hear Mr. Myrick.

TITLE X. WAR CUSTOMS DUTIES.

Sec. 1000. TARIFF.

STATEMENT OF MR. HERBERT MYRICK, REPRESENTING THE ORANGE-JUDD CO., SPRINGFIELD, MASS.

Mr. MYRICK. Mr. Chairman and gentlemen, you have in your bill a tariff proposition. I wish to urge most strenuously that in any legislation on that subject you be sure not to impose any tariff tax on any form of plant food or of animal food. You see the reason why. We need to import free of tariff every possible ounce of plant food, of plant fertilizer. Indeed, your Senate has already, I believe, passed a bill appropriating $10,000,000 for the importation of Chilean nitrates. How foolish it would be—that stuff now comes in free—to impose a tax of 10 per cent on it. This point is of the utmost importance, particularly since we have been done out of German potash by the war.

Senator SMITH. What fertilizers are taxed in the bill?

The CHAIRMAN. All of them, because they were all on the free list before.

Mr. MYRICK. It is an economic principle of all Governments, I think without exception, to admit plant food free of duty, and this exception should be made in this measure.

Now, regarding the publishers, there is just one point that should be very strongly emphasized. We are not pleading against it; we are asking no special favors. Forget for the moment the tax on second-class matter. That tax, by the way, would cost the agricultural journal I have the honor to represent three times their profits of last year. The increased cost of their paper this year is three times their profits of last year. Did I say that the postage would be three times? It is six times. Our postage bill under this law, the increase will be six times the profits of last year, and our paper bill is three times. But now forget all that; forget it. I have made a calculation this morning since hearing Mr. Keeley's statement—the statement which he made last night and which he repeated this morning. I have taken your bill here, item by item, and, leaving out the proposed tax on second-class matter, I find that my own business will pay in the taxes imposed in this bill, which they do not object to—it will take 60 per cent at least of last year's profits to pay those taxes, and we are willing to pay them. We will find a way somehow.

Senator STONE. Have you made a statement of these items?

Mr. MYRICK. I will submit a formal statement in detail to the committee. It is a most alarming statement from the standpoint of the treasurer of the company who has got to pay your bills.

Senator PENROSE. And that does not cover your State or local or city taxes?

Mr. MYRICK. Not at all. Gentlemen, we are willing to pay those taxes if there is any possible way we can do it. We are not asking exemptions. We simply want you to give us half a show to exist, because we can do some good for this country. The farm press of the United States has served the country faithfully and well for a great many years, and we do not want to be put out of business. It is not economical. It will be the greatest crime, political, social, and economic, that you could commit.

Gentlemen, in conclusion I just want to indorse every word that has been said by the representatives of organized labor, and I believe I speak for every editor and publisher in the United States in saying that one and all of us here stand united.

Senator SMITH. You will make your itemized statement so that from it we can gather the general situation of the effect of each item upon the whole business.

Mr. MYRICK. Exactly; yes, sir.

The CHAIRMAN. The committee will come to order.

Senator THOMAS. Yesterday I called the attention of the committee to one or two letters and a statement of Mr. Joseph S. Auerbach, of New York, regarding the excess-profits schedule, about which I would like to ask him two or three questions. He wants to go back to New York, and I would like to ask those questions now.

The CHAIRMAN. Proceed.

STATEMENT OF MR. JOSEPH S. AUERBACH, OF NEW YORK, REPRESENTING THE WOOLWORTH CO. AND OTHER MANUFACTURING CORPORATIONS—Resumed.

Senator THOMAS. In your remarks on the first day of our hearing you referred among other things to the excessive issue of capital stocks for good will, etc., and the chairman asked you one or two questions in regard to it. I would like to ask you, would not this affect the value of the assets which are to figure the exemption?

Mr. AUERBACH. Why, no; I do not think it would have very much, if anything, to do with it, provided you made the valuation of corporate assets independently of the issue of stock. While it is true, as the chairman said, that there are times when there has been an overissue of capital stock for good will in connection with property, or perhaps for good will independently of tangible property, that stock finally comes to have its true value over the course of time. You can take that value as one of the elements in arriving at the value of the corporations' assets. You can take its earning power as another element of value. If you are not satisfied with that, as indicating the true value of the property, you might create some kind of a board of appraisal.

Certainly there is no particular virtue that ought to attach to money values as distinguished from property values, and you should give an exemption on money with accumulated profits and also on property with accumulated values before you calculate the percentage of the surplus profits.

If you are not satisfied that the capital stock now, or the average price of the capital stock running over a period of time reflects that, within—I wanted the chairman to hear this; Mr. Chairman, you were out of the room while I was speaking—I say, again, if you

are not satisfied that the average value of the capital stock reflects the real value of the corporate assets, both tangible and intangible, have your own method of appraisement of it; have a board of appraisal to fix the value. You have said in the excise tax law that it is the fair value of the capital stock which shall determine the basis for the collection of that tax, and you make another basis on which to collect this tax. And as I have said, if you are not satisfied that the average value of the capital stock reflects the real value of the assets, have a machinery of your own for the appraisal of it.

The CHAIRMAN. You are suggesting that as the standard of invested capital?

Mr. AUERBACH. Yes; as the standard of invested capital.

The CHAIRMAN. I was out of the room.

Mr. AUERBACH. So, if you find money with accumulated profits, take that into consideration; if you find property, including good will, with accumulated value, take that into consideration. Let it be done as the Commissioner of Internal Revenue does in the existing statute passed last year by appraising the present fair value of the property, real and personal.

And as I have said, if you do not think the average price at which the stock sells in the open market furnishes that criterion, then have a board of appraisal. The Commissioner of Internal Revenue under the excise tax fixes the fair and reasonable value of the property, both real and personal, and that is the method we ask you to adopt. That is, give us the 8 per cent exemption, if that be the percentage you are going to determine upon, and then, after the allowance is made, let the tax be the 16 or other percentage you deem fair upon excess profits. Then all corporations, as to the value of their assets, will stand upon an equality and be uniformly taxed. This would not, however, be true if you exclude from the consideration of value, in ascertaining the value of corporate assets against the tangible property, the good will.

Senator THOMAS. This has occurred to me, and this is what I want to ask you about: In the interval between the enactment of the statute and the levy of the tax, a corporation might increase its capital stock and by that means afford a basis of value at the time of the assessment of the tax which had no other form of expression or existence when the law was passed. Do you not think that that might afford an opportunity whereby values could be largely increased as a basis for the tax and be subject to more or less abuse?

Mr. AUERBACH. No; if you look at the thing that the capital stock represents, either the original capital stock or any increase in the capital stock, for this would reflect the sum of the value of the capital of the company. The assets are not diminished or increased by anything that the corporation may do by an over issue of capital stock, if you base the exemption upon actual value. And, as I say, if you are not satisfied that the average price of the capital stock running over a period of time reflects that, get at it in your own way. The Commissioner of Internal Revenue now does it satisfactorily to the Government and the corporations, but if you prefer you can do it by a special board of appraisal, and have section 202 read that the exemption shall be based upon 8 per cent of the actual value of property, real and personal, to be determined by the board with

its appropriate machinery. Then I think everybody would be on a uniform basis, and would be content with the amount of the tax you impose; for, as to the amount you need, you know a great deal better than we do. All we ask is that the tax be not discriminatory as to the present value of property which may be represented in tangible property and good will, which the present bill, if it be made a law, would be.

The CHAIRMAN. We will take up the supertax on distilled spirits again, inasmuch as Mr. Cooke is here and desires to be heard. Proceed, Mr. Cooke.

TITLE III. BEVERAGES—Resumed.[1]

Sec. 304. SUPERTAX ON DISTILLED SPIRIT CORDIALS.

STATEMENT OF MR. LEVI COOKE, REPRESENTING THE NATIONAL ASSOCIATION OF CORDIAL MANUFACTURERS, WASHINGTON, D. C.—Resumed.

Mr. COOKE. If the committee please, this relates to the tax on cordials. which is a proposition which was fully discussed before the committee a year ago in the act of 1916. At that time there was a proposition to put a tax of 24 cents a gallon on all cordials, whether made from distilled spirits or from fortified wines, and the effect of that tax. which would have expressly permitted the use of fortified wines in making cordials, something previously prohibited, would have been to drive distilled spirits out of the cordials, and cheaply taxed fortified wines would have taken their place, with the result that the Government would have lost revenue. There was a complete hearing upon that subject before Senator Stone's subcommittee, and Senator Hughes and Senator Thomas heard the arguments, and that tax was eliminated.

Now, that same proposition comes back into this bill by virtue of section 304. in conjunction with section 301. the rectifying section. Cordials are recified spirits, and the rectified spirits provision on page 10, line 16, expressly states as follows:

> The tax imposed by this section shall not attach to cordials or liqueurs on which a tax is imposed and paid under the act of 1916.

In other words. the 24-cent cordial which can now be made from fortified wine will not pay the 15-cent rectifier's tax, but the cordial made from distilled spirits will pay the 15-cent rectifier's tax.

The CHAIRMAN. Have you got a proposition?

Mr. COOKE. I suggest you eliminate the entire rectifier's tax. That ought to go out in toto.

Senator THOMAS. That is another proposition.

Mr. COOKE. I still urge that, but in any event this ought to be eliminated.

Senator WILLIAMS. What is your elimination?

Mr. COOKE. Eliminate lines 16 to 20 and just leave the exemptions to apply to blends of pure straight whiskys.

Section 304 imposes double the present tax on fortified wines. Where they previously paid 10 cents for 14 per cent alcohol, they will now pay 20; but then the language goes on and provides that the wine tax imposed by existing law and the additional tax imposed thereon by this bill shall apply to all domestic or imported liqueurs, cordials, or similar compounds, by whatever name sold or offered for sale, and without *reference to the*

[1] The beginning of the hearing on this title will be found on page 79.

kinds of spirits or wines used in the manufacture thereof. In other words, they apply a tax of 20 cents, which is the double wine tax, to all cordials, whether made of wine or distilled spirits. The effect of that, in a nutshell, is simply this: A distilled spirit cordial, 40 proof, would carry distilled spirit tax of 40 per cent of the flat tax rate at $2.20 per gallon, that would make the alcohol tax in a gallon of cordial 88 cents. To that you would add the 15-cents rectifier's tax and 20-cents double wine tax and the new cordial tax, and you would get a tax on the distilled spirit cordial of 88 plus 15 and 20 cents, making $1.23 per 40-proof gallon of cordial. Your fortified wine cordial would pay a tax of only 20 cents for the gallon of wine, 4 cents for the amount of the fortified brandy, which costs only 20 cents a gallon, plus 24 cents, and the original fortified wine-cordial tax, or about 68 cents, so that you would have a discrimination in alcohol tax of the difference between 68 cents and $1.23, and that would force the cordial manufacturers to use fortified wine in place of distilled spirit, and you would reduce the revenue from the cordial manufacturer of from one to three million dollars of distilled-spirit revenue. That is all that is intended to be accomplished.

The CHAIRMAN. Have you got the amendment there?

Mr. COOKE. I have got a brief which proposes these amendments, and will file it.

The CHAIRMAN. It will be printed.

SUPERTAX ON DISTILLED SPIRIT CORDIALS—BRIEF OF THE NATIONAL ASSOCIATION OF CORDIAL MANUFACTURERS PROTESTING AGAINST DOUBLE SUPERTAXES ON CORDIALS PROPOSED IN THE RECTIFIED SPIRIT TAX OF 15 CENTS PER WINE GALLON IN SECTION 302, H. R. 4280, AND IN THE WINE TAX OF 20 CENTS PER WINE GALLON IN SECTION 304 OF 4280.

STATEMENT.

Cordials are rectified liquors approximately 20 per cent alcohol by volume or 40 per cent proof, sweetened and flavored with fruit or aromatic flavors.

They should pay tax on the alcoholic strength present, this being accomplished by the taxpayment of the alcohol at the legal rate, but should not be supertaxed either as rectified liquors or specifically as cordials.

H. R. 4280 carries a supertax of 15 cents per wine gallon on rectified liquors, which applies to cordials, and this rectified liquor supertax should be eliminated as a discriminatory superimpost on this class of liquors.

H. R. 4280 also proposes to supertax cordials again with the wine tax of 20 cents per gallon on liquers and cordials more than 14 per cent alcohol by volume.

In other words, cordials are to pay the spirit tax on spirits present plus the rectified liquor tax plus the wine tax. This is triple taxation.

Section 304 is so worded as to reintroduce the compulsory use of fortified wine in cordials; and by compulsory substitution of cheaply taxed fortified wine as the alcohol base for cordials instead of fully taxpaid distilled spirits—actually to deplete the revenue while subjecting cordial manufacturers to commercial bondage to the manufacturers of cheaply taxed fortified wine.

This proposition was put into the revenue bill of 1916, but was eliminated on our protest in the Senate, the 1916 bill leaving a countervailing tax of 24 cents per gallon on cordials made from fortified wine, with no special tax on cordials made from fully taxpaid distilled spirits. The present bill is a renewed attempt to force cordial manufacturers to use cheaply taxed fortified wines and thus at the same time injure the distilled spirit revenue, and should be eliminated now as it was a year ago.

ARGUMENT.

If cordials are taxed with this triple supertax the business is destroyed and several millions of present revenue lost to the Government from this source, to say nothing of the property destruction to the business.

All cordial manufacturers are rectifiers under section 3244, and their product would take the 15 cents per wine gallon tax of section 302.

Please note (p. 10, line 16) that this rectifiers' tax is especially exempted from "cordials and liqueurs on which the tax is imposed and paid" under the act of September 8, 1916. That is a tax of 1½ cents per half pint (24 cents per gallon) on "liqueurs, cordials, or similar compounds, by whatever name sold or offered for sale, containing sweet wine, fortified with grape brandy."

In other words the rectifiers' tax does not apply to fortified wine cordials, and thus the partial equalization of spirit tax between fortified wine cordials and distilled spirit cordials enacted in 1916 is cleverly evaded by this exemption in the rectifiers' tax. The effect is to make the rectifiers' tax applicable to distilled spirit cordials, restore the tax compulsion of using cheaply tax fortified wine as an alcoholic base for cordials, and by driving distilled spirits out of this field of manufacture give a monopoly thereof to fortified wine.

Now, please note the adroit and peculiar language by which the second supertax is put on cordials in the wine section, section 304, page 12, line 12, to double-rivet the discrimination and force cordial manufacturers, if they operate at all, to use fortified wine.

Section 304 puts upon "all still wines, including vermuth, and upon all champagne and other sparkling wines, liqueurs, cordials etc.," an additional tax equal to the tax now imposed by law.

Well and good. There is no tax now imposed by law upon cordials and liqueurs made with fully tax paid distilled spirits. But this is adroitly taken care of by the last provision of the section, as follows:

"And the tax imposed by existing law and the additional tax herein imposed shall apply to all domestic or imported liqueurs, cordials, or similar compounds by whatever name sold or offered for sale and without reference to the kind of spirits or wines used in the manufacture thereof" (p. 13, line 2).

This last language makes the doubling of the wine tax apply to articles, i. e. cordials, not taxed under existing law.

EFFECT OF THE CORDIAL TAXES AS PROPOSED.

At $2.20 per gallon the spirit tax in a 40 per cent proof cordial would be 88 cents. Add to this the 15 cents rectifiers' tax and the 20-cent cordial tax (i. e. double the present 10-cent wine tax provided in sec. 304) and the tax on a 40 per cent proof distilled spirit cordial will be 80 cents plus 15 cents plus 20 cents or a total of $1.23 tax money.

Now, make the same cordial out of fortified wine and the tax is as follows: A gallon of fortified costs in tax money at the proposed new wine and fortifying brandy rates the following: 20 cents flat wine tax, one-fifth of a gallon of fortifying brandy taxed at only 20 cents per proof gallon or 4 cents, plus the cordial tax of section 304 of 20 cents, or a total of 44 cents tax money.

Please remember that the 15 cents per wine gallon rectifiers' tax is expressly exempted from the fortified wine cordials, and even if the present 24 cent per gallon countervailing tax still stands, the fortified wine cordial at 40 per cent proof is finished with only 68 cents tax money in it.

Taking this last figure as the high tax for fortified wine cordials, the fortified wine cordial has only 68 cents tax in it as against $1.23 in the tax-paid distilled-spirit cordial.

Even if cordial manufacturers were willing to stand selfishly and hope to evade distilled-spirit tax, they know that the fortified-wine interest would raise commercial prices to take all the tax advantage by holding fortified wines at just the commercial price to force their use in place of tax-paid spirits in cordial manufacture.

The cordial manufacturers, however, wish to see no such tax discrimination, and urge Congress to leave the law as it now stands, with no supertaxes on distilled-spirit cordials and only the countervailing tax on cordials made from fortified wine, so that when such wines displace tax-paid distilled spirits in cordial manufacture the distilled-spirit revenue will not be depleted.

If Congress enacts the present bill, the Government will lose from $3,000,000 to $5,000,000 in distilled-spirit revenue through compulsory substitution therefor of fortified wines cheaply taxed. The only beneficiary thereof will be the fortified-wine combination.

This whole subject was thrashed out a year ago, and the fortified-wine revenue raid was defeated. This second attempt should likewise be defeated.

HOW TO CORRECT THE BILL.

First, the rectified-liquor supertax section should be eliminated from the bill as inequitable, unjust, and unnecessary so far as it relates to the cordial industry or any other branch of the rectifying business.

By eradication of the whole idea of a rectifier's tax, the special supertax of 15 cents a gallon on distilled-spirit cordials and the exemption therefrom of fortified-wine cordials disappear.

Secondly, the tricky application of the double wine tax to cordials in lines 2 to 7 of page 13 should be stricken out, commencing with the words in line 2, page 13, "and the tax imposed," etc.

This will leave the cordial tax as it now is, subject to the increases of flat tax on distilled spirits and wines, and will eliminate the provisions by which, through discrimination in favor of fortified wines, the total tax derived by the Treasury from the cordial industry would be reduced several million dollars, with benefit only to the combination which controls the sale of so-called fortified wines containing cheaply taxed alcohol.

Please remember that cordials are really only liquors which have been sweetened, or sweetened and flavored, and that the only difference between them and other liquors is the addition of this sweetening or flavoring ingredient.

Respectfully submitted.

NATIONAL ASSOCIATION OF CORDIAL MANUFACTURERS,
By EDWIN LEHMANN, *President*.
Arrow Distilleries Co., Peoria, Ill.
SIDNEY F. MIHOLOVITCH, *Vice President*.
The Miholovitch Co., Cincinnati, Ohio.

The CHAIRMAN. Next we will hear Mr. Doyle.

Sec. 308. BOTTLERS OF SOFT DRINKS.

STATEMENT OF ANDREW P. DOYLE, REPRESENTING THE EASTERN BOTTLERS' ASSOCIATION OF MASSACHUSETTS.

Mr. DOYLE. Mr. Chairman, I thank you very kindly for your own courtesy and also Senator Lodge, our own Senator, who is always kind to the little fellows.

In the debate in the House yesterday I noticed Congressman Longworth stated that the little fellows were not making any kick about the provisions of this bill. We are one of the littlest of little fellows. We are representing the bottlers of soda water of Massachusetts, and incidentally of New England. The schedule as arranged here is supposed to bring in a revenue to the Government of $20,000,000. In our idea of it, it would not bring in $2,000,000, because you would not be able to do business. The people who drew that schedule knew nothing about the kind of business we are trying to conduct, and we want to state those conditions briefly.

The principal ingredients that are used in the bottling of soft drinks—the biggest one is sugar. Sugar has gone up enormously. Three years ago we were paying 3¾ cents a pound for sugar, and we are now paying 9 cents, and under your schedule it will be taxed 1 cent, which of course will be shoved on to the pikers like us. The bottles have gone up 125 per cent. The cases that we use have gone up in proportion. Labels and all printed matter have gone up 25 to 50 per cent. Caps and tinware have gone up from 25 to 40 per cent, and so on through every ingredient that enters into the manufacture of soft drinks.

The retail base price of bottled soda water, in our section of the country at least, and I presume it is all over the United States, for 30 years has been 5 cents for small and 10 cents for large bottles, and

we know of no way in which we can pass along the part of the burden we are supposed to assume under this schedule, under the increased cost we pay for materials now.

In section 308 you have put a tax of 10 per cent on prepared sirups or extracts which enter into the bottling of soda water. In section (*b*) of that you are putting a tax of 2 cents a gallon on the finished product where it is made by manufacturers of carbonated gas themselves. You are putting a tax of 1 cent a gallon on all natural, mineral, or bottled waters, and in section (*d*) you are putting a tax of 10 cents a pound on carbonic-acid gas, that we are now paying 5 cents a pound for under an increased schedule, which seems to me to be an utterly outrageous tax to be laid, and we, the bottlers, will have to pay that. It won't be the men who are making it. To make us pay 13 cents a pound for our gas, where we are now paying at most 5 cents a pound, and that is going to increase the cost of production of our soda water so enormously. I have listened to a number of big fellows talk about what is going to happen to them. "We can not do business," they say. I am going to read a crude schedule which we have prepared to show you the reason why we think we are being treated somewhat unfairly, and what we think perhaps might be able to bear. We realize what we have got to do. We are perfectly willing to pay, if we can be sure that we can finish this year or next year without making a cent of profit, if all we were getting in that way was going to the Government. We would give three loud cheers and say everything was all right, but under the conditions as they exist now, the enormous increase in prices that we are paying for all the articles that go into what we manufacture, it is the impossibility of passing a part of it along to the other fellow, like we are getting it, it simply means that we would not be in the game at all.

I have had a little experience with this kind of business myself, and I know your work is going to be done in executive session, and we have no high-priced lawyers to draw up schedules for us. We are simply small fellows in a small way of business. We believe the small business men are the ones who are to be hit the hardest, along with the working people. We want to save a part of our business. It will not do any good to the Government or to the people of the country if there is going to be a lot of the small manufacturers wiped off the schedule. I have got every dollar I have in the world invested in this business. If it was going to the Government, I would say "let it go. I am glad of it, and I wish I had more to give," but it simply means that if we have to operate under this schedule, we are going to be wiped entirely out of business, and the Government is not going to get any return from it. It is an utter impossibility under the soda-water schedule. The manufacture will stop. If it is manufactured, it will not be by us, because 95 per cent of the stuff that is bottled by the people in our line of business is sold to working people, and it is curtailing now our business. Our business now is less than it was in January, when it was extremely cold, below zero in Massachusetts, because the people are curtailing on the consumption of this stuff now, and how the Government is going to get $20,000,000 from the soda-water bottlers, if they are not going to do business, is more than I can see. If you give us a fair schedule, something that we can work along under and keep our plants running, without making a

cent of profit, we are willing to accept it, but under that schedule there we are not.

I will leave this brief with you. It is what we honestly think we can stand up under; and I trust you will give just a little bit of consideration to the small manufacturers that are willing to do everything they can and be patriotic, but there are some things it is an utter impossibility for us to do.

The CHAIRMAN. Your brief will be printed as a part of your remarks.

(The brief referred to by Mr. Doyle is here printed in full, as follows:)

That H. R. 4280, Report No. 45, page 14, be amended as follows:

That Part A, lines 12 and 13, be amended by striking out the words "bottling establishments."

That Part C, page 15, line 2, be amended by striking out the figure "1" and inserting "one-half."

That Part D, page 15, line 6, be amended by striking out the figure "8" and inserting the figure "5."

Our reasons for offering the above amendments are as follows: That Parts A, C, and D of section 308, which would strike the bottling industry, even if your committee adopts the amendments suggested above (which we trust they will), means a very severe taxation on the bottling industry, a business which is now overburdened owing to the unusual market conditions.

Which will be more severe, especially to all of the soft-drink bottlers of New England and the Northern States, as the members of this committee well know that the bottling industry is a seasonable business, and that we soft-drink bottlers of Massachusetts and of New England have but three months in the year, and quite often only two months when we have very much rainy weather, in which to transact our business.

And that for the last 50 years the standard retail price of our product at retail has been but 5 cents per half-pint bottle and 10 cents per large bottle, and that it will be impossible to raise the retail prices of our products.

And that if we are forced to meet the proposed taxes, the Government will not raise one-half of the $20,000,000 anticipated from the bottling industry, for the fact stands out that it will mean a very large curtailment in the use of soft drinks and will drive many of the bottlers into bankruptcy, and the loss to others of all they possess by the ruination of their business, especially in Massachusetts and other New England States.

Under conditions as they exist to-day, with price of sugar at 9 cents per pound, and the increase tax of 1 cent on this item, which is the principal ingredient used in the soft-drink industry, and with the present advance in soda bottles of over 100 per cent, and the same applies also to such other items used, such as boxes, extracts, sirups, labels, tin-crown caps, corks, bottling machinery, washing powder, etc., so that you can readily understand that with manufacturers of the above articles demanding cash, in other words, they are eliminating the custom which formerly existed of selling the same on one or two months' credit, so that it is extremely difficult for the average soft-drink bottler to make both ends meet, and it is a fact that with the increasing cost of all raw materials, and the blunt refusals of most banks to assist the men engaged in the soft-drink business, has caused many of the bottlers to go to the wall, and we feel that if this tax is imposed it will drive those in the business out, and discourage others from entering the same.

We represent 246 soft-drink bottlers in Massachusetts and also submit for your kind consideration the attached petition of the soft-drink bottlers of Massachusetts.

Respectfully submitted by the Eastern Soda Bottlers' Association of Massachusetts, represented by Andrew P. Doyle, of New Bedford, and Hugh G. McMackin, of Boston, both of Massachusetts.

Senator TOWNSEND. There is one question I want to ask you that I have asked others on this subject, and that is this: Will not this principle of taxation which is proposed here tend to create monopoly?

Mr. DOYLE. Yes, sir.

Senator TOWNSEND. If the smaller concerns get out and the larger concerns stay in, they will get a certain proportion of the business which the smaller ones had?

Mr. DOYLE. There is no doubt about that.

Senator TOWNSEND. I wondered what your opinion was on that subject.

Mr. DOYLE. There is not any question but what that will be the ultimate result. In my city we have got seven small bottlers. We are the largest—perhaps not as able financially as one other small bottler. It will wipe out six of our concerns; and a fellow who has got a little more money than us and can perhaps stand up under the strain of the loss for a year or two will be doing all the business that is done in that vicinity; and you can work that up all the way along.

May I add just one word for the small fellow again? A member of the Ways and Means Committee in the House has told me that they are going to put an amendment on that carbonic-acid tax and to allow the manufacturers to charge that to the man they have contracts with. I just want to make that point to show that we are the fellows who have to stand up under the whole of it, and we would like to get a little relief.

The CHAIRMAN. The committee will now hear Mr. McMackin.

STATEMENT OF MR. HUGH J. McMACKIN, SECRETARY OF THE EASTERN SODA BOTTLERS' ASSOCIATION OF MASSACHUSETTS.

Mr. McMACKIN. I represent the Eastern Soda Bottlers' Association of Massachusetts, and am secretary of that organization. We have in Massachusetts 246 soft-drink bottlers, and we had a meeting Sunday at the Quincy House, in Boston, and they instructed us to come on and if possible get an audience through your kindness and courtesy. We appreciate it.

The first thing we have asked you to do in this bill—on page 14 we have asked you to strike out the words "bottling establishments." That would leave the tax on the soda fountains, where it belongs. They have no expense in the line of labor, the line of glass bottles, cases, labels, and the big item of machinery that comes in to make up a bottling establishment. We have asked you, in part (*c*) of section 308, that it be amended by striking out the figure "1" and inserting in place thereof "one-half a cent a gallon" tax on the natural mineral waters.

In Massachusetts we have probably more natural running springs than in a great many of the other States put together.

In many of the small towns we find physicians recommending the bottled spring water in preference to the local water supply, because the local water supply is not fit to drink, and we find hospitals using the bottled spring waters.

In part (*d*) we have asked you to strike out the figure "8" and insert the figure "5."

The CHAIRMAN. That is the gas?

Mr. McMACKIN. That is the charge of 5 cents on the gas. As the former speaker, whom Senator Lodge omitted to present to you, who is a State senator in Massachusetts, and who has every dollar he has invested in the tonic business, and myself and other bottlers

throughout Massachusetts, are in the same way; and I tell you, gentlemen, on the floor of the House yesterday they discussed this gas question; and the Ways and Means Committee said that they were going to amend the gas question so as to allow the manufacturers to pay that tax. They are going to move it down to 6 cents and transfer it along to us poor bottlers. We have got to stand it. It is impossible for us to pass that along to our customers. For 50 years we have always got 5 cents a bottle for a half-pint bottle of tonic. It is impossible to raise it to 10 cents. I have gone in Massachusetts to where we have big mills, and in the houses of the employees I find them using our tonic instead of tea or coffee. It is economical.

Out of the 246 bottlers we have in Massachusetts, I tell you honestly within a year there will be more than 50 per cent of them bankrupt; and just as the senator brought out, it is going to create a monopoly. There will be two or three big bottlers who will get the bulk of this business. We in the North, especially in the New England States, are at a disadvantage. We have three months in the year to do our business, and it is practically only two months, with the rainy days and the chilly days. In the South they are working all the time. In the wintertime we have to let out our horses for plowing the snow and things of that kind. In the summer time we get it all in three months, and if this bill goes through as it is drawn by the Ways and Means Committee it is going to prove the ruin of soft-drink bottlers throughout the country. We are willing to pay our share of the taxes, but we want to have it imposed on us so that we can live. We do not want to be driven out of business and have what few dollars we have invested in bottles driven out.

I am going to leave with you gentlemen a petition which was drawn up Sunday, in addition to the brief submitted by Senator Doyle. Gentlemen, I want to thank you for your kindness.

The CHAIRMAN. The committee will be glad to have your petition before them in considering this matter. It will be printed as a part of your argument.

(The petition referred to by Mr. McMackin is here printed in full, as follows:)

GENTLEMEN: The following resolutions were adopted and signed by the Eastern Soda Bottlers' Association, which comprises all of the soda bottlers in the State of Massachusetts:

Resolved, That the soft drink bottlers of the State of Massachusetts who have hard struggling to make both ends meet owing to the enormous increase in the price of sugar, which is the principle ingredient used in the soft drink business, protest against the proposed tax of 1 cent per pound on sugar;

Resolved, That the soft-drink bottlers of the State of Massachusetts further protest against the unjust proposed tax of 2 cents per gallon for carbonated, which for the last 40 years has always been sold by the average store at 5 cents retail. This would aggregate to the manufacturers and bottlers a fraction over 2 cents per bottle, and in view of the fact that practically 100 per cent of the bottlers' products are sold by dealers there is no possibility of raising the price to dealers as the dealers must have a fair profit for their trouble in the resale of the same, otherwise no sane business man will handle soft drinks, which in turn means that a large majority of the public are to be deprived of obtaining a bottle of soft drink at 5 cents per bottle. In order to resell any under this proposed tax it will mean that the average store will be forced to retail the same at 10 cents for a half pint bottle, which will mean

that the sale of all soft drinks will be curtailed and means that only the few bottlers who are financially able will be obliged to close up their bottling shops;

Resolved, That according to section 308 of the Ways and Means Committee's report, that the tax of 1 cent per gallon on mineral and table waters is an uncalled-for tax, and in view of the fact that in the cities and towns which have the largest sale of mineral and table waters, they are used to great extent, because the local city or town water supply is of a poor quality, and very often the local physicians or hospitals absolutely refuse to allow their patients to use the same, prescribing in place thereof the bottled spring waters; and Massachusetts, with a larger proportion of springs than any other State of the Union, will be affected more by this than a great majority of the States put together;

Resolved, That the proposed tax of 8 cents per pound on gas put up in drums is considered by all soft-drink bottlers to be a further infliction and unjust to impose on the bottler when obliged to purchase this at the average price of 5 cents per pound with the proposed tax would mean that the bottler would be forced to pay 13 cents per pound. If this is passed, it will mean that the bottler who is financially able will be forced to go back to the old method of making his own gas, but which would mean a heavy investment for generators, etc., which a great many could not afford, and those fortunate enough to be able to buy the same would not have to pay a tax thereon.

The Pureoria Co., Boston, Mass., per H. E. Wilson; Standard Bottling & Extract Co., Boston, Mass.; Dr. Suett's Root Beer Co.; Apollo Spring Works, Cambridge, Mass.; P. Kelley & Co., Lowell, Mass.; New York Bottling Works, Waltham, Mass.; Columbia Bottling Co., Boston, Mass.; Pietro Solerni, Worcester, Mass.; Maynard Bottling Co., Maynard, Mass.; Pallisteo Bottling & Extract Co., Boston, Mass.; Standard Bottling Co., Lowell, Mass.; Goulding Bros. Co., Whitman, Mass.; Richmond Carbonating & Beverage Co., Boston, Mass.; Coleman & Keating, Boston, Mass.; Fairbanks Co., Boston, Mass.; Chas. C. Copeland, Milton, Mass.; Goulding Bros. Co., Boston, Mass.; W. Y. Moral Bottling Co., Chelsea, Mass.; J. D. Queen, Worcester, Mass.; John F. Coneannon, Boston, Mass.; Witch City Bottling Works, Salem, Mass.; Lovers' Leap Co., Lynn, Mass.; Daly & Co., Boston, Mass.; I Greenglass, Roxbury, Mass.; Metropolitan Bottling Co., East Boston, Mass.; F. Strasburger, Cambridge, Mass., L. C. Co.; M. C. Heald & Co., Lynn, Mass.; Boston Beverage Co., Boston, Mass.; Poten Mineral Bottling Co., Roxbury, Mass.; Blatchford Bros., Gloucester, Mass.; Charles La Croix, Miller, Mass.; Cadwell's Spring Water Co., Woburn, Mass.; Clark & Roberts, Boston, Mass.; French Bros. Co., Woburn, Mass.; French Bros. Co., Medford, Mass.; Bunker Hill Bottling Co., Charlestown, Mass.; Prospect Hill Bottling Co., Somerville, Mass.; Hugh J. McMackin Co., Boston, Mass.; Bellingham Bottling Works, Chelsea, Mass.; Julin Yoffe, 720 Genesee Street, Holyoke, Mass; P. J. Cray, Holyoke, Mass; Jameson Bottling Works, Holyoke, Mass; Country Club Soda Co., Springfield, Mass.; Springfield Bottling Co., Springfield, Mass.; Charles T. Smith Co., Inc., New Bedford, Mass.

The CHAIRMAN. Now, Senator Pomerene, we will hear you.

Senator POMERENE. Mr. Sieberling, Mr. Hotchkiss, and former Congressman Littleton are here representing the rubber tire and other rubber interests. About two-thirds of the tires in the world are manufactured at Akron, and perhaps about one-half of the rubber supplies, and they are here to discuss the features of this bill that refer to rubber tires.

The CHAIRMAN. We will give them 15 minutes. Proceed, Mr. Sieberling.

TITLE VI. WAR TAX ON MANUFACTURES.[1]

Sec. 600 (A). TIRES AND TUBES.

STATEMENT OF MR. F. A. SIEBERLING, PRESIDENT OF THE GOODYEAR TIRE & RUBBER CO., AKRON, OHIO.

Mr. SIEBERLING. We are very glad to be taxed for our full share, and I think a little more.

My time will be very brief, and I am going to give you a few facts to enable you to understand the scope and character of our industry, briefly.

We have 300 manufacturers of rubber in the United States, in round figures. The volume of business in the year 1917 was approximately $600,000,000, of which in the past year $250,000,000 has been in tires. The bill you have before you proposes to select out of the volume which the country is doing, tires alone, on which you attach an excise tax of 5 per cent, and you are attaching an import duty on crude rubber of 10 per cent, the purpose, as I understand it, being to raise about $25,000,000 out of the rubber industry, which your present figures would give you. We feel that the bill as drafted is not entirely equitable to the rubber industry. We feel that you should relieve us entirely of the import tax on crude rubber, which should be done, because it will check the business, and attach a uniform 5 per cent on our products, and if you do so, you will get thereby $30,000,000 of revenue instead of $25,000,000, which you are now figuring on. We are perfectly willing to pay it. We feel that the Government must have the amount of money it is asking for, but it ought to levy that duty fairly over the entire industry in the United States.

The CHAIRMAN. Your suggestion is that the tariff tax be not imposed and a 5 per cent tax put upon all rubber?

Mr. SIEBERLING. A 5 per cent tax on all rubber; yes. We are willing to have 5 per cent imposed, an excess tax on the entire business in the United States, which approximates this year $600,000,000, but the 10 per cent on crude rubber should not attach.

Let me bring up one phase of it here. In Akron, Ohio, we are making largely rubber tires, and I assume in drafting this bill they were trying to get at the luxuries. Ten years ago that might have been so, but it is not so now, and tires are the subject of great economic utility. Truck tires is one of the great products that we make. No one can class the truck as a luxury. It is developing the commercial field and is making tremendous advances. We feel that this crude tax should not be imposed at all.

The luxuries, such as toy baloons and things of that kind, are not being taxed. You are putting all the tax on rubber tires, and the

---

[1] The beginning of the hearing on this title will be found on page 298.

trifles in rubber you are not reaching at all, except as you might reach them in the import tax on rubber in the crude state. That is one phase of this crude-rubber situation which I have not time to touch upon, and Mr. Hotchkiss can probably touch upon it better than I can.

To go back prior to the war, we were able to carry stocks of rubber from one to three weeks. The submarine policy entirely changed things. We were driven off of the Atlantic and into the Pacific Ocean, and it requires 90 days now to get the rubber. To fortify against difficulties of that character, we are seeking to get large stocks of rubber in this country. There is not a pound of rubber grown under the American flag. We have got to get it on the other side of the world, and in the interests of the United States, and that it will inure to the benefit of all the people, this 10 per cent is going to operate against that. We want you to help us to bank up stocks to protect the American public, and whatever duty you put on rubber put it on the finished product. We are ready to bear our whole share.

Senator PENROSE. Your idea is that the duty would curtail the importation?

Mr. SIEBERLING. Absolutely.

Senator PENROSE. And you are perfectly willing to pay the tax after the article is made and you get the rubber over here?

Mr. SIEBERLING. We are.

The CHAIRMAN. Now, Mr. Hotchkiss, you can go ahead.

STATEMENT OF MR. H. STUART HOTCHKISS, CHAIRMAN OF THE RUBBER COMMITTEE OF THE COUNCIL OF NATIONAL DEFENSE.

Mr. HOTCHKISS. I happen to be chairman of the rubber committee of the Council of National Defense, and I want to call one phase of the situation to your attention.

The crude-rubber situation in the United States to-day is a very serious one. We have made a careful survey of the field. We have returns from 90 per cent of the customers of the country, and these returns indicate that at the present time there is exactly 30 days' supply of rubber at the mills in the United States. There is 17 days' supply of rubber in the United States in transit, and 29 days' supply of rubber which has been permitted under the British scheme of issuing permits, and which is either held at ports of origin or is afloat. Some of that may not reach the United States, due to the submarine menace.

In normal times the rubber industry have on hand about three months' supply at the mills. During the stress of the last two or three years, on account of the restrictions, the trade has become accustomed to a smaller amount. I am very apprehensive that an import tax on crude rubber will tend to curtail importations at a time when those importations are absolutely essential as a matter of national insurance.

The CHAIRMAN. The committee will now hear Mr. Littleton.

STATEMENT OF MR. MARTIN W. LITTLETON, NEW YORK CITY.

Mr. LITTLETON. Mr. Chairman and gentlemen, just supplementing what these gentlemen have said, I ask leave later in the day, if I may

do so, to file a brief memorandum which is in preparation but which I was not able to finish.

The CHAIRMAN. Any time during the day and it will be printed.

(The brief referred to by Mr. Littleton was subsequently submitted and is here printed in full, as follows:)

Suggested amendment to section 600, producing probably $30,000,000 revenue.

That there shall be levied, assessed, collected, and paid: (a) Upon all manufactured rubber articles containing in whole or in part crude rubber or reclaimed rubber sold by the manufacturer, producer, or importer a tax of 5 per cent of the price for which so sold: *Provided*, That in cases where there are contracts in existence for the delivery of such manufactured articles at the time this act becomes a law, the manufacturer, producer, or importer shall add to the price for which such article is contracted to be sold, 5 per cent of such contract price, and shall collect and make monthly returns of the same as provided for in section 601 of this act: *Provided further*, That no such tax shall be levied, assessed, or collected upon manufactured rubber articles destined for exportation.

POINT I.

By the provisions of section 1000 it is proposed that a tax of 10 per cent ad valorem shall be collected upon all articles not now dutiable by law.

By the provisions of section 600 of the bill it is proposed to levy and collect a tax upon all automobile, motorcycle, or bicycle tires sold by the manufacturer, producer, or importer equivalent to 5 per cent of the price for which so sold. Crude rubber, not now being dutiable by law, will be subjected to a 10 per cent ad valorem tax when imported; and as 60 per cent of the crude rubber imported goes into automobile, motorcycle, or bicycle tires, that per cent will be again subjected to a tax upon the manufactured article of 5 per cent when sold by the manufacturer, producer, or importer. This emphasizes a classical example of double taxation upon 60 per cent of the rubber used in the rubber industry.

POINT II.

By the provisions of section 1000 of the House bill which makes dutiable every imported article now upon the free list, the comprehensive and well-balanced scheme for the raising of war revenue is totally deranged. The scheme of the bill, manifest from its text and revealed in the debates, was the imposition of a consumption tax and the imposition of income and excess-profits taxes as a sure and equitable method of raising the desired revenue. By this method $1,600,000,000 was provided for without interfering with existing taiff rates and without disturbing the well-considered free list. In order to raise an additional $200,000,000 of revenue the entire group of tariff schedules, along with the multiplied items of the free list, are incorporated into the bill in section 1000, and a 10 per cent additional ad valorem tax fixed upon articles now dutiable by law and a like 10 per cent upon articles not now dutiable by law. The unwisdom, inequality, and unscientific character of this levy of customs duty is frankly and forcibly recognized in the report by Mr. Kitchin from the Committee on Ways and Means, in which it is said: "Your committee realizes that this tax is neither scientifically nor equitably adjusted, and recommends the same only as a war tax." It has long been the hope of eminent economists and public men that the time would arrive in this country when the revenues of the Government could be increased or diminished, as occasion required, without disturbing or upsetting the industries of the country, and if the scheme of this bill, which was designed to impose a tax at the point of consumption, a tax at the point of the collection of income, and at the point of the gathering in of the excess profits, had been adhered to, while there would have been an additional burden to have been borne, it would not have precipitated a disturbance at the very roots of all industry in the country by laying an initial tax upon all nondutiable importations and an additional tax upon all dutiable importations.

The committee has only to consider a few items now made dutiable by section 1000 to ascertain the far-reaching effect of this proposed levy—the bagging for cotton, copper ore, the fertilizer material, the hides of cattle, the lumber and the wool, and the silk and the rubber. These indicate the extent

to which the tariff question is involved in this legislation. Surely if the Ways and Means Committee were able to provide for $1,600,000,000 of revenue without disturbing the tariff schedules and without burdening the free list, it ought not to be difficult, by a further extension of the excise and excess-profit tax, to provide this additional $200,000,000 and avoid the recognized inequalities of the customs levy provided by section 1000.

POINT III.

A tax of 10 per cent upon importations of crude rubber is the one tax which is most hurtful to the industry and least fruitful of revenue—hurtful to the industry because of the tendency it would have in curtailing importations. The market price of first-grade plantation rubber in London to-day is 37d, or, figured with exchange at $4.76½, equals $0.7346 per pound. Charges to New York are to-day approximately 7 cents per pound, which makes the rubber purchased in London cost 80 cents when landed here. Adding 10 per cent, the rubber would cost, with the proposed duty, 90 cents, which is a high figure when it is considered that the average for this grade of rubber in 1915 was 65½ cents and in 1916, 73 cents. In normal times manufacturers, on an average, carried about three months' supply of rubber at the mills. To-day this reserve is cut to about one month. The natural fear which arises from the proposal to tax crude rubber is that at 90 cents per pound manufacturers will be inclined to take chances and will decline to increase their stocks to a three months' basis, which it is believed in the industry is essential to safety.

Most of the rubber produced in the world comes from the Federated Malay States and from Brazil. The former country imposes an export tax of 7½ per cent, the latter of about 23 per cent. The policy of the British Government, for economical reasons, is to divert as much of the British-grown rubber as possible to London to be redistributed from that point. No export tax has as yet been placed by Great Britain on shipments from the British Isles, but if, as a revenue measure, the British Government should impose an export tax, which is a strong probability, the economic position of America would be possibly untenable. The rubber stock in the United States at present represented in the day's supply is as follows:

	Days.
Stocks on hand at mills Mar. 31, 1917	30
Stocks in transit actually in United States	17
Total supply of rubber in United States	47
Stocks for which permits have been issued, but which have not yet arrived in the United States	29
Total on hand and permitted	76

Another advantage of decided importance in having an excise upon the manufactured article as against a customs levy on the imported crude article is that such excise tax would not be imposed upon manufactured rubber articles destined for exportation, and hence the industry would be able to contend in the markets of the world with its competitors, without the burden of this tax, whereas a tax upon importations of crude rubber would fix an initial burden and create a continuing disadvantage which would accompany the article through all of its forms of manufacturing and into the channels of exportation

Summarizing the matter as briefly as possible, it is submitted:

1. That the tariff duties imposed by section 1000 of the House bill have no logic or just place in the scheme of taxation proposed and should be entirely eliminated from the bill.

2. That tariff duties upon raw material are wholly inimical to the welfare of American industry and impose a burden upon the manufacturing agencies of this country at a time when the whole Nation stands in need of their greatest strength and support.

3. The levy of a tariff duty upon crude rubber, an article of such vital necessity wholly produced outside of the United States, will have a strong tendency to curtail importations and thus produce a shortage of crude rubber in the United States.

4. The excise tax imposed by section 600 of the House bill upon automobile, motorcycle, and bicycle tires of 5 per cent of the price at which these tires are sold by the producer, manufacturer, or importer, while just in itself and the subject of no complaint standing alone, is, as the bill is drawn, tantamount to double taxation.

5. The Ways and Means Committee, having provided successfully for $1,600,000,000 of revenue by means of income, excess-profits, and consumption taxes, the Congress is not warranted in taking up and dealing with the tariff upon importations of all kinds in order to raise the balance of $200,000,000 of revenue, especially when this revenue could in large measure be provided for by a further extension of the excise and excess-profits taxes.

Respectfully submitted.

MARTIN W. LITTLETON.

Mr. LITTLETON. No doubt many of us feel the misfortune of what might be called the unbalance of the House bill as it is affected by section 1000, which puts the 10 per cent ad valorem on articles not now dutiable and 10 per cent additional on all dutiable articles. There was a well-balanced scheme to tax at the point of consumption and tax at the point of gathering the income and tax at the point of gathering the excess profits, which yielded, according to the report from the Ways and Means Committee, about $1,600,000,000, and with that scheme of taxation the committee found itself some $200,000,000 short of the desired requirement, and in order to make up the $200,000,000 it seems unfortunate that this character of taxation, the tariff taxation which had been kept out of the bill, was inserted in the bill to make up that rather moderate deficiency compared with the total amount required. It did seem and does seem now that it might be possible, in view of the suggestions made by the gentlemen with whom I appear, that if the excess and excise profits tax were pressed a little more to make out the $200,000,000 which is sought to be made up by the 10 per cent import tax the whole of the free list should be eliminated from this bill. It does seem unfortunate that this whole free list is to be put into this ad valorem tax in order to make the balance of $200,000,000 when you are able to raise $1,600,000,000 in the form of income tax and ad valorem taxes, well balanced and scientifically worked out.

I speak rather on behalf of the whole free list than incidentally for the one which is involved in this particular item, and I believe, gentlemen, and I, of course, say this with due deference to the plan of this committee and of the Ways and Means Committee, that it is possible by judicious extension of the excise feature of this bill and the excess-profit feature to raise the revenue desired without involving the whole tariff question in this bill itself. I make that suggestion simply in passing.

Now, it is a fact that rubber is gotten from the Federated Malay States upon the 7½ per cent export tax; that it is taken to England; and that they have got yet to fix an export tax upon it; but it is to be expected in all reason that they will fix an export tax upon the rubber which is shipped to this country. If that shall take place, and it is imminent, there will be a 7½ per cent of the Federated Malay States export tax, the additional tax which they may impose in England as an export tax, and then if you add the 10 per cent ad valorem upon the crude rubber and add those together you have fixed an unusual burden upon the material itself before the manufacturer meets the article or the article meets the manufacturer, and in that way, when the strength of the whole manufacturing industry is needed, and needed to its full, it does seem that the notion of excise taxation could be very happily used and extended to bring about the desired result: and Mr. Siebering has suggested that, by taking section 600 of the bill, which relates solely to automobile, motorcycle, and

bicycle tires, and putting a 5 per cent tax upon the price at which the producer, importer, or manufacturer shall sell it, that if that were extended to include other articles manufactured of rubber, in whole or in part of crude or reclaimed rubber, that if that were extended the revenue which is desired could be obtained and the disturbance involved in the other method would be avoided, the burden imposed by the other method would be released, and the industry would stand it willingly.

If that should be done, if that should get the approval of the committee, it ought to be considered that forward contracts now outstanding for the supplying of the future within the year are made in this industry, and those forward contracts should be protected or the Government would lose the revenue unless there was some method devised whereby the tax could be added to these contracts and collected by the producer, manufacturer, or importer, for if those were passed on under the language of this bill and the terms of the contract to the producer, the producer would not be taxed, because he would be the wholesaler and retailer, and the articles would pass into the course of trade without any tax whatever. Hence, if you think well of the provision, the 5 per cent tax could be added to the present price of all contracts now in existence, and that tax is to be collected by the manufacturer, producer, or importer and paid in in the same manner as he pays the other tax under section 601 of the bill. That would give you all of the revenue on the rubber industry, on contracts executory and on contracts to be made in the future, and that would subject the whole industry to the excise revenue and relieve it of the burden which the curtailment of importation would result in if this burden upon it is made in the sense of the ad valorem tax of the rubber imported.

Gentlemen, what time I have given to the bill has convinced me that this can be done, and that probably the entire free list of this bill can be eliminated from the bill by the extension and absorption of taxes from other directions; and if that can be done, it is indeed a consummation devoutly to be wished by all the members of this committee and the Ways and Means Committee, I take it.

Mr. SIEBERLING. May I have just one moment? On the point of the luxury of the automobile tire, the concern I represent is probably making more pneumatic tires than any company in the United States. Two-thirds of our business is in the villages and on the farms. The Middle West and the South is the great field in which we operate. The gentlemen who are living in the cities and see the high-class cars get the impression that the high-class car is the large factor, but more than three-fourths of the cars of the United States are sold under $1,000, and our tire field naturally follows the automobile. It is the great article now, as I say, of utility. The economic advantage of it I do not think the public generally appreciates, and I thought those views would be of help to you. Our field is the Middle West and the South and in tires for cheap cars.

The CHAIRMAN. We will now hear Mr. Wexler.

TITLE X. WAR CUSTOMS DUTIES—Resumed.

Sec. 1000. INCREASE IN TARIFF.

STATEMENT OF MR. SOL WEXLER, OF NEW YORK CITY.

Mr. WEXLER. We have here a committee from New York and Chicago, among which are probably the largest distributors of merchandise in the United States. I will mention the names of these gentlemen, so that you will realize that it is a committee of sufficient importance to warrant the attention of the Finance Committee of the Senate. We have Mr. Julius Rosenwald, of Sears, Roebuck & Co., probably the largest distributors of merchandise in the world; Mr. Simpson, vice president of Marshall Field & Co.; Mr. D. F. Kelly; Mandel Bros.; Mr. A. H. Merrick; Armour & Co.: Mr. Homer A. Stillwell: Butler Bros.; Mr. Alfred Decker, of Alfred Decker & Kohn; Mr. W. F. Bode, of Reid, Murdock & Co.: Mr. Lucius Teter, vice president of the Chicago Association of Commerce; Mr. Arthur Reynolds, of the Continental & Commercial National Bank; and Mr. John McHugh, of the Merchants & Mechanics' National Bank, New York.

We have come here for the reason that we have observed the very serious depression and discouragement which is beginning to make itself manifest in the minds of business men and manufacturers and bankers throughout this country, and we have felt that that was of such great importance at this time, when it is so necessary that we meet with success in the flotation of the large loan which is impending, and we believe that we are doing a patriotic duty in appearing before you and endeavoring to lay down some fundamental principle with regard to revenue bills which will meet with general approval and satisfaction of the whole community, under which no man will feel that his particular business is being unduly taxed, so that the partriotism which is so necessary at this time will not be stifled by rebelliousness and dissatisfaction which might occur under those conditions. None of us have any personal or business interests to promote. We are not here to ask that any business in which we may be engaged or that any corporation in which we may own stock, or that our personal incomes shall be freed from their just proportion of the burden of what we believe to be a righteous war. We are here actuated only by motives of the highest patriotism, altruism, and unselfishness. Our only desire being to see that whatever revenue bill may be passed shall be fair and nondiscriminatory and practical—one which shall not destroy the initiative, energy, thrift, and confidence of the American people—one which will not reverse our present prosperity into serious adversity. We believe that such a bill can be framed. We believe that the members of both Houses will vote in favor of such a bill and that it requires only that certain

fundamental principles underlying all sound legislation shall be adhered to. We believe that these principles are, first, that it shall not raise any more money than is absolutely necessary; second, that it shall be clear and precise in its language, free of ambiguity, collectible with a minimum of cost, and imposing the least possible burden of bookkeeping and inconvenience on the taxpayer in making his returns; third, that the tax levied shall fall as nearly ratable upon the whole population as possible.

Taking up these principles seriatim let us first give consideration to the amount proposed to be raised. This under the House bill provides for approximately $1,810,420,000. We believe that at this stage of the war, however much may be necessary hereafter, that the amount is excessive. It provides for too large a proportion of the burden to be borne by the present generation. Based upon the calculation that we will issue the $7,000,000,000 of bonds authorized and computing the interest thereon at the rate of 3½ per cent would require $245,000,000 annually. If, added to this, we raise an additional billion dollars for current requirements. making the amount to be annually raised during the war $1,245,000,000 plus interest at the rate of 3½ per cent upon such an amount of bonds in excess of $7,000,000,000 as may be necessary in the future. I am of the opinion that this generation will have done its full duty and shall have borne its full proportion of the cost of the war, leaving the principal of the bonds to be paid in annual installments extending over a long period of years. If my theory of the amount to be raised meets with your approval and appeals to you as being sound, as I believe it will, we shall therefore start out with the idea that instead of trying to raise at this time the $1,810,420,000 we shall undertake to raise $1,250,000,000.

Senator PENROSE. When you make that statement, what proportion do you think ought to be expended out of current revenues for current expenses and how much out of the loan?

Mr. WEXLER. I have put here $1,000,000,000 as the amount to be expended out of revenues.

Senator PENROSE. As against the $2,000,000,000 of loans?

Mr. WEXLER. As against the $2,000,000,000 of loans.

Senator PENROSE. On the assumption that the whole amount will be needed?

Mr. WEXLER. On the assumption that the whole amount will be needed.

Senator PENROSE. Of course, there are different opinions on that point. A much large per centage ought to be spent out of current revenues.

Mr. WEXLER. But if this war extends over a long number of years we may have to raise 25 or 30 billions of dollars, and I think if we start out now and exhaust practically our whole sources of revenue by raising the fund now, we may have considerable difficulty in the future, and just at this juncture we would not want to discourage business.

In the proposed bill, and we desire to follow it as closely as possible, among the items proposed for taxation is the tax upon transportation; that is, freight, express, passenger, passengers, pipe lines, seats, and berths, which it is assumed will yield a total of $172,000,000. We are of the opinion that these are proper sources from which to

raise revenue, but we believe that the method of collecting the tax and of accounting for the same to the Government is extremely cumbersome and will lead to many difficulties. We recommend in this particular that the Interstate Commerce Commission be urgently requested to grant to all public utilities under its control, and which includes all of the above items, an increase of rate which will be equal to 30 per cent of their present gross receipts, and that out of this 30 per cent increase rate every corporation or individual engaged in transportation of the kind referred to shall be required to pay to the Government 10 per cent of said gross receipts, thus leaving for the railroads a net increase of 17 per cent.

From this schedule it may be advisable to omit pipe lines and seat berths which perhaps do not require the net increase in rates of 17 per cent, and the rates of such carriers might be raised to an amount equivalent to the increase in the tax of 10 per cent to be uniformly imposed upon all carriers. If the present deplorable condition of transportation lines were sufficiently known, I believe it would be generally conceded that a net increase in rate of 17 per cent is by no means excessive and is fully justified by the increased cost of material and labor. The average rate earned by the railroads in this country is only about 7 mills per ton-mile, an average of 30 per cent gives it still less than 10 mills per ton-mile, and which is far less than the rate paid in all of the European countries. The avails of this tax as proposed by me would amount to $4,000,000 per annum and would fall in exact proportions according to the consumption, upon every man, woman, and child in the United States. No one can possibly avoid paying the freight. The more the consumption the more the freight paid, so that such a tax producing this enormous sum of practically one-third of the amount which I believe should be raised could be accomplished without any single individual being able to complain that he is being discriminated against in any single particular.

Under the same heading the bill has provided for taxation upon electric light, gas, domestic power, telephone service, telegraph and telephone messages, advertising, and insurance. Under this heading the tax upon electric light, gas, domestic power, and upon advertising should be eliminated. The public-service corporations now furnishing light, heat, and power are usually restricted to certain specified rates by the municipalities from which they obtain their charters. Therefore this tax comes directly out of their earnings without it being within their power to increase their rates to the consumer except by amendment to their charter or by direct permission from the municipality under which it derives its right to operate. It is even a legal question whether such a municipality would have the right to grant an increase in rates without submitting it to a vote of the people. Therefore, if my opinion in this particular is correct, this tax would come directly out of the pockets of the stockholders of corporations engaged in this line of business, and would be therefore unfair and discriminatory. That such corporations can not afford this additional outlay is sufficiently evidenced by the falling off which has taken place in their earnings by higher cost of labor and material, and which is further evidenced by the drastic decline and shrinkage in stocks of all such corporations. A notable instance is that of the Massachusetts Electric Co., which has recently stated

to the Massachusetts Public Service Commission that unless it is granted an increase in rates it will be under the necessity of turning its operation over to the commission to save itself from bankruptcy.

Under title 6 is provided a war tax on manufactures. This proposes a tax equivalent to 5 per cent for each sale by the manufacturer of automobiles, automobile trucks, wagons, motorcycles, bicycles, bicycle tires (including inner tubes), jewelry, yachts, pleasure boats, etc., athletic and sporting goods, perfumery, cosmetics, proprietary medicines, chewing gum, and moving-picture films. No mention is made of any tax upon automobiles now in use. I have been told that this omission was made because it was believed that such a tax would be unpopular. I do not concur in this view, and I believe that every automobile owner would be willing to pay a fair and reasonable tax upon his automobile. The rate of taxation provided in the bill is too high. The business at the present time is suffering seriously from the economic wave which is taking place and from the very high cost of material and labor. If this additional tax is imposed upon the manufactured article it will cause a further shrinkage in the production of automobiles and which will in turn react upon the production of tires and inner tubes and accessories, so that possibly, if the tax is left as provided in the bill, the avails thereof will fall far below expectations. In the case of automobiles, we recommend the following:

That a uniform tax shall be paid by the owners of all automobiles on all automobiles now in use and which may hereafter be purchased (the tax on all new cars to be collected by the manufacturer) of $5 on each car of which the dealer's schedule price is $600 or under; $10 on each car of which the dealer's schedule price is over $600 but not over $1,500; $25 on each car of which the dealer's schedule price is over $1,500 but not over $5,000; and $50 on each car of which the dealer's schedule price is over $5,000.

There is approximately 3,500,000 of cars, of which 32,500 are pleasure cars, in use of all kinds; and it is estimated that under the tax provided this will produce approximately $35,000,000, while new cars under the same rate of taxation should produce, even under adverse business conditions, say, $15,000,000, bringing the total amount realized from automobiles up to $50,000,000, and upon automobile tires, say, $10,000,000, or a total of $60,000,000, giving us an aggregate of $714,000,000.

Coming now to the important question of a tax upon corporations, I am confident that the framers of this bill followed entirely too closely what they believed to be the law in England and other countries in imposing the excess-profit tax, and under the bill as framed it does not accomplish the same purpose at all. Corporations honestly capitalized would be at a great disadvantage with those companies which are heavily overcapitalized.

We have here a little memorandum showing a parallel case of the no watered stock—that is, it has all of its assets represented by its capitalization. It is capitalized at $1,000,000 and has $1,000,000 of result of this method of taxation, two corporations, one of which has assets. The other has $2,000,000 of good will; so that one has a capitalization of three million and the other has a capitalization of one million, and both have an investment of one million.

Senator TOWNSEND. When you say "good will" you mean water?

Mr. WEXLER. Good will has a value. It is not a tangible asset, but in many instances it is extremely valuable. Very high prices are paid for it.

This corporation which is capitalized at $1,000,000 earns 20 per cent. which would make $200,000. The other corporation, having one million of investment and two millions of good will, or $3,000,000 of capital, earns, we will say, 6⅔ per cent. or $200,000. So that both earn the same. But one earns 20 per cent and the other 6⅔ per cent. The tax of 8 per cent in the first instance would give the Government $120,000 from the corporation without any good will and having 100 per cent of assets, with a million of capital, and earning 20 per cent. The other corporation would give it nothing—not a cent—because it is capitalized at $3,000,000 and it has not earned the 8 per cent.

I am not going into a long dissertation of this subject: but my suggestion would be that a flat tax upon corporate earnings be imposed, and not an excess-profit tax.

Under the plan proposed the excess-profit tax is expected to yield about $200,000,000 per annum, but the method of arriving at the basis of this taxation is extremely cumbersome and ambiguous and will require in many instances actual value of property and good will in order to ascertain the actual invested capital of a corporation, and even then it would be necessarily inaccurate. Of all the taxation proposed in this bill, certainly the most unfair is the excess-profit tax. It is impossible to arrive at what is an excess profit. A corporation engaged in mining, or in drilling for oil, or in raising agricultural products may have its earnings affected by conditions with which the war has nothing whatsoever to do.

Favorable or unfavorable weather may cause an increase or decrease in crops; fortunate discoveries of oil or mineral may enormously increase the earnings of such corporations without regard to the war. The present excess-profit law provides that a tax of 8 per cent in excess of all earnings upon capital of 8 per cent shall be imposed. This presumes that 8 per cent is a fair amount for a corporation to earn, when, as a matter of fact, depending upon the hazards of the business, the amount which should be earned is subject to wide variation. This idea has probably been borrowed from some of the European countries, but the law adopted here betrays an absolute misunderstanding and misapplication of European tax laws upon excess profits. In Europe, for instance, a company whose average profits before the war was 6 per cent and since the war 20 per cent would pay a large excess tax than a company with the same capital which before the war had earned 25 per cent and since the war 30 per cent, although the profits of the latter in the aggregate sum, though not in percentage, were larger. Many shares of corporations now have a market value far above their par value due to the conservative policy, good management, and earning capacity of the organization. In reliance on these, investors have bought such shares at the market value, although the earnings and dividends of the corporations, as compared with the par value of its stock, are large, the actual yield to the investor is often no more than a fair return. Investors who have bought shares at their enhanced value in good faith should certainly not find their incomes abnormally reduced by an excess tax on earnings.

It is my opinion that a flat and equitable war tax of, say, 3 per cent upon net profits of all corporations and partnerships in addition to the present normal tax, or whatever normal tax may be imposed, would be fair. If the excess tax is persisted in, business will suffer serious handicap, capital will be discouraged, the profits of stocks of all kinds will shrink, and conditions may become semipanicky in consequence of such unwise legislation.

The CHAIRMAN. You mean just earnings, without reference to its capital?

Mr. WEXLER. Just earnings, without reference to its capital. You will require an army of men and almost inquisitorial powers to ascertain the value of corporations under this act. You will have to appraise the value of property and real estate. The question of good will enters the proposition.

The CHAIRMAN. Do you mean earnings, without any deductions at all?

Mr. WEXLER. I mean an exemption just as we have on the personal income tax, and above that so much. If a corporation is earning $100,000 and if it pays the Government 10 or 5 or 8 per cent, that is what it pays, and it has the remaining 90 per cent, or whatever it is, for its own use or distribution among its stockholders. It is so much simpler. We can not tell anything about excess profits.

Senator PENROSE. It sounded best to the public when these tax matters were first introduced. You are entirely right.

Senator JONES. How would you arrange with respect to the capitalization?

Mr. WEXLER. In the same manner you have now; that can be worked out. Say a percentage of the earnings are exempt.

Senator JONES. Would you not meet with the same difficulty as you did with respect to the cases you undertook to give us?

Mr. WEXLER. To answer your question, suppose the exemption were 5 per cent?

Senator JONES. In figuring that 5 per cent, would you not have to take into consideration precisely the things that we are having difficulty with under the present law?

Mr. WEXLER. No; because I am going to assume 5 per cent of the earnings shall be exempt—not the capital. If a corporation earns a million dollars and the exemption is $50,000, it would pay a tax on its earnings above $50,000. If it only earned $10,000, its exemption would be $500.

Senator THOMAS. Your basis of earnings——

Mr. WEXLER (interposing). It is earnings as shown by the business of the company. A concern might do a large amount of business and make no money.

Senator THOMAS. The earnings of one of your companies you put at 20 per cent and the other at 6?

Mr. WEXLER. Yes.

Senator THOMAS. If you are going to make the same calculation on that basis for the purpose of determining the earnings by basing it on capital stock, then it seems to me that the suggestion of the Senator from New Mexico is a very potent one.

Mr. WEXLER. Both of these two corporations were earning $200,000, which $200,000 applied to the capital of one was 20 per cent, and applied to the capital of the other was 6⅔ per cent. Under my plan

you would take 5 per cent as the exemption on $200,000 in both instances. Ten thousand dollars would be exempt. Then you would tax the remaining earnings above that amount. That would mean 10 per cent on $190,000, and you would take $19,000 from each of these corporations, which would be absolutely fair and perfectly simple.

I want to say a word on the retroactive feature. I do not believe any of you gentlemen are going to vote for a retroactive feature. Income last year is not income now. It has been spent or it is capital. If you are going to confiscate capital, do not confiscate it under the guise of an income tax. If it is merged into the capital, it is confiscation of capital, and I can not believe that anyone wants to confiscate the capital of a certain class of people unless they are going to confiscate the capital of the whole population of the United States. I do not think it necessary to take up any further time in arguing about a matter which is so unfair.

I would like to say that Mr. Simpson has been requested by the Chamber of Commerce of Chicago to say a word to you, and I hope you will give him the opportunity.

The CHAIRMAN. The committee will be glad to hear Mr. Simpson.

STATEMENT OF MR. JAMES A. SIMPSON, VICE PRESIDENT OF MARSHALL FIELD & CO., REPRESENTING CHICAGO ASSOCIATION OF COMMERCE, CHICAGO, ILL.

Mr. SIMPSON. Representing the Association of Commerce, we have three concrete propositions to submit to you gentlemen for your very earnest consideration. The first is as to the retroactive features of this tax. I, like Mr. Wexler, will enter into no argument regarding that, because I believe they are so obvious that no reasonable man can vote for it.

The second is the suggestion of a flat tax instead of your excess-profits tax. It will probably simplify what Mr. Wexler has said by suggesting a flat tax, with no exemption, a flat tax on all the profits of corporations, companies, or partnerships, with a possible exemption.

The CHAIRMAN. Do you mean profits or earnings?

Mr. SIMPSON. No; profits. The increase of the tax that is in existence to-day, known as the corporation tax, which has an exemption of $5,000 annually; that tax has been 2 per cent in the past and it is now proposed to make it 4. I understand that you expect to raise $200,000,000 by this excess-profits tax. We suggest to you that instead of putting on the excess-profits tax that you raise that flat tax from 4 per cent to some amount that will produce the same amount of revenue, and do away with all the physical valuation of property. It will cost you a hundred million of dollars to put a value on the railroad properties. What will it cost you to put a value on all the property of the mercantile and manufacturing establishments of the United States?

Our suggestion seems to us very simple. We hope that it will appeal to you. That is No. 2. The retroactive features is No. 1 and the substitution of a flat tax for an excess-profits tax is No. 2.

No. 3. I want to discuss customs duties, just to touch the high spots. I am not going to enter into the technique of it at all. We are not antagonistic to the 10 per cent provision on the free list and on

the dutiable list too, but we do say if you decide in your wisdom to impose such a tax, in justice to business and in order to give business an opportunity to adjust itself you should fix the date at which that tax should go into effect so as to give business an opportunity to adjust itself to it, perhaps January 1 next. The reason for that is this: I will cite a case that comes in our own business. We bought handkerchiefs in Ireland and Switzerland a year ago for delivery in July, August, and September of this year. We have sold those handkerchiefs for delivery in November and December of this year to the retail merchants of this country, based upon the cost, figuring the duties which have been in existence. The same thing applies to nearly all raw material coming into this country, and I appeal to you to give that matter great consideration before fixing the date, and fix the date far enough ahead.

I am not going to take any more time, because I realize the tremendous responsibility that is resting on you men and how you are being importuned from all sides.

Senator JONES. Your proposition is to tax all profits at the same rate?

Mr. SIMPSON. Yes, sir.

Senator JONES. You do not think that any distinction should be made between the concern which has a small investment and a concern which has a large investment?

Mr. SIMPSON. None whatever; because if you are taxing the small investment a very large amount, you are doing something that, in the last analysis, will be destructive of individual initiative, which is so necessary to the prosperity of this country. The man who makes money with a small investment is putting himself into it, and he should not be overly taxed. I should say, for example, that by this excess-profits tax as it is at present planned that the results which you will obtain from the railroads, for example, will be very disappointing, because they do not make more than 8 per cent on their capital. But what is capital? How has the capital of the railroads been established? Pyramiding over a cycle of years. If you tax all profits, it is easy of application and will, I predict, be productive of better results.

I want you gentlemen to know, and I do not believe you in Washington do quite realize, the depression that has come over business in the last 30 days since this tax-raising subject has been agitated.

Senator PENROSE. We realize it fully.

The CHAIRMAN. I think we all realize that, and you need not take the time to mention it.

Mr. SIMPSON. I am not going to take the time to mention it. It is too depressing.

The CHAIRMAN. The committee will next hear Mr. Glenn.

STATEMENT OF MR. JOHN M. GLENN, SECRETARY OF THE ILLINOIS MANUFACTURERS' ASSOCIATION.

Mr. GLENN. The gentlemen whom you have just heard have expressed the views largely of the document which I hold in my hand. It is presented by Mr. Boone, who was appointed to appear before the committee, and some of you are acquainted with him. The points made in this document are practically the same as those made

by Mr. Wexler and Mr. Simpson, but I want to file it with the committee, and we make the same suggestion as to the plan of taxation.

I thank you very much.

The CHAIRMAN. With reference to the remarks of Mr. Glenn, I wish to say that I am in receipt of a communication signed by Mr. Samuel M. Hastings, the president of the Illinois Manufacturers' Association, which the stenographer will have printed at this point in the hearings.

(The letter referred to by the chairman is here printed in full, as follows:)

CHICAGO, *May 12, 1917.*

Hon. F. M. SIMMONS,
Chairman, and Members Senate Finance Committee,
Washington, D. C.

DEAR SIRS: Mindful of the necessity of our Government at this time drawing heavily on the resources of the Nation to meet the great expenses of the war, the manufacturers of the State of Illinois do not appeal to you with any idea of asking relief from any portion of the burden that should fall upon them. We want to assure you that we are ready to stand by the Government to the last cent and to the last man if necessary to preserve our liberty and the honor of our flag.

We do feel, however, that the revenue act as drawn makes the tax fall too heavily in certain particulars; for instance, we very much oppose the retroactive feature of the measure and, without attempting to escape that phase of the tax, we protest because business for last year is closed, the distributions have been made, and an endless amount of confusion as well as financial embarrassment would be caused by reopening closed records. We consider it would be unjust and unfair to make the income tax retroactive when we are willing that the Government should raise the amount of revenue required from this year's returns. We feel that the principle of a retroactive tax is wrong and that the precedent thus established will be harmful.

As we understand the provisions of the bill, it is expected to raise practically $2,000,000,000 by direct taxes this year. We respectfully submit that in our judgment the policy of attempting to produce such an enormous sum by imposing a direct load upon the people of the country in so short a space of time is neither wise nor economic. There is grave danger that in endeavoring to raise this large sum by direct taxes on the industries and business in general it will result in a tremendous industrial and commercial upheaval and bring about unemployment and other evils.

We respectfully suggest that in lieu of more cumbersome tax measures which are now under consideration by Congress, that a flat per cent tax be levied on the net profits of all earning businesses of the country, whether corporate, partnership, or individual. The percentage needed could be raised or lowered as the requirements of the Government demand. It would simplify the forms and reports; the Government would establish the depreciations and reserves that would be allowed, and it would only be necessary for business to give the amount of gross revenues, gross expenses, and net returns and assess a flat per cent tax.

This plan eliminates corporate tax reports, capital-stock tax reports, excess-profit tax reports, and boils the whole proposition down to a clean-cut business plan that will equitably distribute the tax over all lines of businesses or enterprises in which money is made. Such a plan would create greater efficiency and standardize accounting.

Very truly, yours,

SAMUEL M. HASTINGS,
President Illinois Manufacturers' Association.

The CHAIRMAN. Mr. Stillwell, you may proceed now.

STATEMENT OF MR. HOMER STILLWELL, PRESIDENT OF THE FIRM OF BUTLER BROS., CHICAGO, ILL.

Mr. STILLWELL. I want to urge upon this committee the very serious consideration of what Mr. Wexler has said to you with respect to the scientific side of this proposition. I want to urge your most urgent consideration of what Mr. Simpson and others have said to

you with respect to the condition of business at this time. It is the unanimous opinion of the gentlemen who are here at this time that to undertake to raise so large a part of the proposed tax as a direct tax will seriously retard business. There is no speculation about it. The very thought of it up until the present time has seriously retarded business, and we must be careful to preserve that one branch in which we supposed we were so strong in the way of preparedness—finance and industry. We must not attack that at this time. We must endeavor to keep that branch of our resources intact absolutely, in order that we can absorb the great burden of the taxation which is bound to follow. Mr. Wexler has pointed out that this is but the beginning, and if we are going to discourage and retard business at the very beginning, what is going to happen to us at the time of the next loan and the next loan and still the next loan, which is bound to be absorbed? Let us proceed to do this work in a careful manner. We are here, all of us, I am sure, as patriots, each and every one of us. The men who are appealing to this committee are as patriotic as the members of the committee itself, but patriotism lies in doing the wise thing. Patriotism and wisdom should go hand in hand at this time, and I want to say in conclusion let us do this thing most wisely, and we will have done it most patriotically.

The CHAIRMAN. We will now hear Mr. Thompson.

Sec. 1000. SOAP PRODUCTION.

STATEMENT OF MR. W. O. THOMPSON, REPRESENTING THE N. K. FAIRBANKS CO.

Mr. THOMPSON. If cleanliness is next to godliness, I come to speak to you on an important part of your tax. I want to speak to you with reference to the tax on soap production, which appears on page 27 of the bill. We are not asking for any decrease of the tax, although the tax is a very heavy one. All we ask is that the ambiguity which we see in the bill, or in that portion of it relating to the tax, be taken out and the bill be made clear.

There are three kinds of soap that are used by the public in general. The first is a laundry soap, which is used practically exclusively for laundry purposes, and is merely so known by all the people who use it. Then there is another class of soap, which is used for toilet purposes, like the expensive French perfumed soap, sold in drug stores and chemists' shops. Then there is another soap which sort of occupies the twilight zone, if that term could be used, and that is the soap which is used and is understood to be usable by the people both for laundry purposes and for toilet purposes. We have among the soaps we get out—I am speaking for the N. K. Fairbanks Co.—a soap which is both used for laundry soap and for a toilet soap. We claim that is as good as any laundry soap for the laundry and as good as any so-called toilet soap for the toilet. There is the Ivory soap in the same field.

In the bill as drawn it is hard to tell how you classify this. We are perfectly willing to pay the tax you claim, although it is pretty hard on us. I have here an amendment which shows what we think should be inserted by underlining and what we ask to have left out by putting it in brackets. The bill after speaking about perfumes,

etc., says "Toilet soaps and powders, or any similar substance, article, or preparation by whatsoever name known or distinguished, used, or applied for toilet purposes." We ask that the word "toilet," before "soaps," be stricken out, so that it shall read "all soaps and powders"; and then I ask to put in "other similar substances, articles, and preparations," making it a plural. We just add the s's, and it will read this way: "All soaps and powders and other similar substances, articles, and preparations, by whatsoever names known or distinguished." We simply take out the word "toilet" before "soaps," so that it will clearly include our soaps and other soaps of that field, so that there can not be any appearance before any committee or any department of the Government in which people will say they are not included, and some come in and some stay out. We want it uniform.

Senator THOMAS. How about the word "toilet" later on?

Mr. THOMPSON. That says "which are used or applied for toilet purposes." That will include our soaps.

Senator THOMAS. That would just eliminate some soaps?

Mr. THOMPSON. Laundry soaps—laundry and washing soaps.

Senator PENROSE. They are supposed to escape?

Mr. THOMPSON. They do escape.

Senator LA FOLLETTE. You are making it more comprehensive?

Mr. THOMPSON. I am making it more comprehensive and more definite. We are taking out the ambiguity.

The CHAIRMAN. Where it is used for toilet purposes you want it to come in. You want "and laundry purposes"?

Mr. THOMPSON. No. Purely laundry purposes are not to be taxed.

Senator PENROSE. Your amendment will bring more revenue to the Government?

Mr. THOMPSON. Yes. If you wish a brief I can prepare it and submit it.

Senator LA FOLLETTE. And set out your amendment in connection with your brief?

The CHAIRMAN. When your brief is received, Mr. Thompson, it will be printed as a part of your remarks.

(The brief referred to by Mr. Thompson was subsequently submitted and is here printed in full, as follows:)

MEMORANDUM RE SOAP TAX UNDER TITLE VI, SECTION 600, SUBSECTION (h) OF H. R. 4280 (REPT. NO. 151).

To the members of the Senate Committee on Finance:

It is submitted that the said subsection of section 600 of title 6 of the war-revenue bill is ambiguous, in that it states a tax upon "toilet" soaps, which tends to refer to some classification which is not entirely clear. There are in general three classes of soaps: First, the distinctly laundry soaps, which we understand it is not the intention of the bill to tax; second, the delicate-scented soaps, chiefly of foreign make, which are the higher priced commodity sold in druggists' and chemists' shops, and which are used exclusively for toilet and bath; third, there is that wide range of soaps which are of very high grade of materials and which are, as a matter of fact, used and are applicable both to toilet use and to laundry purposes of the more delicate kind.

It is our purpose, in making the suggestion of an amendment, to make more clear just what soaps it is intended should come within the act. We are not seeking to avoid the tax, which is, however, very heavy, and which we are willing to bear provided the tax is distributed equitably. In the third class to which we refer there are such soaps as our product, which is called the

"Fairy" soap, and other soaps, such as "Ivory" soap, which are both used extensively throughout the country for the toilet and bath and also for laundry purposes. If it is the intention of Congress to tax the soaps of this third class, that intention ought to be made clear by the language of the section and not left to rulings by a commissioner as to what is or what is not "toilet" soaps, which might well result in discriminations.

We suggest that instead of referring to the commodity to be taxed by reference to unscientific classification such as "toilet soaps," the commodity be defined according to its actual use, namely, "all soaps * * * used or applied for toilet purposes."

We herewith give the suggested form of the said subdivision as amended:

"(h) Upon all perfumes, essences, extracts, toilet waters, cosmetics, vaselines, petrolatums, hair oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes, dentifrices, tooth pastes, aromatic cachous, and all soaps and powders and other similar substances, articles, and preparations, by whatsoever name known or distinguished, which are used or applied for toilet purposes, and which are sold by the manufacturer, importer, or producer, a tax equivalent to five per centum of the price for which so sold; and."

For the easy reference of the committee we reproduce the present form of the bill with the parts omitted in the suggestion above shown in brackets and the new parts in italic.

"(h) Upon all perfumes, essences, extracts, toilet waters, cosmetics, vaselines, petrolatums, hair oils, pomades, hairdressings, hair restoratives, hair dyes, tooth and mouth watshes, dentifrices, tooth pastes, aromatic cachous, *and all* [toilet] soaps and powders *and other similar substances, articles, and preparations* [or any similar substance, article, or preparation] by whatsoever name known or distinguished, *which are* used or applied for toilet purposes, and which are sold by the manufacturer, importer, or producer, a tax equivalent to five per centum of the price for which so sold; and."

If it be the intention of Congress not to tax soaps of this third class, which are the toilet soaps of the middle and working class, then the bill should be drawn taxing just "fancy" toilet soaps.

This suggestion is made for the assistance of the committee by a person entirely familiar with the soap business throughout the country and who realizes the possibility of confusion and possible injustice unless the above suggestion is adopted.

Repectfully submitted.

SULLIVAN & CROMWELL,
Attorneys for the N. K. Fairbanks Co., New York, N. Y.

The CHAIRMAN. We will stop with this title for a few moments.

ADDITIONAL BRIEF RELATING TO SOAP PRODUCTION FILED WITH COMMITTEE.

SENATE COMMITTEE ON FINANCE,
Washington, D. C.:

As a manufacturer of 5-cent toilet soap it seems that the proposed tax of 5 per cent is excessive. We are perfectly willing to assume any tax we have to bear, but we believe it is the intent of this bill to exempt as much as possible the necessities of the working class and poorer members of society.

Our soap is sold in grocery stores and is bought almost exclusively by the working people and those of small income. The raw material of which our product is made have gone up over 110 per cent on the average and there seems to be no relief in sight.

A fancy toilet soap or one selling at retail for 10 cents or more is quite able to stand this raise in raw material and also the proposed tax, as they work under a large profit, whereas we try to do a large volume and make the smallest margin of profit possible, being less than 9 per cent gross.

Might we suggest that you have this tax apply to soaps selling at 10 cents a cake or more retail. We can not stand the tax, as it amounts to about $100,000 a year.

The tax is unjust and not equitable as it now stands as far as a cheap cake of toilet soap is concerned as compared to the higher priced fancy toilet soap.

We now ask for relief from this proposed tax as it applies to the cheaper class of toilet soaps.

Any horizontal tax on toilet soaps is bound to be unfair and unjust on the cheap grade of such soaps, for as set forth above, such cheap soaps are sold

on a very small margin of profit and the business depends on a large volume of sales, whereas the high-priced soaps would hardly notice such a tax because of their large margin of profit, but which tax would destroy the business of the smaller profit margined cheap grade toilet soaps.

Yours, respectfully.

MANHATTAN SOAP CO.,
By OSCAR M. BURKE, *Secretary*.

The CHAIRMAN. The committee will now take a recess.

(Whereupon, at 1.30 o'clock p. m., the committee took a recess until 2.30 p. m.)

AFTER RECESS.

(At 2.30 o'clock p. m. the committee reassembled, pursuant to the taking of the recess, Senator Furnifold McL. Simmons presiding.)

The CHAIRMAN. Gentlemen, before we begin the program outlined on the paper which I have here, I wish to say that Mr. Pinchot wants 15 minutes. As soon as he has finished I will begin the program which I have outlined.

Senator SMOOT. He appears for what—the general bill, or what?

STATEMENT OF MR. AMOS PINCHOT, REPRESENTING THE AMERICAN COMMITTEE ON WAR AND FINANCE.

Mr. PINCHOT. I appear especially with reference to the increase of tariff from the point of view of the consumer. By way of explanation I will say that I represent the American Committee on War and Finance. That committee is an organization which we started just before the war broke out, anticipating the necessity of raising a very large sum by a revenue bill. We got up a declaration of intentions, and without very much organization we succeeded in interesting a great many people in our plans. We have now various organizations with a membership of perhaps 2,000,000 or 3,000,000 that have indorsed our plan by resolution. I will not bother you now with a list of them, but will merely say that all the principal farm organizations have accepted our resolution demanding the war should be financed largely through an income tax, especially on large incomes. The United Mine Workers of America, the largest labor union in the country, has indorsed our views, and I have here a letter from the four chiefs of the railroad brotherhoods that acted on Saturday demanding that the war should be financed in that way. Just to show Senator Simmons the support we are getting, I got in my mail this morning a letter from the office in New York, which includes a list of labor organizations throughout the country which indorsed our plan on Saturday, and I will file that with you. That is just one day's mail, and there are some seventeen organizations that came in on that day.

Now, Senator, the objection which this association has to the House bill is along a very definite line. We believe that two definite lines should be adopted. In the first place, the bill will not raise the revenue; in the second place, if it did raise the revenue the provisions of the bill are such that it would not be justly raised, because of the increase in the cost of living and the general condition of the public. I want to be as brief as I can, and I want to call to your attention the very unusual condition in regard to the purchasing power which

the country is in to-day. In 1914 I had made for me by statisticians in New York and Washington and Chicago a summary, a comparison between the incomes of average people and the cost of living from 1900 to 1914. In that period of 13 years I found the cost of living in five things—in food, fuel, clothing, household utensils, and rent—had gone up a little over 40 per cent.

Senator THOMAS. Between what times?

Mr. PINCHOT. Between 1900 and 1914, up to the time the war broke out. We found that in the same period, as far as we could tell, making the study in the five subjects, the average incomes of ordinary people had gone up about 27 per cent. In other words, although the public was getting richer in money all the time, the purchasing power of the money they received was diminishing, so that the result was in 1913 the average American citizen was quite a little poorer than he was in 1900. That is, up to the time the war began. I was first a good deal astonished and disturbed by the increase, and I took this up at once with the general counsel of a very large industrial corporation in New York and asked him if he had any light upon that, and he said he had just finished a survey among the 12,000 employees in his corporation for 10 years and that the figures were exactly the same as mine, that in those 10 years the wages of his employees had gone up 20 per cent and the cost of living had gone up 30 per cent, which is practically the same proportion. I want to read one or two figures. I will file this brief when I get through to show what has happened to the American consumer since the war started.

The CHAIRMAN. Your brief will be printed as a part of your remarks.

(The brief referred to by Mr. Pinchot is here printed in full, as follows:)

WHO SHALL PAY FOR THE WAR?

Four thousand millions of dollars have already been appropriated for war purposes. The additional amount necessary depends upon the duration of the conflict. Whatever the total sum of debt incurred, it must be paid, first or last, out of the pockets of American citizens. How shall these billions be paid, and by whom?

TWO PRINCIPLES OF WAR SERVICE.

War is here: it is a hard experience for all the people. It demands universal sacrifice; but this sacrifice should be equitably apportioned. It should not fall upon one man in a way that means actual want and suffering and leave another man practically untouched.

Justice in taxation does not mean equality in the amount of money paid; it means equality in the effect of the tax upon the actual conditions of life of the people who pay it. It may be a greater sacrifice for a man of small means to be taxed a few dollars, so that he has to forego all luxuries and many necessaries, than for a man of wealth to be taxed his whole income, and even a part of his capital as well. This is the first principle on which is based the public appeal for large war taxes for people with surplus wealth and small ones for people with no surplus at all.

The second principle is that conscription of men can not be defended if unaccompanied by conscription of incomes. If the Government has the right to ask some men to fight and give their lives to their country, it certainly has the right to ask other men to give their surplus wealth to the Nation's cause.

COST OF LIVING.

War conditions and war prices have already placed the average American in a financial position where he can not decently be asked to pay for the war.

The New York Times Annalist, of April 23, 1917, publishes a table showing "index numbers" of the increase in the cost of living in the last two years.

It explains the table as follows: "The Annalist index number shows the fluctuations in the average wholesale price of 25 food commodities selected and arranged to represent a theoretical family's food budget." Here are the figures:

For April 24, 1915, index number is 154; for April 22, 1916, index number is 166; for April 21, 1917, index number is 270.

In other words, the 25 most common and necessary articles of family use have almost doubled in price in the last two years.

Dun's index figures show similar price increases, as follows:

Between April 1, 1914, and April 1, 1917, dairy and garden products increased 84 per cent, meat 46 per cent, clothing 49 per cent, metals 60 per cent, and foodstuffs 105 per cent.

A few days ago the Old Dutch Market (Inc.), of Washington, D. C., which operates a large string of stores, selling meats, canned goods, eggs, vegetables, etc., published a comparison of prices in April, 1914, and April, 1917. It deals in all with 60 table necessaries. The average increase on all items listed is 85.82 per cent during that period.

As a corollary to this we have the report issued on April 26 of the food committee appointed by the Commissioners of the District of Columbia. "Interesting figures were obtained," says the committee, "from the proprietors of some of the smaller stores, whose business is with the poorer people. They show clearly that the poor have been compelled to resort to the strictest economy in order to provide food, on account of high prices. Their purchases are of the cheapest possible articles and in smaller quantities than heretofore. The sale of ordinary cuts of meat in this class of stores seems to have been discontinued and the meat now purchased consists of hog livers, hog kidneys, neck bones, hog faces, etc."

Following the food riots in New York, Miss Helen M. Todd was appointed to make an investigation of the effect on school children of the high cost of food. She reported last week, that in the poorer districts, diet has been so cut down that the children's scholarship has suffered materially through malnutrition, and that public-school teachers complain that the children are unable to maintain their grades.

The Review of the United States Bureau of Labor Statistics, for April, 1917, tells the same story. In the four years from February 15, 1913, to February 15, 1917, flour increased in price 69 per cent, eggs 61 per cent, potatoes 224 per cent. A 16-ounce loaf of bread cost on February 15, 1914, $0.055; on February 15, 1915, $0.063; on February 15, 1916, $0.062; and on February 15, 1917, $0.071. Bread to-day is 10 cents a loaf. As this goes to press wheat is $3 a bushel in the western markets.

As to coal, the Black Diamond Magazine and the Coal Trade Journal show that the average retail price of anthracite range coal in New York was $5 a ton in January, 1915, and $8.75 a ton in January, 1917. Soft coal at the mines was from $0.80 to $1.05 a ton in December, 1914, and from $4.75 to $6.50 a ton in January, 1917; this in the face of yearly increasing output.

WAGES.

The increase in wages and incomes has been insignificant in comparison to the enormous rise in prices. Undoubtedly wages have advanced sharply since the war began. In some industries they have risen in a spectacular manner, yet the average wage increase since 1912 has been small, even in union labor, when compared with the rise in the prices in necessaries of life. The index figures published in the April Review of the United States Bureau of Labor Statistics show that in the large field of union labor there has been a rise of only nine points from 1912 to 1916, inclusive. Index figures for 1917 are not yet available; but, even if we were to assume that wages have risen as much in the first four months of 1917 as they rose in the whole period from 1912 to 1916 (which would be a quite extravagant estimate) we should only have a rise of 18 per cent from 1912 to 1917; while according to Dun certain particularly important food products and necessaries have risen from 46 per cent to 105 per cent in the last three years, and according to the Times Annalist the cost of the food budget of the average American family has gone up 74 per cent in the last two years.

Keeping in mind these figures, we can not but accept the unwelcome fact that the average American has not in reality shared in the prosperity of the country during the war period. On the contrary, he has lost ground in the economic struggle, in spite of the Nation's advancing aggregate wealth. Wages and in-

comes have no doubt increased, but there has been at the same time such an inflation in the price of things people must buy in order to live that the average citizen's purchasing power has been steadily diminished. He has been handed more in his pay envelope; he has received a larger salary check, and made better earnings from his farm or his business, but in turning the money he has made into food, fuel, rent, household furnishings, etc., he has found that it does not go so far as in times when wages and earnings were much smaller.

WHERE THE TAXABLE WEALTH IS.

Where, then, has the Nation's prosperity gone since the world war began—into whose pockets? And, above all, where may we find the accumulations of wealth which may now be taxed to pay for the war with the least hardship or injustice to the public?

The following figures, selected almost at random from the great list of industrial corporations that have profited by war times may suggest the answers to the above questions. They may also indicate the economic conditions which lie below the fact, reported by Prof. King, of the University of Wisconsin, that 2 per cent of the people of the United States own 65 per cent of the country's total wealth.

Net profits of American industrial corporations.

[Figures shown are the net profits earned for the stockholders, after deducting cost of materials, labor, depreciation, overhead, interest, and all other charges. All figures are official, having been taken from the companies' annual reports.]

	1916	1915	1914	1913
American Can Co.	$7,962,982	$5,029,273	$2,916,339	$4,376,173
American Smelting & Refining	23,252,248	11,402,732	9,271,565	9,756,540
American Hide & Leather	1,633,206	959,974	107,203	475,518
American Beet Sugar Co.	2,415,189	1,424,654	452,074	891,055
American Locomotive Co.	10,769,429	[1] 1,491,980	2,086,127	6,185,306
American Steel Foundries	3,418,057	[1] 219,574	[1] 231,481	1,033,502
American Woolen Co.	5,933,819	4,090,865	2,788,602	[1] 1,179,791
American Writing Paper Co.	2,521,378	[1] 126,956	[1] 108,310	[1] 229,190
Armour & Co.	20,100,000	11,000,000	7,509,908	6,028,197
Atlas Powder Co.	2,939,790	1,671,762	294,150	322,838
Baldwin Locomotive	5,982,517	2,827,816	330,230	4,017,800
Bethlehem Steel Corporation	43,593,968	17,762,813	5,590,020	5,122,703
Barrett Co. (American Coal Products Co.)	4,247,858	2,482,236	1,280,476	1,835,811
Brown Shoe Co.	1,467,757	240,322	495,890	710,464
Central Leather Co.	15,489,201	5,626,897	4,876,921	4,386,345
Colorado Fuel & Iron	2,201,171	[1] 331,611	[1] 905,968	1,727,192
Crucible Steel Co.	13,223,653	3,073,750	1,015,039	4,905,886
Cuban-American Sugar Co.	8,235,113	3,501,048	2,705,723	356,887
E. I. du Pont de Nemours Powder Co.	82,107,693	57,257,308	4,831,793	4,582,075
General Chemical Co.	12,286,826	5,958,746	2,857,898	2,809,442
Hercules Powder Co.	16,658,873	4,886,102	1,247,255	1,017,212
International Agricultural Corporation	1,279,892	[1] 160,022	81,918	[1] 161,493
International Nickel	11,748,279	5,308,072	4,792,665	5,009,120
Lackawanna Steel Co.	12,218,214	2,409,108	[1] 1,652,441	2,735,883
Morris & Co. (packers)	3,882,213	2,321,415	2,293,672	1,916,907
National Enameling & Stamping Co.	2,417,803	913,742	548,756	761,274
New York Air Brake Co.	8,214,962	1,343,285	611,046	654,312
Phelps Dodge Corporation	21,974,261	9,720,475	6,661,889	7,307,710
Pittsburgh Steel Co.	4,561,068	858,100	416,551	1,193,609
Railway Steel Spring Co.	3,710,805	1,361,229	374,451	1,121,050
Republic Iron & Steel Co.	14,789,163	3,515,819	1,028,748	3,101,300
Sloss-Sheffield Iron & Steel Co.	1,912,621	522,388	490,139	678,466
Swift & Co.	20,465,000	11,087,500	9,450,000	9,250,000
Texas (Oil) Co.	13,898,861	6,393,327	6,183,794	6,051,121
United States Steel Corporation	271,531,730	75,833,833	23,496,768	81,216,985
United States Cast Iron Pipe Co.	1,508,641	{19 months 331,387}	[1] 50,868	564,427
United Fruit Co.	11,913,151	5,900,322	2,261,911	5,315,631
United States Industrial Alcohol	1,881,387	2,172,013	653,261	652,358
United States Smelting, Refining, and Mining Co.	8,898,464	6,502,324	2,265,641	3,585,588
Westinghouse Air Brake Co.	9,396,103	1,575,839	3,182,991	3,255,250
Westinghouse Electric & Manufacturing Co.	9,666,789	2,009,741	4,058,810	3,164,032
Wilson & Co. (packers)	4,913,873	2,463,732	{15 months 1,511,328}	1,363,245
Total	729,983,235	292,588,355	124,242,776	201,233,749

[1] Deficit.

Taking 24 of the principal companies listed above and comparing their earnings in 1914 and 1916, we find in these two years an increase of 500 per cent, and these increases may be expected to continue. For instance, the steel corporation's last quarterly earnings, just published, would indicate that; for, if the percentage is maintained for the whole year the net sum applicable to dividends for 1917 should be about $450,000,000.

Comparing the increased earnings and the increased stock values of two of these corporations, we get a still more concrete idea of the increased wealth which offers the country a ready source of war taxation:

UNITED STATES STEEL CORPORATION.

Net earnings, 1914	$23,496,768
Net earnings, 1916	271,531,730
Increase	248,034,962
Average market value of outstanding stock in—	
1914	682,648,282
1916	961,181,378
Increase	278,533,096

BETHLEHEM STEEL CORPORATION.

Net earnings, 1914	$5,590,020
Net earnings, 1916	43,593,968
Increase	38,003,948
Average market value of outstanding stock in—	
1914	17,536,690
1916	106,112,130
Increase	88,575,440

RAILROADS.

Shareholders of railroads have also improved their position as investors since the war began.

In 1913 the net operating revenue ran approximately from $275 a mile in January to $300 a mile in December. In 1916 the net operating revenue ran approximately from $337 a mile in January to $550 in October.

The net revenue for railroads earning over a million dollars annually for the six months ending January 1, 1917, was practically $700,000,000, which is the largest profit in the history of American railroading.

TAX THE LARGE INCOMES.

Summarizing again, we have the immediate necessity of raising immense funds for the Government by bonds and certificates of indebtedness. To pay for these bonds and certificates of indebtedness we have on the one hand the great body of the people and on the other the people of large means. The former, the average citizens, are of moderate means; their average income is less than $1,000 a year, a sum which is continually decreasing in its purchasing power and is already hardly sufficient to meet the barest necessities of life. These people will do the bulk of the fighting in war time, simply because they compose the bulk of the population. But they can not, and in commonest justice should not, bear anything but a comparatively insignificant part of the war's financial burden. Moreover, they should not be handicapped at such a time by such a burden. The efficiency—the physical condition—of this great class that must defend and feed the country should be carefully preserved. They should not be subjected to the anxiety and the hardships that further inroads on their slender incomes or earnings would undoubtedly cause.

Seeking a source of war revenue, we turn from the average citizen to the people of means, who have accumulated wealth under their country's flag and institutions. They can not bear the main burden of defending the Nation in the field or on the sea because there are not enough of them. But they can

and should bear the money burden, and no doubt will be glad to do so if properly impressed with their responsibility. They are financially strong and they can finance the war from their surplus wealth practically without personal hardship. To them, to their patriotism, and willingness to offer to the country whatever it requires we must look in this hour of general and mutual obligation which the great family of American citizenship has assumed.

A large war tax, even to the point of taking all above an income of $100,000 a year would not in any way cripple or discourage these more fortunate citizens. Certainly there should be a tax on small incomes, although the increasing cost of living will probably be tax enough on the average family; and for this reason any income tax on them should be small indeed and graduated, so that the burden of actual inconvenience and self-denial shall be equalized as far as possible. The measure of all war taxation should be its effect on the life, health, and happiness of each class of citizenship rather than the size of the contribution made to the Government. All should give in accordance with how much they can give short of distress.

EFFECT OF LARGE TAX ON LARGE INCOMES.

Reducing large incomes for the period of the war and until the war debt is paid (and soon paid) will have a salutary effect on the country. It will tend everywhere to economy and thrift, which, by reducing the demand of luxuries, will lower the cost of necessaries to the general public; whereas the alternative of creating huge bond issues and leaving them unretired for years inevitably tends to inflation, to extravagance, and to raising the cost of living—already an oppressive burden.

RICH INDORSE PLAN.

Along this line Mr. E. W. Scripps, the millionaire newspaper owner of California, said in a memorandum which he sent to the Ways and Means Committee:

"From the source which none of us have yet even dreamed—that of the infliction of a great war—we may draw the greatest reform and the greatest blessings to our people. * * *

"Some of us have very large incomes, and we are prompted, and even by the opinions of society compelled, to indulge in great extravagances. We employ servants, who produce nothing for the common good and only minister to our vices. We purchase costly and showy clothing, houses, food, furniture, automobiles, jewelry, etc., the production of which has taken the labor of many hundreds of thousands of men and women, who, if they were not so employed, would be producing other commodities in such quantity as to cheapen them and make them accessible to the poor.

"An enormously high rate of income tax would have the effect of diverting all this labor, that is given to practically useless things, into other channels, where production would be useful to the whole people. * * *

"In the case of the Government of the United States the income is so enormous that out of it could be paid double the amount that the war is costing England annually; and except for the disturbances and readjustment the people of the country would suffer not at all, while they would be greatly benefited by the discipline and the necessity of thinking hard, and perhaps working harder."

Such a policy of paying the war bonds and certificates by taxes on large incomes (assuming that the rich will not evade such taxes but cooperate patriotically in the effort to have them collected) will materially rehabilitate the very wealthy in the estimation of the public; and it will also make the citizens of smaller means, who go to the front, feel that they are being loyally supported by the Nation's more fortunate classes.

Speaking of such men, Mr. Scripps said:

"These men, to a large extent at least, suffer extremely from what they feel is the unjust judgment of the great mass of people. * * *

"Now, all of a sudden, there is presented to them an opportunity—the Nation's great need for great sums of money—to show their patriotism, to show that they are really unselfish.

"When a man by the practice of business has acquired the habit of investing money profitably, it is very difficult for him and really very painful for him to pour out his money in so-called philanthropy; because their own experience and observation have proved to them that the means of philanthropy are generally very wasteful; that it takes from 50 to 75 cents out of every dol-

lar so invested to pay the middlemen and the overhead charges: so that only from 25 to 50 cents of the dollar spent ever becomes a real investment. To such men it is a godsend to have the Government come along and take away as an income tax and an inheritance tax their burdensome surpluses."

That this view is shared by business men throughout the country is evidenced by the telegram quoted below, which is one of many similar expressions received from similar sources:

AMERICAN COMMITTEE ON WAR FINANCE,
60 Broadway, N. Y.

A board of directors of St. Paul Association of Public and Business Affairs, the big civic and commercial organization of St. Paul, last night adopted, with one dissenting vote, the following resolution:

"Whereas many hundreds of thousands of American citizens are to be called upon for the supreme patriotic sacrifice, pledging their lives for their country; and

"Whereas the least that those remaining at home can do in any measure even approaching this sacrifice of those on the firing line is to pledge their entire financial resources: Therefore be it

"*Resolved*, That in behalf of this association of nearly 5,000 St. Paul business and professional men we urge upon the Government conscription of dollars as well as of men, to be brought about through the imposition of large graduated income taxes, reaching the total absorption for all incomes over $100,000 a year."

H. B. R. BRIGGS,
Editor St. Paul Daily News.

FARMERS, TEACHERS, AND WAGE EARNERS BACK PROPOSITION.

Powerful labor and farm organizations have also enthusiastically indorsed the plan of taxing incomes to pay the war debt promptly so that it will not fall on the poor or on future generations who may have wars of their own to pay for. Prominent in the labor groups are the United Mine Workers of America, whose resolution adopted at their recent convention in New York City is as follows:

"Whereas the United States is at war with Germany; and

"Whereas immense war appropriations must be made immediately to supply the Government with funds necessary to carry on the war; and

"Whereas it is of paramount importance in this crisis that the financial burden of the war should be distributed among the citizens of the United States in accordance with their ability to bear it; and

"Whereas in the interest of national unity and a spirit of harmonious cooperation between all classes, it is necessary that every citizen should know that the cost of the war will be paid promptly, and not remain as a future burden upon those who fought and their children: Therefore be it

"*Resolved*, That all bonds, certificates of indebtedness, and other obligations issued by the Government for war purposes shall be paid by a tax to be levied on all net incomes in excess of $2,000 for unmarried persons and in excess of $3,000 for married persons, beginning at 2 per cent and increasing on a sliding scale to a point which will permit of no individual retaining an annual net income in excess of $100,000, such war tax to continue until said bonds, certificates of indebtedness, and other obligations issued for war purposes are paid. Be it further

"*Resolved*, That all war supplies or war service, including transportation, shall be furnished to the Government at a reasonable profit to be fixed by Congress; that Congress shall enact legislation preventing the sale of necessaries of life during the war at excessive profits; and that intentional failure to supply the Government with correct figures as to income or as to profits on such sales and service and that furnishing the Government with defective war supplies shall be a felony, punishable by imprisonment."

The Ancient Order of Gleaners has passed resolutions embodying the salient features of the pledge of the American Committee on War Finance.

Mr. Warren G. Stone, grand chief of the Brotherhood of Locomotive Engineers, heads the executive committee of the Cleveland American Committee on War Finance. A very powerful Farmers' American Committee on War Finance

has been formed to push the plan. Its letter to the Ways and Means Committee is reproduced below:

To the Committee on Ways and Means of the United States Congress:

The farmers of the country, affiliated with this committee, composed of members of the leading farm organizations of the country are unqualifiedly in favor of a graduated income tax as proposed by the American Committee on War Finance.

This being a war for democracy, we submit that the only way to finance the war democratically is on the pay-as-you-go plan, by conscripting the accumulated wealth and surplus incomes to pay the enormous money cost, coincident with conscripting the young men to pay with their lives the enormous human sacrifice demanded to win the war. Any less democratic method in meeting the cost of war will be considered by the farmers of the Nation unpatriotic and unworthy of this great Republic.

Respectfully submitted.

FARMERS' NATIONAL COMMITTEE ON WAR FINANCE,
By GEO. P. HAMPTON.

The Farmers' Nonpartisan League has passed resolutions calling for the conscription of wealth for war purposes. Scores of organizations all over the country have seen the justice and expediency of making this war a democratic war, paid for promptly and from sources that will find their highest usefulness and patriotic gratification in this service of helping the country to accomplish the work it has set itself to do without injury to the great body of citizens whose welfare is synonymous with the Nation's strength and safety.

Three hundred and nine professors of economics in 47 colleges and universities have signed a memorial to Congress containing the following clause:

JUSTICE DEMANDS THE TAX POLICY.

The policy of taxation for war expenditures is demanded by justice. Apart from the injustice arising from price inflation, the policy of paying for the war by bond issues gives property a preference over life; it deals unjustly as between citizen and citizen. The question of taxation versus bonds is not merely one of economics; it is one of morals, or right against wrong.

This war is a great social enterprise. The American people have undertaken it as a people. The future welfare of the country as a whole is involved; the future welfare of every citizen is involved. It is the duty, therefore, of every citizen to share in war's burdens to his utmost. For some, the duty is to fight; for others, to furnish money. For all, the duty is without limit of amount. The citizen who contributes even his entire income, beyond what is necessary to subsistence itself, does less than the citizen who contributes himself to the Nation.

The man who goes to the front can not be paid back the life or the limb he may lose. The man who stays at home should contribute his just share of the money cost without expectation of repayment. That the soldier or sailor who gives himself to his country should, if he be so fortunate as to return, be taxed to pay interest and repay principal to him who has contributed the lesser thing, money, is a crying injustice. If conscription of men is just and right, conscription of income is the more so; conscription of both is just and right when the Nation's life and honor are at stake.

At a meeting of the ministers' conference of Bangor, Me., and vicinity, held April 23, it was voted that the conference adopt the following pledge, issued by the American committee on war finance, and that notice of this action be sent to their three Representatives at Washington, also to the American Committee on War Finance:

"I hereby earnestly request that the Congress of the United States shal immediately enact legislation providing substantially for the following wai measures:

"1. That there shall be levied on all net incomes in excess of $2,000 (for unmarried persons) and in excess of $3,000 (for married persons) an annual war tax, beginning at 2 per cent and increasing on a sliding scale to a point which will permit of no individual retaining an annual net income in excess of $100,000, such war tax to continue until all bonds and other obligations issued for war purposes are paid.

"2. That all war supplies or war service, including transportation, shall be furnished to the Government at a reasonable profit, to be fixed by Congress.

"3. That Congress shall enact legislation preventing the sale of necessaries of life during the war at excessive rates.

"4. That intentional failure to supply the Government with correct figures as to income or as to profits on such sales and service, and that furnishing the Government with defective war supplies, shall be a felony, punishable by imprisonment.

"I pledge myself to support and use my influence, in so far as I am able, to further the prompt enactment into law of such measures.

"Signed in behalf of above-named conference.

"ASHLEY A. SMITH, *President.*
"L. J. CARTER, *Secretary.*"

OBJECTIONS.

Although patriotic citizens are practically united in demanding that the war shall be intelligently and justly financed, many selfish interests, represented by lobbyists, are now in Washington trying to block the passage of necessary legislation. All kinds of more or less plausible objections are put forward. It is argued, for instance, that if surplus incomes are taxed too heavily the funds for investment in new enterprise will be correspondingly diminished and production will be hurt. The fallacy of such an argument lies in this: Whereas a heavy income tax may prevent individuals from investing their surplus incomes in new enterprises, new enterprises are not, as a matter of fact, generally started by individuals, but by corporations. Moreover, they are not financed from income, but from free capital or from credit. Whether large incomes are diminished by taxation or not, the enormous banking resources of the United States will still exist as a fund for new enterprises to draw upon.

Others say, among them Mr. Emerson, the efficiency expert, that a graduated income tax is undemocratic, for, it is argued, all should make the same, or as near as possible the same, proportional money sacrifice for the war. They want the percentage of income taken from the poor man to be the same as that taken from the rich man. This argument is hardly worth answering, for it is based on the palpable fallacy that a tax of a given percentage on the income of family with a thousand dollars a year causes as much deprivation as a tax of the same percentage on a family with a million a year. Some men are so centered on money percentages that the human value of things is totally ignored.

Again, others say that the rich man and the poor man both fight for their country, so why should the rich man pay more of his money than the poor man? As a matter of human values he does not. The man who goes to the war and pays his 2 per cent income tax on his $3,000 a year pays in reality quite as much, if not a good deal more, than the man who goes to the war and pays his 98 per cent of all he has over a hundred thousand dollars a year.

It is argued, too, that if we have a heavy income tax every rich man will put his money into 3 per cent tax-exempt Government war bonds to escape his income tax, and little revenue will be raised. In the first place, this would not happen because there will not be enough of such bonds to serve such a purpose. Even the billions of tax-exempt bonds authorized become insignificant when compared with the $230,000,000,000 of our national wealth. Besides, suppose a man who has income-producing securities sells them to buy Government bonds. This merely means that some one else has bought these securities and they will still be subject to taxation in the hands of their new owner.

As to the man who has a paying business, he will not be likely to sell it in order to buy tax-exempt bonds, and if he should the new owner would have to pay a war income tax. We believe, too, that few men in a time of need such as this would stoop to the easily detected expedient of changing their investments to avoid war tax. Public opinion discourages such tactics, even if a man's common decency does not.

Another objection already raised is that many men with big incomes are regular contributors to charitable and religious institutions, and that a big income tax would cut away the support from such institutions. To meet this we propose that an exemption from taxation be allowed for such contributions as have been regularly made during the last year or two. There would be little difficulty and practically no opportunity for evasion in such a procedure.

However, there is no use trying to meet and destroy all the objections that are always urged against every new measure, no matter how necessary and wise, which strikes at the pocketbooks of people who do not realize their

responsibilities to society. They will continue to invent objections whether we can demonstrate their unsoundness or not. That has been the history of the country and of all countries in time of war. It will no doubt repeat itself now.

BRITISH TAXES.

It is estimated that England—i. e., the United Kingdom—in this the third year of the war will raise £434,125,000 by taxation. The largest item is income tax and supertax, £195,000,000. These figures are taken from total revenue and sources, listed in the British budget, the official document.

The following table may be serviceable:

Total revenue and sources,[1] United Kingdom, 1914–1917 (fiscal year ending Mar. 31).

	1914-15	1915-16	1916-17
Customs	£39,150,492	£56,006,000	£71,000,000
Excise	42,419,167	61,210,000	62,000,000
Inheritance tax [2]	28,542,571	31,033,000	30,000,000
Stamps	7,434,793	7,674,000	7,000,000
Land tax	661,376	660,000	660,000
House duty	1,886,692	1,900,000	1,990,000
Income tax and super tax	69,344,854	128,320,000	195,000,000
Excess-profits tax	....	140,000	86,000,000
Land-value duties	413,961	363,000	475,000
Total taxes	190,053,906	290,088,000	434,125,000

[1] British budget—Official document. [2] Estate, probate, legacy, and succession taxes.

If the United Kingdom, exhausted by war, and with a population of only 46,000,000, can raise £195,000,000 ($940,700,000) by taxation of incomes, this country, fresh and unexhausted and with a population of 100,000,000, should certainly be able to raise $1,500,000,000 this year and annually until the war debt is paid.

This is, in fact, the most logical, easy, and fair way to carry the country through the war period with justice to all people and with careful regard for the welfare of the fighting and producing classes. We believe America is to-day free enough from the chains of privilege and the selfish influence of the exploiting class, that fattened while the Union was struggling for existence in the Civil War, to render the public demand for equitable war finance irresistible.

HOW TO DO IT.

The American Committee on War Finance has laid before the Ways and Means Committee of the House and the Finance Committee of the Senate a bill to carry out the program of this committee. The bill, as drafted by legal and financial experts, is as follows:

"A BILL To provide increased revenue to defray expenses of carrying on the war declared April sixth, nineteen hundred and seventeen.

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That for the calendar year nineteen hundred and seventeen and for each calendar year thereafter, or part thereof, during which the United States is at war, in lieu of the additional income tax imposed by subdivision (*b*) of section one of 'An act to increase the revenue, and for other purposes,' approved September eighth, nineteen hundred and sixteen, there shall be levied, assessed, collected, and paid upon the total net income of every individual, or, in the case of a nonresident alien, the total net income received from all sources within the United States, an additional income tax (herein referred to as the additional tax) of ten per centum per annum upon the amount by which such total net income exceeds $10,000 but does not exceed $20,000, fifteen per centum per annum upon the amount by which such total net income exceeds $20,000 but does not exceed $40,000, twenty per centum per annum upon the amount by which such total net income exceeds $40,000 but does not exceed $60,000, thirty per centum

per annum upon the amount by which such total net income exceeds $60,000 but does not exceed $80,000, forty per centum per annum upon the amount by which such total net income exceeds $80,000 but does not exceed $100,000, fifty per centum per annum upon the amount by which such total net income exceeds $100,000 but does not exceed $150,000, ninety-eight per centum per annum upon the amount by which such total net income exceeds $150,000: *Provided*, That the aforesaid changes in the additional tax rates shall not apply to the compensation of the present President of the United States during the term for which he has been elected and the judges of the Supreme Court of the United States now in office.

"All provisions relating to the additional tax (other than those establishing the additional tax rates, in title one of the aforesaid act) shall apply to the additional tax imposed by this act."

Example to show how the proposed legislation would conscript all income in excess of $100,000:

1. Tax on income of $150,000:

Normal tax:	
2 per cent on the entire net income $150,000	$3,000
Additional tax:	
10 per cent on $10,000 between $10,000 and $20,000	1,000
15 per cent on $20,000 between $20,000 and $40,000	3,000
20 per cent on $20,000 between $40,000 and $60,000	4,000
30 per cent on $20,000 between $60,000 and $80,000	6,000
40 per cent on $20,000 between $80,000 and $100,000	8,000
50 per cent on $50,000 between $100,000 and $150,000	25,000
Total tax	50,000

This would leave a residual income of $100,000.

2. Tax on income over $150,000.

One hundred and fifty thousand dollars would be taxed as above $50,000, and of the excess over $150,000 2 per cent would be taken by the normal tax and 98 per cent by the additional tax, i. e., 100 per cent in all.

This would leave a residual income of $100,000.

How this proposed measure would produce the sum of a billion and a half dollars is shown in the following table:

Estimated yield of the income-tax rates suggested by the American Committee on War Finance, on basis of incomes reported in 1915.

Classifications of incomes.	Number of returns.	Mean gross aggregate taxable incomes.	Rate on whole income above $3,000.	Revenue.
			Per cent.	
$3,000 to $5,000	127,901	$506,928,100	2	$1,158,920
$5,000 to $10,000	120,402	903,015,000	4½	24,382,400
$10,000 to $15,000	34,102	426,275,000	7	22,677,880
$15,000 to $20,000	16,475	288,412,500	10	22,888,750
$20,000 to $25,000	9,707	218,407,500	15	28,292,975
$25,000 to $30,000	6,196	190,180,000	20	31,320,400
$30,000 to $40,000	7,095	245,175,000	25	56,040,000
$40,000 to $50,000	4,100	184,500,000	30	51,600,000
$50,000 to $75,000	4,791	299,437,500	40	113,985,800
$75,000 to $100,000	2,056	179,900,000	50	86,866,000
	332,825			446,673,075
Total over $100,000: 3,821 net taxable income $1,163,650,000 all over $100,000				721,250,000
Grand total revenue				1,167,923,075

The number of persons receiving a net taxable income of $2,000 to $3,000 can only be estimated, but it is safe to put it at 200,000. Assuming an average income of $2,500, the income taxable at 2 per cent is $100,000,000, but the total yield would be only $2,000,000.

If the number of persons receiving incomes of $100,000 and over increased from 1915 to 1916 as much as from 1914 to 1915, the taking of all incomes of over $100,000 would yield three or four hundred millions more than the above-estimated yield.

From 1914 to 1915 the number of persons who reported receiving a net taxable income of over $1,000,000 increased from 60 to 120, those reporting from $500,000 to $1,000,000 from 114 to 209, while the number reporting net taxable incomes over $100,000 increased from 2,348 to 3,824.

It is safe to estimate that the rates advocated will yield at least $1,500,000,000 next year, possibly $1,600,000,000.

Issued by:

THE AMERICAN COMMITTEE ON WAR FINANCE,
60 Broadway, New York.

JOHN P. WHITE.
A. J. MCKELWAY.
E. W. SCRIPPS.
JOHN L. ELLIOTT.
W. P. MONTAGUE.
FREDERIC C. HOWE.
SUMNER GERARD.
WILL IRWIN.
WILLIAM T. CREASY.
JOHN D. FACKLER.
OWEN R. LOVEJOY.
ALEXANDER M. BING.
SIDNEY HILLMAN.
GEORGE FOSTER PEABODY.
HAROLD HOWLAND.
GEORGE P. HAMPTON.
HENRY MOSKOWITZ.
JOHN J. HOPPER.
AMOS PINCHOT.

Mr. PINCHOT. I have here the Times Annalyst of April 23 containing a chart representing the budget of an average family expressed in 25 food commodities selected and arranged to represent a theoretical family's food budget. On April 24, 1915, the index number—that is, the number representing the average price at that time—was 154; on April 24, 1917, the index number is 270, and the other figures show similar price increases. In other words, the 25 most common and necessary articles of family use have almost doubled in price in the last two years.

Dun's index figures show similar price increases, as follows:

Between April 1, 1914, and April 1, 1916, berry and garden products increased 84 per cent; meat, 46 per cent; clothing, 49 per cent; metals, 69 per cent; and foodstuffs, 105 per cent.

A few days ago the Old Dutch Market (Inc.), of Washington, which operates a large string of grocery stores, selling meats, canned goods, eggs, vegetables, etc., published a comparison of prices in April, 1914, and April, 1917. It deals, in all, with 60 table necessaries. The average increase on all items listed is 85.32 per cent during that period.

Senator SMOOT. They have issued another one since that time.

Mr. PINCHOT. That is the last I have seen. Then we have the food committee appointed by the Commissioners of the District of Columbia, who reported on April 26 that the poor people have been compelled to resort to the strictest economy in order to provide food, on account of high prices. The report says: "Interesting figures were obtained by the committee from the proprietors of some of the smaller stores, whose business is with the poorer people. Their purchases are of the cheapest possible articles and in smaller quantities than heretofore. The sale of ordinary cuts of meat in this class of store seems to have been discontinued, and the meat now purchased consists of hog livers, hog kidneys, neck bones, hog faces, etc." Following the food riot in New York Miss Helen M. Todd was appointed to make an investigation of the effect on school children of the high cost of food. She reported last week that, in the poorer districts, diet has been so cut down that the children's scholarship has

suffered materially through malnutrition, and that public-school teachers complain that the children are unable to maintain their grades.

I could quote you the rest, but I will file the brief. Our committee feels—and I think I am authorized to speak for a great number of these organizations that have written me asking me to do so—that a large tax falling at this time upon the consumer would be not only unjust but unwise.

Senator WILLIAMS. What tax?

Mr. PINCHOT. A large tax falling on the consumer at this time. Now, for instance, shoes: I asked people in my office about the price of shoes, some married and some unmarried, and they said that even in the last year their shoe bill alone for their families has gone up about 100 per cent. I think that is a little bit high, but I have here a statement of Mr. James Coward, the shoe man, of the great retail store of New York. He says, "A staple shoe that we sold at $3.95 two years ago sells to-day for $6.50." That is considerably lower than the people in my office said.

Senator SMOOT. It is over 100 per cent now.

Mr. PINCHOT. On the other hand, we have the very much increased profits of the railroads and the corporations. I have here a list from the annual reports of our large industrial corporations from 1913 up to 1916. They include all of the well-known corporations like the American Hide & Leather Co., the American Beet Sugar Co., the United States Steel Corporation, the Bethlehem Steel Co., etc., and the net earnings, with every overhead charge taken up, the absolutely net earnings of this group of 42 corporations in 1913 was $204,-233,749. In 1916 it was $729,983,235, an increase of about 400 or 500 per cent.

Now, Mr. Chairman, the House bill which Mr. Kitchen says he intends to vote for, although it is indefensible, will saddle on the public a tax of about a thousand millions of dollars. Many of the gentlemen this morning said that the tax could not be passed down. I think it can be passed down. It will be passed down in either one of two ways—either they will pay higher prices for the things that are going to be penalized by the tariff, or else they will go without them. If they pay higher prices you will get your revenue; if they go without them you will not get your revenue. I do not expect that your thousand million dollars is coming in from those taxes. You have had here the representatives of a great many organizations, and I have felt very sympathetic in listening to their protests against the various increases of taxes. I think we are going along the wrong line. I think we are penalizing industry and simply wrapping up our industrial production in barbed wire at a time when we ought to be in good working order. We are going to find that as this war goes on there are two sources from which we can get revenue. I say this not because it is my own opinion, but because England has found that. England has been at war three years. She is raising next year one thousand millions of dollars out of income taxes, probably a little more than that.

Prof. Sprague, of Harvard, estimates that the income-tax budget will bring in over two hundred and five million pounds next year. It brought in two hundred and five millions pounds last year and it ought to bring in a little more next year, I think. England is

raising seven hundred million dollars out of the excess-profits tax. There is seventeen hundred million dollars that Great Britain—that is not the English Empire by any means, but England, Scotland, Ireland, and Wales—is able to raise to-day, without disturbing her industries, out of two taxes, the income and excess-profits tax.

Of course, the mechanism of the English profits tax is entirely different and the theory is entirely different from ours. England's excess-profits tax charges the corporation a certain percentage upon everything above what that corporation earned before the war. It gives to the corporation a choice of three years before the war and allows them to pick out two years and average those two years up, and then it computes the excess-profits tax upon the average.

Senator PENROSE. I think this is a most interesting point, the English method of raising the excess-profits tax.

Senator SMOOT. You have that in your brief?

Senator PENROSE. I would like to have an opportunity to hear him on that.

The CHAIRMAN. If there is no objection, I will extend the time two minutes.

Mr. PINCHOT. By reference to the New Republic, I find that in November, 1915, a tax of 50 per cent, which was raised to 60 per cent in April, 1916, was imposed on all profits in excess of the average profit of the business.

Senator THOMAS. Are you reading from the New Republic?

Mr. PINCHOT. Yes.

Senator GORE. What date?

Mr. PINCHOT. May 12. The rate of the tax has been advanced from 60 to 80 per cent, and we all know that the industrial life of England has been marvelously sound and prosperous during the war. I think we might as well learn the lesson which has taken England several years to learn and profit by it. I think we are coming by the logic of events and by necessity to the point of view that we are going to raise our revenues out of income and war profits, and the sooner we get on the right track, the better it will be for the Government.

Senator THOMAS. I have had in the last three or four hours three letters from friends of mine calling my attention to that article.

Mr. PINCHOT. Just one word more about the English income tax. I heard it said on the floor of the House yesterday that the actual English tax was less drastic than the proposed American income tax in that the highest rate was only 46 per cent, while our highest rate is about 48 per cent. As a matter of fact, that really is not true, because peoples' incomes in England are so docked before the income tax is assessed upon them by these various profit taxes that there is not nearly so much left when you come down to the point where you take the income tax in England as you do here, and as a matter of fact, between those two taxes, the income and profit taxes, the English system is very much more drastic than that contained in this bill.

Senator PENROSE. On the other hand, they do not have a State income tax such as we have?

Mr. PINCHOT. No, sir. The thing England is doing is to tax her medium incomes very high. She is also doing what I think is wise—she is discriminating between incomes that are earned and incomes that are what they call unearned, the result of investments.

Senator THOMAS. Or inheritance.

Mr. PINCHOT. Or inheritance. The income of $4,000 in England which was earned from actual business would be taxed 12½ per cent, while an income of $4,000 that was derived from investment would be taxed 17½ per cent. I do not know whether it is practicable to make that distinction in this country or not.

In concluding, Mr. Chairman, I would like to say that this organization which I represent has had a very extraordinary response from all kinds of people. We started this thing going, a few of us in New York, and the thing simply got away from us. People organized in all States but two of the Union within the first month, and the teachers and university professors took it up, and I have a resolution signed by 200 professors of economics in 50 universities.

Senator THOMAS. What committee do you represent?

Mr. PINCHOT. The American Committee on War Finance. We get letters every day protesting against our extreme moderation in demanding that incomes shall be confiscated over $100,000 a year. Of course, we put forward that plan for the confiscation of all incomes over $100,000 a year as a trading proposition, but we immediately got from all quarters of the country a flood of protest against the size of the income that anyone would be required or permitted to retain.

Senator PENROSE. How would you float your bonds if you sho cut off your incomes?

Mr. PINCHOT. I do not think there are enough bonds, sir, to be floated to interfere in the least bit with that. When you think that the United States has a total wealth of $185,000,000,000, compared with England's $125,000,000,000, and when you think how small these bond issues are I do not think we need fear the income tax will prevent the raising of that money.

Senator THOMAS. You are the first man I have heard speak of this bond issue as a small one.

Senator PENROSE. If you take away everything a man has, he is not going to buy your bonds.

Mr. PINCHOT. I do not think this is going to affect the bonds very much.

Senator PENROSE. If you are going to confiscate the incomes, you might as well print wall paper as a bond issue.

The CHAIRMAN. Does any other gentleman present want to be heard? It is understood that you agree that you will stick to the time stated on this list. The whole of the hearing will apparently cover over two hours.

Senator THOMAS. Mr. Chairman, I was requested to call your attention to the presence here of a gentleman who represents the Chautauqua Societies. He asks five minutes.

The CHAIRMAN. I think we ought to hear the gentlemen who are here by prearrangement.

Senator THOMAS. Exactly; but in order to meet the suggestion of some one as to whether we can get through to-day, I wanted to bring the matter to your attention.

The CHAIRMAN. We can get through by 5 o'clock. The committee will now hear Mr. Cheney.

The CHAIRMAN. Now, we will take this list up in the order in which the subjects are set forth on this paper. The first subject

is rubber. That was taken up this morning. The second subject is silk.

Mr. Cheney, you will have 15 minutes.

Sec. 1000. SILK.

STATEMENT OF MR. HORACE B. CHENEY, CHAIRMAN OF THE LEGISLATIVE COMMITTEE OF THE SILK ASSOCIATION OF AMERICA.

Mr. CHENEY. Gentlemen, we are not appearing here for the purpose of attempting to evade taxation. We expect fully that we are going to have to pay our whole share of all the taxes that the Government may think best to assess, and our chief point, assuming that there is to be a tariff bill, is to see that that revenue is so assessed as to give the Government a maximum revenue with the minimum amount of harm to the industry which is to be affected by paying the tax. The House bill has placed a 10 per cent duty upon raw silk. Unless there is some alteration in the bill, it is going to place the raw-silk dealers of the United States in a position that is practically ruinous. They are doing business by contracting for silk in Japan for delivery to them and contracting with the manufacturers in the United States for the silk to be delivered upon a margin which amounts to from 1 to 2 per cent. A duty of 10 per cent would therefore cause a loss on existing contracts of from 8 to 9 per cent in addition to business expenses. The existing contracts, upon which the importers have no protection, call for delivery of silk aggregating in value from $50,000,000 to $70,000,000, and as the total importations for the year 1916—the largest year in the history of the trade—amounting to about $145,000,000, the tax proposed in these contracts are not protected would involve a loss of about three times the entire gross profits of the importers for a year. It is impossible to conceive of any business which could stand any such tax as that.

Senator PENROSE. Could not that be cured by fixing a date in the future when this tariff bill should go into effect?

Mr. CHENEY. There are three ways. Our present method was to suggest that the duty be passed on. We were advised lately that that could not be done. I understand that since that the House has incorporated a provision to that effect, or if it has not yet been proposed, that it is to be proposed by the Ways and Means Committee that the amount of tax shall be assessed upon the purchases of the silk in the hands of the raw-silk dealers, passing it on, upon the theory of its being a tax at the source the same way it was done in the income tax. The constitutionality of that provision is one I do not personally feel prepared to pass upon. It has been severely questioned by lawyers.

The other way is to do what Senator Penrose has suggested—postponing the imposition of the tax to a date which will relieve them of a violation of the contracts. The third method is to provide that the contracts shall be taken prior to the information becoming general that they were liable to have such a tax in force.

Some businesses have been able to protect themselves against this thing because they have in their contracts a provision that any change in the revenue laws may be added to the amount of the con-

tract. There never having been in our memory a tax upon raw silk, that never has been incorporated.

Senator GORE. Could you instance a case where they did incorporate that in the contract?

Mr. CHENEY. Somebody was telling me this morning of a case in which that was done. I do not recall who it was.

Senator GORE. I was hoping we could get a copy of the contract and put it in the hearings.

Mr. CHENEY. It is not the practice in the silk trade. If there is not some method of relief for the raw-silk man, you are practically going to confiscate his business; the tax will amount to 40 per cent of the capital invested in the business and equal to three times the year's receipts of the business.

There is one other matter: We earnestly request that if there is a duty to be placed upon raw silk, let it be a duty of so much per pound. To begin with, there is not a man in the world who can assess the value of raw silk by an examination. It would be necessary for the Government, in order to attempt to collect an ad valorem duty, to establish a conditioning house at considerable expense, and even a conditioning house could reach only the barest kind of an approximation to value. The real value of silk can only be ascertained by past experience with the product of individual silk manufacturers under actual working conditions. Furthermore, the fluctuations in the value of silk are so great than an ad valorem duty would cause very great hardships to both the raw-silk merchants and to the manufacturers of the country. The fluctuations in raw-silk values are so great that between the time of fixing a contract and the payment of a duty the fluctuation in the value of the silk may be sufficient to make the increased duty pay, because of the fluctuation in value, exceed the commission to be received by the raw-silk man in handling and make a very serious inroad upon the estimated values.

Probably one of the chief objections there is usually open to imposing a specific duty is that you are hitting the poor man. In raw silk the low grades are not the poor man's silk. You have here a statement showing the importations of raw silk for the year 1916 in which there were 32,000,000 pounds of raw silk imported. In 1916 there were 32,454,740 pounds imported, valued at $144,756,763. The low-priced silks are not the ones out of which the low-priced article is manufactured. They are rough silks and coarse silks which go into the manufacture of heavy materials, upholstery goods, and so on. Sport silks are generally the highest price silks. To-day we are selling goods for $3.50 a yard which are made out of the cheapest kind of silk.

Senator GORE. What is the value of the raw material required to make them?

Mr. CHENEY. The raw materials vary greatly in price, but you may roughly state at present there is nothing that can be bought for less than $1.25 a pound and the maximum would be $6.50 a pound.

Senator GORE. How many pounds would be required to make this material sold for $3.50 a yard?

Mr. CHENEY. That would depend entirely upon the character of goods you were manufacturing. The light, cheap silks which make those materials are very light, usually not over an ounce to a square yard.

We ask for this relief on the ground that you will ruin the raw-silk dealers if you give them no protection on their contract, and you will seriously cripple and handicap the business of raw-silk dealers and also the manufacturers; if you gave an ad valorem duty you are going to put the biggest kind of a premium upon dishonesty. It is a very easy matter to undervalue raw silk, and I would like to tell you one instance illustrating that. The United States Department of Commerce issued a pamphlet to illustrate the iniquity of a specific duty on silks.

I beg leave to submit for your consideration a brief which I have prepared on behalf of the Silk Association of America, and ask that it be appended to my remarks.

The CHAIRMAN. Your brief will be printed, Mr. Cheney.

(The brief referred to by Mr. Cheney is here printed in full, as follows:)

STATEMENT OF SILK ASSOCIATION.

To the Finance Committee of the United States Senate:

We do not appear before this committee with any desire to avoid the imposition of such just taxes as the Government may believe necessary for the conduct of the war. We fully expect to pay our full share of such taxes and to meet to the best of our ability the burdens which must inseparably be attached to their imposition. It is our sole desire to avoid any undue hardship or confusion of business and to provide the best, most just, most efficient, and economical method of collecting the money which the Government decides necessary for us to provide.

As there is no free list in the proposed bill, one of the taxes which is imposed on the silk trade is an import duty of 10 per cent upon raw silk. If there is to be any free list at all, raw silk should be included in it; but, assuming that the committee shall decide to exempt no import from duty, we ask them to consider in connection with such proposed taxation the following facts and recommendations.

We would respectfully ask, in the first place, that the bill be amended by adding thereto the following: "The duties imposed by this act shall not apply to materials heretofore upon the free list, and which are imported for delivery in the United States on account of contracts made prior to the passage of this act."

This amendment is asked for the reason that the duty proposed on raw silk, if applied to existing contracts, would cripple financially all of those engaged in the industry and would ruin some of them. Raw silk is sold by the importers for future delivery. These contracts of sale require the importers to deliver silk in the United States at a price per pound in dollars over varying periods of time, many of such contracts extending over a year from date, the average probably being about six months. The silk with which to make such deliveries has already been contracted for with the dealers and producers in China, Japan, and Italy by the importers here. There has never been a duty imposed upon raw silk, and silk contracts have therefore contained no provision permitting either the importer or the manufacturer to add to the contract price the amount of any duty which might be imposed. The importer is therefore required to deliver in the United States at the price named in his contract so that the entire amount of any duty imposed upon raw silk must be paid by him. How serious a matter this is is apparent when you consider that to the importer the margin between purchase and sale is only from 1 to 2 per cent. A duty of 10 per cent would therefore cause a loss on the existing contracts of from 8 to 9 per cent in addition to business expenses. The existing contracts, upon which the importers have no protection, call for delivery of silks aggregating in value from $50,000,000 to $70,000,000, and, as the total importations for the year 1916—the largest year in the history of the trade—amounted to about $145,000,000, the tax proposed if these contracts are not protected would involve a loss of about three times the entire gross profits of the importers for a year.

This loss would have to be paid out of capital and, as the total capital invested and used in the raw-silk importing business is about $15,000,000, this

would involve a loss of about 40 per cent of the entire invested capital. While the larger and financially stronger importing houses would probably be able to continue business, notwithstanding this loss, the smaller houses would be ruined. This we submit would not be taxation but confiscation.

We would respectfully ask in the second place the imposition of a pound duty on raw silk instead of an ad valorem duty, which we would suggest should be 40 cents per pound (upon the average value of the silk imported during the last 10 years this would be equivalent to a duty of 11½ per cent, said average value being $3.47 per pound), and that a compensating duty of not less than 7½ per cent be added to the existing duties upon manufactured silk, making a total duty on broad silks of not less than 52½ per cent, with corresponding changes in other paragraphs.

The reason for the suggestion that the duty be changed from ad valorem to specific is because there is no person in the world capable of judging the value of raw silks accurately by inspection. It would be necessary for the United States Government in order to attempt to collect an ad valorem duty to establish a conditioning house at considerable expense, and even a conditioning house would reach only the barest kind of an approximation to value. The real value of silk can only be ascertained by past experience with the product of individual silk manufacturers under actual working conditions. Furthermore, the fluctuations in the value of silk are so great that an ad valorem duty would cause very great hardship to both the raw-silk merchants and to the manufacturers of the country. The variation in the amount of duty to be paid upon a lot of silk, owing to fluctuations in value between the time of purchase and the time of delivery, would, in the case of raw-silk dealers, in many cases be greater than the profit to be derived from the business, and in the case of manufacturers the difficulty of fixing prices upon merchandise for future delivery upon an unknown value of raw material would be very great and would in many instances represent the difference between profit and loss. We append a table showing the percentage of duty which might be expected to be derived from various pound duties, the revenue which might reasonably be expected, and the duty upon manufacturers of silk which would give a compensating result.

Pounds duty.	Ad valorem.	Revenue.	Compensating duty.
	Per cent.		*Per cent.*
40 cents	11½	$12,000,000	52½
50 cents	14 1/15	16,000,000	55
60 cents	17	19,000,000	57½
70 cents	20 1/11	22,500,000	60

We also attach a table showing the importations of raw silk at the nine principal ports for the ten calendar years from 1907 to 1916, inclusive.

THE SILK ASSOCIATION OF AMERICA,
By HORACE B. CHENEY,
Chairman of Legislative Committee.

Imports of raw silk 10 calendar years, 1907 to 1916, inclusive.

Year.	Pounds.	Value.	Average value.	Average value, 10 years.
1907	15,691,444	$71,776,374	$4.57	....
1908	18,723,119	64,239,034	3.43	....
1909	22,227,185	74,000,605	3.33	....
1910	21,563,782	68,102,732	3.15	....
1911	20,904,703	66,931,146	3.20	....
1912	24,766,835	77,401,931	3.12	....
1913	27,978,805	89,770,070	3.20	....
1914	25,650,383	89,781,221	3.50	....
1915	30,987,645	91,608,669	2.95	....
1916	32,451,740	144,756,763	4.46	....
Total	240,939,641	838,451,545	....	$3.47

The CHAIRMAN. In connection with the remarks of Mr. Cheney, I desire to lay before the committee a copy of a communication from Hon. Charles E. Hughes, on behalf of the Silk Association of America, which the clerk will insert in the hearing.

(The communication referred to by the chairman is here printed in full, as follows:)

MAY 10, 1917.

Hon. F. McL. SIMMONS,
Chairman of the Finance Committee of the Senate, Washington, D. C.

DEAR SIR: I have been requested by the Silk Association of America to write to you in connection with one phase of the war-revenue legislation which is pending before Congress.

In Secretary McAdoo's recommendations to Congress with respect to additional taxation to meet in part the extraordinary expenses of the war he recommended the imposition of an ad valorem duty of 20 per cent upon raw silk, and I understand that this recommendation has been adopted to the extent of recommending the imposition of an ad valorem duty of 10 per cent.

My firm represents, and has represented for some years, several of the large raw-silk importers and we are familiar with the raw-silk business, and if after due deliberation the Government should deem it proper to impose a duty there are two matters in connection with the proposed taxation which the Silk Association and we ourselves feel should properly be brought to your attention in order to avoid inflicting, though unintentionally, a serious injury upon the trade.

In the first place, there should be excluded from the imposition of the duty those importations already contracted for at the time when Secretary McAdoo's recommendations were made and which the importers had already in good faith contracted to sell to the manufacturers. There has never been an import duty upon raw silk and the Silk Association advises me that the first intimation the silk trade had that a duty might be imposed on raw silk was the recommendation of Secretary McAdoo to Congress.

The raw-silk trade consists for the greater part of the purchase and sale of silk for future delivery. The spot business comprises but a trifling percentage of the whole. In other words the silk manufacturers contract with the importers far in advance in order that they in turn may make prices to the jobbing and retail trade for goods to be manufactured and the importers in turn protect themselves on these sales by contracts to purchase the product of the filatures in China, Japan, and Italy. In consequence there is to-day raw silk contracted for by importers and resold by them to manufacturers throughout the United States which our clients advise us aggregate in value between $50,000,000 and $70,000,000. The filatures will begin in May to reel the so-called spring crop of cocoons, which is the largest crop and may be said to come in, according to localities, between May and the end of June, and a majority of the orders are against raw silk reeled from this crop for delivery during the next six months.

Sales are made for varying terms in advance, but the average probably does not exceed six months. If a duty is imposed upon the silk covered by these contracts it will greatly disorganize the silk trade and cause a loss, at the rate proposed, of between five and seven million dollars, the greater part of which will fall on the importers, provided they are financially able to bear it. In the case of those firms which are not financially strong enough—and these are many—the loss will, of course be passed on to the manufacturers, etc. It would seem but an act of common justice that these contracts should be protected; and although temporarily there will be a loss to the Government in duties, the Government will in the long run, I believe, fare better, having in view income, surplus profit, and various other local taxes, than it would by making the duty take effect at once upon all silk imports, with the consequent demoralization of the trade.

In the second place, the duty, if imposed, should be specific and not ad valorem. This question has nothing to do with the amount of the revenue to be raised. A specific duty can be placed at a figure which would produce an income equivalent to the 10 per cent ad valorem proposed, but from the nature of the business the ad valorem method is impracticable. To illustrate: A silk manufacturer wishes to contract with the importer for raw silk to supply his mills for the following season. He naturally wishes to have a fixed rate, so that he in turn can estimate the cost to him of the manufactured product.

The importer therefore makes a price to the manufacturer based upon the cost to him of the raw silk landed in this country, which, of course, includes duty, and protects himself on the sale by purchasing a like quantity from filature in China, Japan, or Italy. This price may be, for instance, $4 per pound c. i. f. New York.

Upon an ad valorem basis a 10 per cent duty would amount to 40 cents, making a total cost to the importer of $4.40, upon which he bases his price to the manufacturer. These contracts, however, are not made for immediate delivery but for delivery at some date in the future of at least 2 or 3, and possibly 8, 10, or 12 months. In the meantime the value of raw silk increases to $5 a pound, which is not an unusual circumstance, so that when the goods are finally imported the Government appraiser instead of fixing a duty of 40 cents, the basis upon which the importer made his price to the manufacturer, fixes the duty at 50 cents, 10 per cent of the then value of the goods, and the importer is compelled to shoulder the loss. If the market price of raw silk should decline, however, the importer would, as a rule, derive no benefit therefrom as the customhouse authorities require the importers to enter the goods at the invoice price, which in this case would be the contract price; but even if the importers did benefit it would not be satisfactory, as they desire to do business on a fixed basis and do not wish to speculate upon the fluctuations in the price of raw silk. They desire to sell at a fixed price and protect themselves against such sales by purchasing at a fixed price; and this, of course, could only be accomplished by having a specific duty which would not vary with the market price of the product itself.

This letter will be delivered to you by one of the members of my firm who, together with a committee appointed by the silk association, is going to Washington and will be glad to furnish you with any other or further information which you may desire in connection with the subject matter of this letter.

Very respectfully, yours,

CHARLES E. HUGHES.

The CHAIRMAN. The committee will next hear Mr. McCombs.

STATEMENT OF WILLIAM F. McCOMBS, REPRESENTING THE IMPORTERS OF RAW SILK.

Mr. McCOMBS. In answer to a suggestion of Senator Penrose as to the protection of the existing contracts for the delivery of raw silks made for people in this country, I think a solution of it would be, if it be the ultimate decision of this committee to have the act take effect, to provide that it shall not affect contracts heretofore made abroad for delivery of raw silk in the United States. I take it from what everyone has said before this committee that no one wants to avoid his fair share of tax necessary for the conduct of this war, and we are not here for the abatement of that privilege. But we can show that any industry will suffer ruin. We conceive we are rendering a patriotic service to demonstrate that fact. The power to tax, of course, involves a power to destroy, but the exercise of the power to destroy can not be in the minds of the members of the Congress, because due regard of course must be had to the preservation for the future of those instrumentalities which you shall tax. You may raise hugh sums of money this year for taxing purposes. You may tax anything you like, but you must be careful not to destroy any industry which may be capable of future taxation, for a corpse is incapable of paying a tax. I think from the remarks I have heard that that is your attitude. In the last 10 years, from 1907 to date, the industry under difficult conditions of competition has grown from $71,000,000 to $144,000,000. As I have said, it has been most difficult in competition with foreign countries, for no country imposes a tax upon raw silk. England, Italy, and France

are producers of raw silk, and they do not impose a tax upon that commodity, and I call attention to the fact that during this war they have rejected the proposition to tax it even as a war measure. England has placed an embargo on finished silk, but has left raw silk on the free list. I think it is fair to suggest that we follow the other countries at war at least in a conscious and serious attempt to promote industry in this country. I think it is economically necessary from the viewpoint of levying taxes for the future, because no man knows how long this war will go on, to keep industry alive, the instruments the Government may levy taxes upon, to keep them active and able to pay. Gentlemen, you can kill industry now if you like. But here is an industry that has never had any protection, that has come in competition with other imports, and its progress has been slow.

Let me call your attention to one thing. In the year 1916 Japan exported to this country some $8,000,000 in value of finished silk. Up to the present time in 1917 she has been exporting to us in competition with us $1,500,000 per month in value of finished silk. In former years she had exported very little finished silk to this country, and I am told on very credible authority that if Japan had the machinery to-day—and she has not it and she has agents in this country seeking it for the weaving of silk—she would export ten times as much as she is exporting now.

Senator THOMAS. Is that due to recent prices?

Mr. McCOMBS. It is due to Japan's ability to compete with us. I shall take the liberty of reading a section of the report to you, made by an American importer of silk after a careful investigation of Japan, dated Yokohama, February 12, 1917:

> We were especially interested in the throwing and weaving plants because our familiarity with those at home gave us a basis of comparison. While the machinery was very antiquated, the place was run on a rather modern scale and one could see that an effort was being made to consider the welfare of the workers. A factory visited employed 1,000 hands, mostly girls. We asked in great detail about labor conditions and were informed that dissatisfaction is entirely unknown. Imagine a condition where the hours of labor are from 5 a. m. to 7 p. m. with only one-half hour recess twice daily. They work seven days a week, the only holidays being the 1st and 15th of each month and three days at New Years. The wages range from a minimum of 17 yen per day, 8½ cents, for 13 hours' work, to 25 to 30 yen, $12.50 to $15 gold, per month for fore people. This pay is all they get. They must provide their own food, lodging, and car fare, and still they are happy, and are the healthiest, best fed looking people we have ever met of their class.

That is why Japanese finished silk is coming to this country, and they are sending it to us to the limit of their capacity to-day, and they are in this country seeking our own machinery to go back and increase the competition.

Senator THOMAS. Have their wages been reduced?

Mr. McCOMBS. I do not know, sir; but those are current wages in Japan.

Senator THOMAS. I have heard they existed before.

Mr. McCOMBS. Those are the wages stated here in this report. So that without a tax on the raw product the silk industry in this country is seriously menaced, and with a tax on the raw product it seems to be doomed.

Now, I turn to another phase of this question. Mr. Cheney has touched on it briefly. The raw-silk importers make contracts way

in advance, 6, 8, 10, or 12 months, for delivery in countries abroad, for delivery here. Those men make those contracts there and deliver here and get the money. As far as can be estimated, about $7,000,000 worth of raw silk is now under contract for delivery in this country during the next six or eight months. About $15,000,000 of capital are employed in this business. If the 10 per cent import tax is levied on raw silk at once the importers must pay in duty some $7,000,000. The importer, of course, must deliver this material to the manufacturer at the contract price. These contracts contain no provision permitting the importer to add to the contract price the amount of any duty. This bill as it stands will take half of the capital of the industry at once. That means bankruptcy. After that you have very little to tax left, if you have anything.

Mr. McCombs. On behalf of the importers of raw silk in the United States I will submit a brief for the consideration of your committee.

The Chairman. It will be printed.

(The brief referred to by Mr. McCombs is here printed in full, as follows:)

BRIEF ON BEHALF OF THE IMPORTERS OF RAW SILK IN THE UNITED STATES.

It is a safe assumption that every loyal citizen of this country is glad to have the privilege of paying his fair share of the expense of this war. The raw-silk importers of the United States do not come before this committee with any idea of the abatement of that privilege.

If it can be shown, however, that the imposition of an import tax will ruin a large American industry and spread a paralyzing influence to the manufacture of silk in this country, we conceive that we are rendering a patriotic service in demonstrating this fact.

The power of tax, of course, involves the power to destroy, but the exercise of the power to destroy can not be in the minds of the Members of the Congress. It is perfectly easy now to get money in huge amounts for the conduct of the war but due regard must be had for the industries of the country in order at least that they may sustain the burdens of taxation of next year and the years to follow. Excessive taxes placed on many industries, while yielding large revenue presently, will have the effect of destroying the source of revenue later. Scrupulous regard must be had during the course of this war for the preservation, as far as possible, of American enterprise and industry. This I take to be a serious duty of the Congress. Much more should it desire to avoid the adoption of any measure tending toward the confiscation or ruin of an industry. It is impossible to tax a corpse.

Raw-silk importers of the United States represent a business which has grown in importance in value from $71,770,374 in the year 1907 to $144,750,763 in the year 1916. This business has grown up under severe conditions of competition with the rest of the world. The United States is not a producer of raw silk. No duty has ever been imposed on raw silk by this country. Nor has any other country imposed a duty. Italy and France are producers of raw silk, and even these countries have, during the war, rejected the pleas of producers for protection. It has been rejected even as a war measure. The reasoning of these countries is that the imposition of such a duty would imperil the entire industry. England has placed an embargo on finished silk, but has left raw silk on the free list.

All these countries have conceived it to be vital that the silk industry be encouraged in every possible way. If the present bill is passed, this country adopts the reverse policy—a policy of destruction and ruin of this industry.

Let us first take up competition with Japan, a raw-silk producing country. The importation of finished silk from Japan in 1916 amounted to $8,442,847. In 1917 it will average more than $1,500,000 per month, or more than double the previous year. In former years Japan exported very little finished silk to this country. At present the only thing that prevents Japan from exporting to this country ten times and more of finished silk than it does is that it is handicapped by the fact that manufacturers there are not in position to get the necessary

machinery for turning out the finished product. Otherwise our entire trade would be disrupted. At this time there are Japanese agents in this country seeking American silk machinery to be sent to Japan for the purpose of making the finished product for the American market. Certainly a tax on the raw material would further handicap the industry in America.

I give you an interesting and illuminating extract from a report made by an American importer of silk, sent from Yokohama, Japan, February 12, 1917: "We were especially interested in the throwing and weaving plants because our familiarity with those at home gave us a basis of comparison. While the machinery was very antiquated, the place was run on a rather modern scale and one could see that an effort was being made to consider the welfare of the workers. A factory visited employed 1,000 hands, mostly girls. We asked in great detail about labor conditions and were informed that dissatisfaction is entirely unknown. Imagine a condition where the hours of labor are from 5 a. m. to 7 p. m. with only one-half hour recess twice daily. They work seven days a week, the only holidays being the 1st and 15th of each month and three days at New Year. The wages range from a minimum of 17 sen per day (8½ cents for 13 hours' work) to 25 to 30 yen ($12.50 to $15 gold) per month for four people This pay is all they get. They must provide their own food, lodging, and car fare and still they are happy and are the healthiest, best fed looking people we have ever met of their class."

I have given you the present condition of competition. Without a tax on the raw product, as at present, it is conclusive that the silk industry in this country is imperiled. With a tax on the raw product it is doomed. If the importers of raw silk in this country are put out of business, is it not pertinent to suggest that others of the Government's sources of revenue are reduced, namely, moneys derived from taxes in incomes and profits.

Now, I turn to a much more acute phase of this matter. The raw-silk importers make contracts with American manufacturers for future deliveries, the periods being from 6 to 12 months. In turn, to make deliveries, they purchase the raw materials in other countries. As far as can be estimated, about $70,000,000 worth of raw silk is now under contract for delivery in this country during the next six or eight months. About $15,000,000 of capital are employed in this business. If the 10 per cent import tax is levied on raw silk at once, the importers must pay in duties some $7,000,000. The importer must, of course, deliver this material to the manufacturer at the contract price. These contracts contain no provision permitting the importer to add to the contract price the amount of any duty. He is bound to deliver in the United States at the price named in the contract. The entire amount of any duty imposed on silk imported to fill such contracts must therefore be paid by the importer. It follows that the raw-silk importers of this country, if a duty of 10 per cent is levied, will at once sustain a loss of $7,000,000, which is more than 50 per cent of the total capital employed in the silk-importing trade. This would immediately spell their ruin. The maximum commission which they receive is 2 per cent. Most of their contracts are on a basis of 1 per cent. The proposed bill makes no provision for exempting deliveries under these outstanding contracts from taxation. It certainly can not be the purpose of the Congress with one stroke to confiscate an industry. From the Government's point of view, in respect of preserving industries which may be the source of revenue, such action would defeat its purpose.

Let me add a word in conclusion: Silk has ceased to be a luxury. The volume of business proves it. It has been found, for example, to be better economy to wear silk waists than linen or cotton. A hard twisted-silk waist, selling for $4, will outwear a linen waist which sells for $6, and a $1 silk waist will outwear three or four cotton waists. Therefore any argument for taxation on luxuries disappears, so far as silk is concerned. Furthermore, a yard of silk to-day is selling for less money than a yard of wool or linen.

The Congress should not lay a restraining hand upon the progress of a great and growing business in this country, which has developed under difficult competitive conditions and which is now struggling under conditions which are more and more difficult. It should rather, if revenue is needed, increase the duty on the finished product. It should go without saying that it will not impose a tax which, because of outstanding contracts for future deliveries of silk, will be retroactive in its nature and which will have the effect of confiscating the capital of the enterprise of the raw silk importers and destroy their business.

WILLIAM F. MCCOMBS, *Counsel.*

MAY 15, 1917.

Now, let me add a word in conclusion. Perhaps it is unnecessary, but as an answer to the argument that raw silk is a luxury and therefore should be taxed, I am satisfied I have advanced several reasons why it should not be done. Silk has ceased to be a luxury. The volume of business proves it. It has been found, for example, to be better economy to wear silk waists than linen or cotton. A hard twisted silk waist, selling for $4, will outwear a linen waist, which sells for $6; and the $4 silk waist will outwear three or four cotton waists. Therefore, any argument for taxation on luxuries disappears so far as silk is concerned. Furthermore, a yard of silk to-day is selling for less money than a yard of wool or linen.

Gentlemen, I can not believe that it can be the intention of the Congress to impose any taxes which may stop revenue-producing industries and which may throw large numbers of our people out of employment. Every American wants to pay a fair share, but let us not confiscate anything that America exists upon.

The CHAIRMAN. The next speaker is Mr. Dwight.

STATEMENT OF RICHARD E. DWIGHT.

Mr. DWIGHT. There was a question by Senator Penrose to Mr. Cheney which ought to be answered, whether the present unfortunate conditions could not be remedied by putting the date on which the tariff takes effect to some future time. In this country it should be understood that silk is reeled from the cocoons, and there is no silk supply which can be bought and imported so as to protect next year's industry against contracts. For their next year's silk they have got to depend on the present spring crop, and these contracts are sold against those crops. By July the cocoons will all be harvested, but they have got to be reeled before the silk is imported. The filatures are designed to be kept busy the year around, so that it would take them a great many years to reel the spring crop, so that the date would have to be quite far in advance. Otherwise the penalty would not be as severe as entire confiscation, but it would be nearly as bad. The fairest way would be to exempt contracts actually entered into, upon such regulations as the Treasury Department may prescribe. It is the only way the Government could get what they should and it would also protect the importers. Any other argument I intended to make is contained in the letter of Judge Hughes.

The CHAIRMAN. If that plan were adopted, would not it be better to allow them a rebate?

Mr. DWIGHT. Silk is very valuable; it is sold on a 1 or 2 per cent basis, and the amount of money involved would be very much larger than the entire capital: they would not be able to handle it. We would have to furnish the money in the meantime.

The CHAIRMAN. The next subject is coffee, and Mr. Adams will have 15 minutes.

Sec. 1001. COFFEE.

STATEMENT OF MR. A. A. ADAMS.

Mr. ADAMS. I am authorized to speak, gentlemen, for and on behalf of the coffee importers, the roasters, and the coffee merchants of New Orleans and the city of New York. It is not a hard and fast

organization; it is not an organization at all, except for purpose of this kind. There are several gentlemen here who are coffee men, and it may be that they will be called upon to answer questions of a purely technical character which they will be able to answer. Personally, I am not a coffee man; I am simply a lawyer whose knowledge of coffee results from employment as counsel to probably the greatest coffee merchants in the world. At any rate, we are not here asking or seek to avoid or evade any tax which this Congress in its wisdom may see proper to impose upon coffee. Our only purpose in coming here is to try if possible to render some assistance to this committee in understanding a rather complicated commodity, when it comes to taxation and the forms that have heretofore been followed in levying taxes against coffee and the change that is contemplated. We were apprehensive that the section of the House bill relating to the tax on coffee might have undue weight here, and we are here to say that obviously that section of the House bill was prepared as a result of a good deal of misinformation as to the exact conditions which obtained as to the commodity. The second provides:

> That upon all coffee or tea heretofore imported into the United States, which was held on May 10, 1917, or any day between such date and day succeeding the day this act is passed, by any person, corporation, partnership, or association (except a retailer who does not sell coffee or tea at wholesale), and intended for sale, there shall be levied, assessed, collected, and paid a tax of 1 cent per pound in the case of coffee and of 2 cents per pound in the case of tea.

I think the effect of establishing a date upon which this tax would automatically attach is excellent, because it was the day immediately prior to the reporting of this bill that there was no one presumably that had any information touching the subject and it automatically attached after the bill went through in this form. It stopped speculation. At the same time I want to call to your attention some of the obvious features of this bill which I do not think the House committee ever intended to incorporate as a part of the bill. It simply provides that any person, corporation, partnership, or association except a retailer who does not sell coffee or tea at wholesale—that means anyone who is a retailer—is exempt from the operation of this payment of 1 cent on stocks on hand. We have this suggestion to make: Mr. Chairman, you understand the difficulties when we get into court, and for that reason modern legislation has proceeded largely upon the line of making depositions. "Retailer" ought to be defined in this act as meaning so and so. The man who drew this provision contemplated the old-time grocer who served customers himself. We have grown now; a retailer may extend from Boston to San Francisco. I have in mind one that does project himself that far. It is a corporation, but it has something like 4,000 stores and probably carries a larger stock of tea and coffee than any wholesaler in the city of New York. There is another organization that makes the proud boast that it has the largest stock of coffee on hand of any one organization in this country, and they are retailers, and the only sales they make are from the tail of peddling wagons. The purpose of the House bill was not to exempt these men.

The CHAIRMAN. What is that organization?

Mr. ADAMS. The Jewel Tea Co.; and the other was the Great Atlantic & Pacific Tea Co. I think it well enough to exempt the good-faith retailer.

The CHAIRMAN. You say there ought to be a definition. Have you prepared any?

Mr. ADAMS. No; I have not, Senator. I was going to give the idea. My own notion was that there would be hardly two men who would agree. I think there ought to be a limitation as to how much ought to be exempted. I think a retailer in all good faith, if he has two or three or five hundreds pounds of coffee, he can not pass that on to the consumer without having trouble at once. The wholesale man sells to the retailer, and he can do it. So there ought to be some figure. I had in mind 500 pounds. Some people favor 600 pounds or 1,000 pounds, but that is a matter to be left to the judgment of the committee.

Then, in addition to that, I think another addition ought to be made if the section is retained there, provided it could be followed in the main.

Senator PENROSE. I think you ought to give to the committee some kind of amendment such as you refer to.

Mr. ADAMS. I would be very happy to make and submit a suggestion. I do not know that it would meet the approval of anybody else except myself. It is my own idea; it is not based upon a very large merchandising business, though I have been familiar with the business.

Another thing that ought to go in there along the line somewhere is another line of goods, which is not coffee, but which is advertised to take the place of coffee. As soon as you lay an embargo on coffee there ought not to be any escape for the coffee substitutes, who would immediately capitalize the fact that coffee is to become expensive and carry a large revenue tax, "whereas they have an article that is much better."

Senator PENROSE. Have you thought of any phraseology for that amendment?

Mr. ADAMS. I think I could suggest one.

The CHAIRMAN. Please incorporate that in your brief, also.

Senator PENROSE. You refer to Postum, and stuff like that?

Mr. ADAMS. That is the very point, when such things advertise as having no nerve-killing properties. Then, this bill expires, of course, by its own terms, on the day after the same becomes a law. That is admirable, too, because it fills up this interregnum between the introduction of the bill and the passage of the same. That is, as far as coffee goes.

Then, we find a 10 per cent increase in the revenue on the free list. Coffee is on the free list: it comes under the sweeping 10 per cent increase. There is really the most important objection. It might seem capricious for one to say 10 per cent ad valorem on coffee would be hard to compute, yet it would be very difficult to compute for this reason: As we know, there is not a pound of coffee grown in this country, and practically none in our insular possessions. There is a very little grown in the island of Porto Rico, but it seeks a market and finds a market in foreign countries: very little comes to the United States of America. But there should be, of course, in our judgment, an import duty of a specific character

and definite as to amount, because if you put an ad valorem tax on coffee you must put an ad valorem tax on the value of coffee, and the experience is that those taxes are always assessed upon consular invoices. Coffee is grown in Brazil, Venezuela, Colombia, Guatemala, Mexico, and many of the States in that locality. The difficulty about this method of an ad valorem tax is that you never know when your tax is put there that it will stay put. For instance, in Brazil, where, I suppose, 90 per cent of all the coffee that comes to the United States is grown, the money unit is the milreis. That normally is 28 pence.

They still express values in Brazil in terms of English money, which we regret, and we believe that eventually it will be expressed in dollars and cents; but it is equal to 54 or 56 cents. The value of the milreis changes every day, because the lower the value the higher the purchasing power. Thus you might make your contract and your consular invoice would show the coffee was of a certain value, and by the time it reached the port of New York there would be an entirely different value to the milreis. The same thing applies to Mexico. The peso, as we all know, has run the gamut from 2 cents to 50 cents, and you can not know what the day may bring forth as to the value of a peso, and so it is that we are confronted with those conditions which make it impossible to proceed upon an ad valorem basis to tax this product, for the reason that we do not know. Coffee transactions are made far in advance. Sometimes coffee is bought on orders in Brazil at a price definite and sometimes it is sold before it is brought to the seaport, in very large amounts. Those things would have to be practically abandoned for some other and different way, an easier way with less machinery and which will be easier for the coffee trade. It does not make much difference whether it is 1 cent, 2 cents, or whatever Congress may see fit to make it. Whatever they feel they ought to carry, the dealers readily acquiesce in. It should be a specific import duty which is easily collected at the port and that goes into the Treasury of the United States.

The CHAIRMAN. Can you tell us about what price per pound would be equivalent to the 10 per cent?

Mr. ADAMS. There is approximately shown the consumption in the United States; and when we buy coffee for delivery in another country—for instance, in Canada, much of the coffee used in Montreal is shipped through the port of New York, but it goes through in bond, and we pay no attention to it at all, but it is sold through the markets of New York. In this country, however, there has not been very much variation in the total consumption for the last five years. It has been a little in excess of a billion pounds a year. At 1 cent a pound that would produce in revenue $10,000,000, and multiplies as you go up. It has lately averaged more; I think it is a billion and fifty million, if I remember the figures. For that reason we know better with reference to coffee, because whatever is secured from an import tax upon coffee, a specific tax, is revenue. There is no protective feature about that. Those are features that make an ad valorem tax impossible, this violent fluctuation of the basis of the value in the countries from which they come.

Senator PENROSE. You referred to the substitutes for coffee. Are they used largely?

Mr. ADAMS. Yes, sir; they are used very largely. I am reliably informed that one substitute house spent $2,000,000 advertising their product.

Senator PENROSE. You would recommend that the committee levy a tax on the substitutes also, to equalize?

Mr. ADAMS. I think so. A gentleman who comes from Michigan accumulated in less than 10 years a large fortune from Postum.

Senator JONES. How much does the price of coffee vary per pound.

Mr. ADAMS. I do not know.

Senator JONES. What is the difference in the price of the various grades of coffee?

Mr. BANES. In the brand of coffee which is used most in this country under normal conditions there would be a difference of about 3 cents a pound. There is not so much of a difference between the lowest grades we are allowed to import into this country as against the highest grades.

Senator JONES. What is the lowest priced coffee you import?

Mr. BANES. The lowest to-day would be about 9¾. The Government fixes it as a No. 8.

Senator JONES. What is the highest?

Mr. BANES. The highest runs up to a No. 1, and those differences are controlled by the greater demand for the one as against the other under market conditions. That applies to Brazilian coffees only; but when we come to the North and South American coffees, like Venezuela, Colombia, Nicaragua, Porto Rico, Costa Rica, the variations would be 4 or 5 cents between the lowest grade and the highest.

Senator JONES. You still do not get my point. What is the lowest price of coffee you import from any country to-day?

Mr. BANES. Nine and three-quarters.

Senator JONES. What is the highest price to-day you import from any country?

Mr. BANES. That would run up to 22½—Java.

Senator JONES. Then, if you levy a tax of so much per pound, you would be levying about twice as much on the 9-cent coffee as on the 22-cent coffee?

Mr. BANES. Yes. The difference between the assessors and the customhouse on the ad valorem would give an unlimited amount of discussion and trouble.

The CHAIRMAN. Mr. Seelye, you may proceed.

STATEMENT OF MR. FRANK R. SEELYE, OF CHICAGO, ILL., PRESIDENT OF THE NATIONAL COFFEE ROASTERS' ASSOCIATION.[1]

(The following statement was made to the committee on Saturday, May 12, 1917, and transferred here in order to group all matters pertaining to Title X:)

Mr. SEELYE. Mr. Chairman, the National Coffee Roasters' Association is composed of over 200 coffee roasters in the United States.

I wanted to call your attention to section 1000, the twenty-first line, which places coffee on the duty list, "and if not now dutiable by law, a duty of ten per centum ad valorem;" and section 1001, on

[1] This argument was transferred from page 185.

page 48, which places a specific revenue tax of 1 cent per pound on coffee. It is not clear to the gentlemen interested in the coffee business as to whether there is a double tax here of a 10 per cent ad valorem duty on coffee coming into this country, and, in addition to that, a 1 cent a pound tax on coffee after it gets into the country for distribution.

Senator SMOOT. There is no question but what the bill provides for both taxes. So speak along that line.

Mr. SEELYE. We would respectfully suggest that we would prefer a specific tax of a specific amount on coffee. If it is necessary to add 2 cents a pound to coffee and raise the tax, we would prefer a specific tax of 2 cents a pound on the coffee.

Here is another point. In the first line of section 1001, "That upon all coffee," it does not say whether that coffee shall be green or roasted. In roasting coffee there is a shrinkage of 15 per cent. So that if we pay 1 cent a pound on green coffee, it is equivalent to a cent and a quarter on the roasted, and it should be definite as to whether the coffee is roasted or green.

In lines 5 and 6 it exempts retailers who do not sell coffee or tea at wholesale. The retailer here is not defined clearly enough, but a large portion of coffee now in the United States would be exempt from taxing. There are large so-called retailers who carry a larger stock than the average coffee-roasting merchant who, under the wording of this bill, would be exempt from taxation. I have here a list of importers in the cities of New York and New Orleans last year, of which two of those so-called retail concerns stood seventh and ninth on a list of 176 importers, showing that they were exceedingly large importers.

As to the method of collecting the tax, refer to page 49, section 1102, lines 22, 23, and 24 [reading]:

> The tax shown to be due by such return shall be collected by assessment or paid by stamp, as the Commissioner of Internal Revenue may determine.

There again we ask that a specific tax of a certain amount be levied on the coffee, so that we may know exactly what it is.

With regard to the amount that the Government will collect from this tax, we are coming in now to the largest crop, possibly, that the world has ever known—at least, one of the largest—with a falling market. On an ad valorem duty the Government would receive less revenue ad valorem than it will if it levies a specific tax on the coffee. The great majority of coffee imported into the United States is Brazil coffee. Brazil is the country that raises the largest crop. Out of 8,250,000 bags imported into the United States last year, only 1,872,000 bags were of the high grade—what we call milds, higher in costs than Brazil coffees. So that there is really one-fourth of the total imports mild coffees, and all the rest are the grades in which you are going to have a falling market during the next year. So that if you put an ad valorem tax on it, you are going to cut the revenue from the Government.

Senator GALLINGER. What makes you think there will be a falling market on anything?

Mr. SEELYE. Two reasons: One is that we are going to raise the largest crop of coffee the world has ever known. The second is that the largest users of coffee, the central empires, are shut off from

receiving coffee. The United States of America is practically to-day the only customer that the coffee-growing countries have. England does not use coffee: she uses tea. France uses some coffee. But the United States is the great coffee-using country.

Senator GALLINGER. The price has been kept up pretty well up to date.

Mr. SEELYE. No, sir. Your prices have been receding.

Senator SMOOT. The retail prices are a little higher than they were a month ago.

Mr. SEELYE. I think not.

Senator SMOOT. I know what I pay for it.

Mr. SEELYE. There is a 25-cent retail coffee being put on the market to-day that was not there three months ago.

Senator GALLINGER. It is an inferior grade.

Mr. SEELYE. There is one other point I wanted to call to the attention of the committee, and that is this: This is a revenue measure for the purpose of raising funds. If coffee is taxed and tea is taxed, it seems to us that the substitutes for these articles should be also taxed. The National Coffee Roasters' Association passed the following resolution, which they asked me to present to the committee [reading]:

The National Coffee Roasters' Association, through its executive committee, in view of the agitation for a duty on coffee, most respectfully suggest that in the event it be found necessary to levy an impost on coffee, then a tax in equal amount be levied upon other commodities used in preparation of beverages that are offered for public consumption as a substitute for or displacement of coffee.

With regard to the definition of a retailer, I have pointed out here the men who call themselves retailers and advertise themselves as retailers. We would respectfully suggest that in the bill a definition of a retailer be given as one who has, say, 200 pounds of coffee on hand, not to exceed 200 pounds on hand, or not to exceed 100 pounds of tea. That is merely arbitrary. That could be made 500 pounds of coffee and 250 pounds of tea. The thing is to catch the merchant like the large department stores, the mail-order houses, the soap clubs, and the chain stores, who are actual retailers, and do not handle coffee at wholesale, and who strictly come under this definition of a retailer, but under this would be exempt.

I beg leave to submit herewith a brief in regard to this matter and ask that it may be printed.

The CHAIRMAN. That will be done.

(The brief referred to by Mr. Seelye is here printed in full, as follows:)

WASHINGTON, D. C., *May 12, 1917.*

Hon. F. M. SIMMONS,
United States Senate.

MY DEAR SENATOR: Pursuant to the request of your honorable committee, we herewith submit a brief of our statement in reference to House bill 4280.

Section 1000, page 47, prescribes that coffee and tea, which are on the free list, will pay under this act 10 per cent ad valorem.

Section 1001, page 48, prescribes that there shall be a tax of 1 cent per pound on stocks held in this country May 10, 1917, "except a retailer who does not sell coffee and tea at wholesale." The framers of this act undoubtedly intended to tax the large holdings of coffee now in first hands in this country, estimated at over 5,000,000 bags.

We think the sections should be clearly defined so as to avoid double taxation. Section 1001 should automatically discontinue when the 1-cent tax on stocks

of May 10, 1917, have been assessed and collected. Coffee should not bear a tax in excess of 1 cent per pound.

A retailer should be defined more clearly. There are corporations operating thousands of chain stores, mail-order houses, soap clubs, peddling concerns, all advertising themselves as retailers, and not selling at wholesale but selling direct to the consumers, who carry larger stocks and have greater distribution than many wholesalers and roasters, who under the present wording of this section would be exempt from this tax.

A retailer should be defined in this act as one carrying not to exceed 500 pounds of coffee and 200 ponds of tea.

We recommend that another section be added to the House bill 4280 taxing coffee substitutes, bearing in mind that they pay a larger per cent of gross profits than coffee, and bear no import taxes, as they are composed solely of compounds made from cereals and other goods produced exclusively in this country, that under this act would escape taxation.

Respectfully,

National Coffee Roasters' Association,
Frank R. Seelye, *President.*
Thomas J. Webb,
Chairman Legislative Committee.

Mr. Seelye. Gentlemen, that is all I have to say, and I thank you.

The Chairman. The next subject is rags and paper stock.

Mr. Overton has five minutes.

Sec. 1000. RAGS AND PAPER STOCK.

STATEMENT OF MR. FRANK C. OVERTON, ASSOCIATED DEALERS OF NEW YORK AND NATIONAL ASSOCIATION OF WASTE MATERIAL DEALERS.

Mr. Overton. I wish to present two points in connection with the grade of material which we handle and in connection with the duties here imposed upon rags, bagging, jutes, and waste for the manufacture of paper. One point is that the majority of this material that is imported comes from France, Germany, and Belgium. They are all practically shut out at present and it now comes from Holland and Scandinavia and some little bit from France. There is no regular market value for that material and there never has been a regular market value. I have known prices to vary $1, $2, $3, and $4 a ton in the same locality. With the present difficulties and delays in shipment we sometimes do not get our goods for three, four, and five months after they are purchased.

Ad valorem duties are assessed upon the market value of the goods at the time the goods are shipped. It has been almost impossible to determine what that market value was. There is no market value, such as there is with copper and other metals or stocks, and there is a continuous discussion between the appraiser and the importer. If they would simply let us invoice it upon a regular consular invoice we would know where we were at. But we do not know where we are at. We are liable to be advanced in duties with a penalty; and my plea here consists of just two points: One, that you make our duty specific, so that when stuff comes over here we will know it is so much per pound or per hundred pounds or whatever the case may be.

The Chairman. Have you figured that out? How do you expect us to figure it out? We do not know anything about that at all.

Mr. Overton. The Secretary of Commerce has the full list of the imports and the values of the same for years back. If you are going

to take that up. I might say that in 1916 the value was twice what it was the year before——

The CHAIRMAN. Suppose you figure it out for us, and then we will have the Secretary of Commerce verify it.

Mr. OVERTON. All right; I shall be very glad to do that. I will send it here and send a copy to Secretary Redfield, if you please.

The CHAIRMAN. When it is submitted the clerk will have it printed with your remarks.

(The brief referred to by Mr. Overton was subsequently submitted, and is here printed in full, as follows:)

To the Committee on Finance of the United States Senate.

GENTLEMEN: In connection with the bill pending whereby it is proposed to advance the duty 10 per cent ad valorem on imports, the undersigned beg to present herewith for your consideration two recommendations covering such commodities as rags, bagging, waste, waste paper, pulp, etc.

First. We do not ask for any discrimination in our favor relative to the amount of duty to be paid upon the articles before mentioned, but we most earnestly urge that such duties as are assessed be made specific instead of ad valorem.

We realize that under present conditions an extra revenue is absolutely essential, and we enter no protest against the assessment of duty on such materials as we import and which have hitherto been on the free list, but if the duty is made ad valorem instead of specific the doors are being opened to litigation, which will be expensive to the Government, as well as to the importer. There is no standard price for rags, bagging, waste, and other commodities used as raw material for the manufacture of paper and the market values vary largely in the different countries of origin. These facts, taken into consideration with the present uncertainties of shipments, will make it a most difficult matter for either the importer or the customhouse appraiser to determine the correct market value of the goods abroad at the time of shipment.

We further believe that with specific duty the Government will receive a larger income than they would by imposing an ad valorem duty, for the reason that the importer can then figure out exactly what the cost of his material would be and would have more confidence in placing his orders abroad than would be the case were the duties assessed on an ad valorem basis, with all its uncertainties and possibility of litigation and penalties. We have confidence that the appraisers at the customhouse, and also the legal department, will corroborate our statements relative to the difficulties in determining values on an ad valorem basis, and under present conditions these difficulties would be immeasurably increased.

As to the actual amount of specific duty to be assessed, we hesitate to make recommendation, but we confidently believe that if it is made high the result will be an immediate heavy curtailment of imports and a consequent falling off in proposed revenue. It was clearly demonstrated last year by the campaign made by the Secretary of Commerce that this country can furnish sufficient raw material for paper making, to practically supply the requirements of the mills, and high prices, brought about by high duties, will promptly stimulate the domestic collection to the exclusion of the imported, and the Government will defeat its own purpose so far as a revenue is concerned.

Second. We would also respectfully request that the new law be made applicable only to merchandise purchased subsequent to the date of this hearing, say, May 15.

There are many contracts placed abroad for merchandise which has been sold for delivery in the United States, and should merchandise covered by such contracts be made dutiable the importers will be called upon to bear a loss which could not be contemplated. This would work a hardship upon importers which should in all justice be avoided if possible.

Importers could file certified copies of all outstanding purchases, so that contracts placed after a specified time would properly pay duty.

We do not ask for exemption from duty on all contracts placed prior to the passage of the bill, as we realize that this would give an opportunity for speculation during the period between the time when the measure became known to the public and its final enactment into law; but we do consider it a reasonable

and proper request that purchases made prior to the public hearing on the proposed measure be made exempt—such exemption to be safeguarded by the Government by requiring the importers to file with the proper authorities a full list of all purchases upon which they claim exemption, together with necessary vouchers to substantiate the correctness of their claims.

The whole object of this brief is not to avoid to the slightest degree our proper contribution to the Government in the way of duties, but—

First, that the duty on rags, bagging, wastes, paper stock, etc., now free under sections 408 and 566, be made specific instead of ad valorem; and, second, that purchases made prior to May 15 be exempt from duty.

We believe these requests to be eminently just, fair, and reasonable, and respectfully urge that your honorable body give same your careful and favorable consideration.

Respectfully, yours,

ASSOCIATED DEALERS IN PAPER MILL SUPPLIES OF NEW YORK.
NATIONAL ASSOCIATION OF WASTE MATERIAL DEALERS,
FRANK C. OVERTON, *Chairman.*

Mr. OVERTON. The other point is this, whether when these duties are assessed you can not see your way to make them apply on purchases subsequent to the date of this hearing, if you please. There are contracts abroad based on our gross profits on this material, free from office expense and everything here, very much less than your duties.

The CHAIRMAN. I did not mean to intimate that your statement was not correct but simply suggested a verification.

Mr. OVERTON. That is all right. What I want to know is whether this duty can not be made to apply from the date of the enactment of the law?

(The hearing was suspended at this point to permit members of the committee to respond to a call of the Senate.)

The CHAIRMAN. Now, Mr. Overton, you may proceed with your statement. In order that you may not be prejudiced by the fact that we had to interrupt you, if you need a little more time you may take it.

Mr. OVERTON. Thank you, Mr. Chairman. To sum the whole matter up, our request is, first, that the duty on rags, bagging, wastes, paper stock, etc., now free under sections 408 and 566, be made specific instead of ad valorem; and, secondly, that contracts entered into prior to May 15 for import be exempt from the application of the new law.

Just one other point. The prices on paper stock during the past year have been very much higher than they were under normal conditions, so much higher that Secretary Redfield started a campaign, as you gentlemen probably know, in order to bring out the raw stock in this country, and he came pretty near doing it, too. The result is that prices have gone down a little in the past few months. It depends a great deal on where the committee gets its data in order to arrive at specific value. If you get it too high the goods will not come over. There is not any question about it. It has been demonstrated that this country can furnish the goods if necessary, and if they take the high tariff and figure it on the 10 per cent basis it will simply mean the imports will not come in, because with the present high rates of war risk, freight, and everything, it is light now.

Therefore I believe that unless you do go at this matter in a conservative way, instead of the Government deriving revenue they will find the importations will cease and the domestic supply will supply the mills.

That is all I have to say, gentlemen. May I leave this memorandum?

The CHAIRMAN. Yes, sir.

Mr. MacGlashan will have eight minutes on wall board.

STATEMENT OF WILLIAM F. MacGLASHAN, PRESIDENT OF THE BEAVER BOARD COS., BUFFALO, N. Y.

Mr. MACGLASHAN. Mr. Chairman and gentlemen of the committee, I wish to show the effect of a horizontal advance of 10 per cent in the present import duties on fiber in rolls used as a semiraw material in the manufacture of wall board in this country. The firms represented are the Beaver Board Cos., of Buffalo, and the Upson Co., of Lockport, N. Y. Inasmuch as the Upson Co. are unable to be present I submit their telegram:

As manufacturers of wood pulp and wall board we vigorously protest against the indiscriminate additional tax of 10 per cent on importations of pulp board in rolls. Wall board is used for lining building materials, also as a substitute for lumber in many places. Wall-board industry is young and highly important to country, because it helps conserve supply and price of lumber. Can not increase wall-board prices to point necessitated by proposed tariff and other war taxes without jeopardizing industry. There is not enough wood pulp manufactured in United States for wall board and other paper and fiber products, hence absolute necessity of importing from Canada. We have considerable number of contracts based on present tax, and proposed increase of 200 per cent would work havoc and loss to our company. We are willing to accept reasonable increase, but believe proposed duty is excessive and unfair. Believe Canada would enact retaliatory tariff or prohibit exportations of wood pulp if proposed tax enacted.

Just prior to the application of the Underwood tariff the Beaver Co. started the construction of a raw-material plant at Thorold, Ontario, on the Welland Ship Canal, at a time when such material came into this country free of duty under the reciprocity act. We had reason to feel it would always be entered without duty. We recognized Canada's position to furnish pulp and fiber to the United States. We appreciated the advantage to this country to secure such supplies, and also the success of the Newspaper Publishers' Association to secure their paper supply from Canada free of duty. The Underwood tariff, however, placed our semimanufactured product on a basis of 5 per cent duty, in the same class with roofing and sheeting papers, both of which are finished or completed manufactured products.

The company by good management and manufacturing economies helped to offset the 5 per cent duty. To-day, however, we are threatened with the impracticable proposed increase of this duty amounting to 200 per cent, which we are unable to cope with, and we respectfully lay before you a situation so serious as to demand your favorable action for relief. If we are to have the hope of any financial or other benefit to our country, we must be permitted to continue our business existence. In this respect, I believe, we speak for the entire business of the country.

It is not only our duty but our desire to contribute our share of funds to assist the Government in meeting its expenses. We are most agreeable to giving such portion of the fruits of our endeavor, but we do not wish to have the tree cut down that bears the fruit. The axiom of the goose and the golden egg is most appropriate here.

The proposed increase of duty from 5 to 15 per cent, an increase that amounts to 200 per cent, applies to a present production of fiber at our Thorold plant of between 130,000 and 140,000 pounds a day, and by the end of next month its output will be further increased. Machinery and equipment have been on order for the past three to six months to completely double the production of the present tonnage, the same to be ready about the first of the year.

These figures give you an idea of the fiber largely intended for our Buffalo plant, and as such subject to this duty. The increasing cost of manufacture, due to labor and supplies, such as coal, etc., has been and is greatly forcing up the cost of paper to a point where this proposed increase will bring the duty up to $6 per ton.

The Thorold Co. has a contract with a Buffalo company to sell its entire output for a period of 10 years at a profit over manufacturing cost of $5 a ton. This proposed increase of duty would more than double the cost to the Buffalo company at the price it pays over the manufacturing cost.

Manufacturing costs themselves have reached the danger point, and burdens beyond this are not consistent with any hope of existence. Beaver board, the finished product, is sold in competition with lath, plaster, and other wall coverings. It is sold in competition with other wall boards, all of which obtain their raw material in the United States, with the exception of the Upson Co., who look to Canadian sources. American materials used by others are cheaper materials.

We can not increase our selling price to absorb the increased duty without increasing the differential of competitive prices to a point where the drop in sales would force up selling costs and overhead to a point that would make for losses.

The Thorold plant of the Beaver Board Cos., with this additional equipment, would be subject to a daily charge of $840 for duty. A charge of $840 per day—a charge in excess of a quarter of a million dollars a year—for duty for one plant of one company on a semiraw material to be manufactured in the United States is contrary to all traditions of the tariff in this country. It is a big burden for one concern to attempt, in addition to the foreign taxes, local taxes, New York State profit tax of 3 per cent, the Ohio tax on capital, and the proposed profit tax of the United States Government. In addition to this, we would be subject to the taxes mentioned this morning, inasmuch as we are large advertisers and users of the United States mails, and require quantities of paper in the conduct of our business.

This proposed increase in tariff is so out of reason that it would kill the benefit which it is proposed to create. We will be forced to use and prepare our raw material, somewhat changed, in the United States, which would automatically shut off a part of the duty as revenue and would further threaten the raw material supply in this country. It would certainly dwindle our profits, which would minimize the Government tax on profits, and would probably cause Canada to take some action to protect her industries which would not be to the benefit of the States.

We believe that the idea of taxing raw and semifinished material is fundamentally and absolutely wrong, both in theory and in practice. It works an injustice, and so great are the ramifications of general business that the paralyzing of one branch of it creates a

disturbance and slowing up in other branches. We realize this country has a great task ahead of it, particularly viewing the situation in the light of Russia's present unorganized condition. It is imperative that we sustain ourselves as self-contained units. The one great lesson that the entente allies are trying to teach us is to keep up our business and industry so as to be the greatest help to ourselves and to our allies. France, though pressed harder than any other nation in this great conflict, realizes the necessity of doing her utmost to keep up her industries, and never a tax has been suggested or even thought of to apply to her raw or semifinished materials. It is industrial and financial expansion, and not contraction, that must fight this war for democracy and civilization. We do not believe that a horizontal 10 per cent increase that in its application increases semiraw material 200 per cent, and on the other hand increases a highly manufactured article only 16⅔ per cent, will be sustained by your good judgment.

We do not want to see any industry jeopardized. I believe that we all look at the problem in a broad way and do not want to see any group of men hit. I believe we are all willing to have our profits taxed to even a greater extent than that suggested, and the same also applies to our income. And labor this morning expressed its willingness to so participate by lowering the exemption limit.

If, however, in your good judgment, gentlemen, customs receipts must be increased, I pray you will see that the same ratio of duties that have existed in the past shall be maintained, and not permit an increase on one commodity to a greater percentage than on others. I subscribe to the statement made by Mr. McNerney this morning in regard to the present or future supply of pulp, and that we must look to Canada to help us out and keep the door open and thus conserve our own supply. I further subscribe to the statements made that we are ready to pay any amount of tax necessary on our incomes. By such a plan we would at least exist. We would be living factors producing revenue for the Government. If, on the other hand, our industry or any other industry is put out of business, our usefulness ceases and an additional burden is placed on those concerns that remain in business.

I further request that concerns like ourselves that are spreading their manufacturing industry in foreign countries and are now paying taxes on profit to support the entente allies, be not taxed again for any money that may be left to be brought into this country.

I desire to place in the record a brief on behalf of the Beaver Board Cos., which explains our matter.

I thank you.

(The brief referred to is here printed in full, as follow :)

STATEMENT OF THE BEAVER BOARD COS. TO THE FINANCE COMMITTEE OF THE UNITED STATES SENATE.

Concerning the effect of the proposed horizontal advance of 10 per cent on the import duty from Canada on pulp fiber in rolls used as a semiraw material in the manufacture of wall board:

We consider it not only our duty but our privilege to contribute our share of funds to assist the Government in meeting its war expenses.

To pay our share we must be permitted to continue our business existence; by so doing we exist as factors to produce revenue.

The proposed horizontal 10 per cent increase is confiscatory and ruinous to many industries and will destroy their capacity to assist the Government, and thus throw additional burdens on others.

Just prior to the enactment of the Underwood bill our semiraw material (pulp or fiber board in rolls) came from Canada to our manufacturing plant at Buffalo free of duty. The Underwood tariff classified it with roofing and sheathing (both finished products with a 5 per cent duty), although our product is semimanufactured.

Wall board is sold in competition with lath and plaster, lumber, and other coverings made from raw material procured in the United States. The present duty of 5 per cent is all the business will stand, as the advancing costs of manufacture are now interfering with sales.

We can not increase our selling price to absorb such increased duty without increasing the differential of competitive prices to a point where the drop in sales would force up selling costs and overhead that would make for losses.

A horizontal increase of 10 per cent on our present duty, which in its application increases the duty on our semiraw material 200 per cent and, on the other hand, only increases highly manufactured articles 16⅔ per cent, is discriminating and fundamentally unfair.

The present importation from our Thorold, Ontario, plant is close to 140,000 pounds of fiber per day. Additions are under way to double the capacity soon after January, 1918.

On this increased tonnage our Buffalo plant would be subject to a duty charge of $840 a day, or more than a quarter of a million dollars per year, in addition to the payment of all other taxes.

The proposed duty is figured at $6 per ton on a semiraw product. The Thorold plant has a contract with the Buffalo plant to sell its entire production for a period of 10 years at a profit of $5 per ton. The proposed duty increase would more than double the price the Buffalo plant pays over manufacturing costs.

The proposed duty would defeat its own purpose. It would force us to change in part to the raw materials obtainable in the United States which would automatically reduce the duty as a source of revenue; would further shorten our country's raw material supply; would reduce profits and, therefore, the tax on profits would probably cause Canada to take some action to protect her industries by prohibiting the exportation of pulp wood; a most serious situation as indicated by the present newspaper shortage.

We are agreeable to giving such of the fruit of our endeavor as is necessary but we do not wish the tree cut down that bears the fruit; the axiom of the goose and the golden egg is most appropriate.

France, though pressed harder than any other nation in this great conflict, realizes the necessity of conserving her industries, and purposely refuses to tax all raw or semiraw materials imported.

We respectfully ask that this war or revenue bill be amended as follows:

First. To increase the tax on profits and incomes in lieu of the increase in duty thus following the example of England and the general recommendations of many who have studied the bill.

Second. If, however, custom receipts must be increased we recommend that they be increased on a percentage basis so that the same ratio of duties will be continued.

Also what is left of foreign profit on American enterprise after taxation by our allies should not be subjected to further tax when brought into this country.

THE BEAVER BOARD COS.,
WILLIAM F. MACREASHAU,
President.

Gentlemen, I thank you.

The CHAIRMAN. Mr. Jamison will have five minutes on the subject of future sales.

STATEMENT OF MR. T. E. JAMISON, PRESIDENT OF THE ROANOKE GROCERY & MILLING CO., ROANOKE COFFEE & SPICE CO., AND SALEM GROCERY CO., OF ROANOKE, VA.

Mr. JAMISON. Mr. Chairman and gentlemen of the committee, I ask permission to discuss the subject of futures, and I want to explain that in this way: I do not mean what is known as futures

on the stock market. I am a dealer in futures of actual merchandise, and what I want to find out, as the Congressman said, is "Where am I at?" I don't know now "where I am at."

The bill as introduced, section '001, says that upon all coffee or tea heretofore imported into the United States, which was held on May 10, 1917, or any day between such date and the day succeeding the day this act is passed by any person, corporation, partnership, or association (except a retailer who does not sell coffee or tea at wholesale), and intended for sale, there shall be levied, assessed, collected, and paid a tax of 1 cent per pound in case of coffee and of 2 cents per pound in the case of tea.

Now, with this bill in its present shape, what provision has been made for the merchants, wholesale grocers, and dealers who sold coffee prior to May 10, in perfectly good faith, to the retailer. There is no hope for the manufacturer who sells the retail dealer or the jobber who sells the retail dealer. He must suffer a loss of 1 cent per pound, for which no provision has been made.

Take my own case. I have sold considerable coffee for future delivery. It is a custom of the trade. I have been in the wholesale grocery business since May 18, 1890. I believe that is 27 years this month. In all that time it has been the custom of the trade to sell goods for future delivery. It is a custom that has been established for more than a quarter of a century. Now, we will say that in February we sold goods 60 days ahead; that is the limit. We would not sell coffee for shipment later than 60 days, but our salesmen go around and take an order to-day, for instance, for immediate shipment, a second order for 30 days, and a third order to be shipped within 60 days.

Now, we have that coffee, you understand, to cover those sales as we made them. I have in mind a purchase that I made from an importer on May 8—the contract was made on May 8. He did not ship the coffee; he could not get cars perhaps. That coffee was shipped on May 11. Now, who should pay the tax on the coffee? I have sold that coffee. In other words, I have sold coffee out of my stock to the retail dealer, and I keep my sales covered as I go along. We have a record that is tabulated, and we keep up strictly with our sales. We always try to have on hand more goods than we have sold.

Now, I do not protest against the tax. I do not want to give you that impression. I do not object to it in the least. What I do object to, and the only feature I object to is this, that I do not want to suffer loss. And I am not the only one. I do not want the people in my class that do that character of business throughout the country to suffer loss without any way to get it back.

Senator THOMAS. What change in the phraseology of the bill would you suggest?

Mr. JAMISON. This bill is a little bit peculiar——

Senator THOMAS. I noticed that myself.

Mr. JAMISON. I had thought this—will you allow me to make a suggestion?

The CHAIRMAN. We want suggestions.

Mr. JAMISON. I suggest that, in line 6, page 48, after "except a retailer who does not sell coffee or tea at wholesale," you insert "not sold prior to said May 10."

Now, I am invoicing. On all my coffee I am sending out that is sold prior to May 10 I am putting on the invoice the date it was sold, and carrying that number right onto my ledger, so that any time you want to come and look at my books you can see just what amount of coffee was sold prior to May 10. As soon as I saw this in the newspaper I immediately changed my system. All coffee sold prior to that time carries with it the date it is sold and the date it is going out. Now, I do not believe it is fair, gentlemen, to tax coffee that has already been sold in good faith.

I argued a case before the Interstate Commerce Commission, which it was my duty to argue as president of the Manufacturers and Jobbers' Association of Virginia, with reference to future sales of evaporated fruits and beans and canned goods. There is a custom in the wholesale grocery trade throughout this country—and I want to impress upon you gentlemen this: Don't disturb the future sales, because if you do you are going to upset the whole commercial fabric of this country. The Interstate Commerce Commission first refused to give us a hearing on a transcontinental increase of rates on California food products purchased in March or April that could not be harvested and shipped until atfer the rate went into effect. We impressed upon the Interstate Commerce Commission this fact: That if we disturb that peculiar condition at this particular time the jobbers would refuse in the future to take orders for future delivery. Therefore the farmer would not know how to plant, and the canner could not contract acreage for canned corn, beans, or any other line of goods. My opinion is that if the future contracts of this country are disturbed the people will suffer loss by it, and it is going to upset the whole commercial fabric.

Senator THOMAS. Of course you mean bona fide contracts for goods for actual delivery?

Mr. JAMISON. I mean goods bought under bona fide contracts for future delivery. I contracted for Maine canned corn and other corn when snow was on the ground, because the manufacturer would go out and sell his corn for future delivery; the jobbers will buy beans for future delivery, and the farmers continue to plant and contract for more acreage on the basis of future delivery until they sell a certain amount. That is what I want to bring before you, gentlemen. Do not cause the people who have sold goods in good faith to suffer loss by imposing upon them a tax now.

Senator THOMAS. I think your point is pretty well taken, but I do not catch the phraseology which you suggest should be substituted.

Mr. JAMISON. I am not a lawyer; I am a layman, and you are familiar with this business of legislation.

Senator THOMAS. I would like to have you suggest some phraseology to insert in this section which will relieve you from the danger.

Mr. JAMISON. I have suggested——

Senator THOMAS. I did not catch it exactly.

Mr. JAMISON. I have suggested this: "Except a retailer who does not sell coffee or tea at wholesale, and not sold prior to said May 10." That will give that man an opportunity to ship his goods that he sold in good faith.

Senator THOMAS. In other words, charge on that he has unsold on May 10?

Mr. JAMISON. Anything on hand which is not sold. We are perfectly willing to pay the tax on that. I do not want to pay a tax on what I have sold in good faith, but I am perfectly willing to pay a tax on anything that is not sold in my warehouse or in any warehouse or in that of any people whom I represent—and I represent a good many jobbers—and they are perfectly willing to pay the tax on any goods they have on hand May 10 that were not sold prior to this notice.

The CHAIRMAN. Your time is out.

Senator PENROSE. The committee understands he may submit a brief in addition to his remarks here orally.

Mr. JAMISON. There is one thing, Mr. Chairman, which Mr. Adams touched on, but did not finish, and that was coffee substitutes. I believe that all substitutes for coffee, such as chicory or cereals or any cereal sold as a substitute for coffee should carry the same tax.

Senator THOMAS. Would you have that apply to any substitutes for tea, if there are any?

Mr. JAMISON. I do not know about tea. But there is an enormous number of substitutes for coffee.

Gentlemen, I thank you for your attention.

The CHAIRMAN. We will now hear Mr. Stowe, representing the flaxseed oil interests, for three minutes.

Sec. 1000. FLAXSEED OIL.

STATEMENT OF MR. FRANKLIN B. L. STOWE, REPRESENTING SPENCER, KELLOGG & SONS, BUFFALO, N. Y.

Mr. STOWE. I wish to relate a few facts which I think will concretely illustrate the burden that is fixed upon another industry by the proposed import duty, which industry has not been mentioned in the discussion to-day before this committee, and that is the industry of the manufacture of linseed oil, which, in fact, is a very large industry.

Linseed oil is made by pressing or crushing flaxseed. Flaxseed is grown to a large extent in Canada, and the American manufacturer of linseed oil must of necessity purchase part of his raw material, flaxseed, in Canada. I represent Spencer, Kellogg & Sons, one of the largest independent crushers of linseed oil in this country, and it is the custom of their business, as it is the custom of the business in general in the United States, to base the price of oil on the market price of flaxseed. When a manufacturer receives an order for linseed oil he immediately goes out in the market and buys sufficient flaxseed to cover that order. His price to the consumer is fixed by the market price of flaxseed that he has to pay to cover that particular transaction. That is the method and the custom of the business and has been so for a great many years and continues to-day; that is the custom of my client. At the present time it has in Canada and in Argentina, under option, flaxseed to the extent of 1,100,000 bushels. The price of flaxseed to-day is some $3.22 a bushel, which makes an investment of about $3,800,000. That flaxseed can not be brought into this country until after this law goes into effect. It has bought that flaxseed; it has sold the oil which it intends to make from that flaxseed on a price based on the cost of that flaxseed to it.

That is a business of large volume; the profits are very small. We already have a specific duty of 20 cents a bushel, and under this 10 per cent clause we will have a further duty imposed of 32 cents a bushel, an import duty in all of some 54 cents a bushel. We can not stand it. It is five or six to ten times the profit in the manufacture of the product. We can not possibly absorb the proposed import duty.

What we wish is an opportunity to adjust ourselves to the new conditions, and that may be brought about by an extension of time. I have noted this afternoon that your committee has asked for suggestions as to amendments, and I have one, and if you will allow me to suggest it I would like to read it into the record, which would cover this and suffice not only in regard to flaxseed, but I think it would cover other materials generally. [Reading:]

All goods and raw materials actually purchased prior to the passage of this act, and which goods, or the finished products from said raw materials, have been sold at a fixed price prior to the passage of this act, shall be exempted from the import duty imposed by this section.

Senator STONE. Where do you want this inserted?

Mr. STOWE. That would follow section 1000, or be a part of section 1000, as a qualifying phrase.

The CHAIRMAN. That would apply to all goods in that class?

Mr. STOWE. Yes. Perhaps it is too broad. It is a mere suggestion which would cover our situation.

The CHAIRMAN. Under that some manufactured goods would have 15 months' exemption.

Mr. STOWE. Yes. Well, put it 90 days; that would satisfy us. I endeavored to make it general. A brief on this matter will be filed.

The CHAIRMAN. We will have it printed.

(The brief referred to is here printed in full, as follows:)

Statement of Spencer Kellogg & Sons (Inc.), a body corporate of the State of New York.

Spencer Kellogg & Sons (Inc.) and its predecessors in interest has been for upward of 50 years manufacturers of linseed oil and have mills for that purpose at Buffalo, N. Y.; Edgewater, N. J.; Minneapolis, Minn.; and Superior, Wis.

Linseed oil is oil extracted from flaxseed. Large quantities of flaxseed is necessarily purchased in the Dominion of Canada and Argentine Republic for use in such industries.

That the method and time of acquiring such flaxseed is and has been for a long period of time established so that said method has become an ingrained custom. Such custom is as follows:

As and when sales of linseed oil are made flaxseed is purchased in the open market on options in quantities approximately sufficient to produce the oil so sold, the oil is sold at a price based principally on the market price of the seed.

As a result of this custom Spencer Kellogg & Sons (Inc.) has entered into written contracts for the sale of linseed oil at a fixed price to produce which oil it has purchased options for Canadian and Argentine seed as follows:

	Bushels.
Canadian seed	1,093,843
Argentine seed	101,120
Total	1,194,963

None of this seed can be delivered in this country in all probability until after the proposed increase ad valorem duty mentioned in section 1000 of Article X of the bill under consideration becomes effective.

There is now a specific duty of 20 cents per bushel on flaxseed.
Section 1000 provides a further ad valorem duty of 10 per cent.
The market price of the seed above referred to is approximately $3,845,721, upon which the proposed ad valorem duty will be approximately $384,572.
The amount of this tax will be a total loss, as the oil to be manufactured from such seed is contracted to be sold at a fixed price based on the price at which such seed was purchased and not based on such price plus such proposed duty.
This proposed duty is far in excess of any profit to be had from the manufacture and sale of oil from such seed and will in fact represent a loss of capital.
Such proposed duty under the circumstances will cause a loss which will be a hardship undoubtedly not considered in the framing of such proposed import duty, and it is most earnestly and respectfully urged that an exception be made so that all seed so purchased to the present time against which oil has been actually sold at a fixed price be exempted from the imposition of such duty.
Dated at Washington, D. C., this 15th day of May, 1917.

SPENCER KELLOGG & SONS (INC.),
By EDWARD H. STICHEL, *Comptroller.*

FRANKLIN D. L. STOWE,
Of Counsel, Buffalo, N. Y.

The CHAIRMAN. Our next subject will be wood pulp, and Mr. Rosenberg will be entitled to five minutes.

Sec. 1000. WOOD PULP.

STATEMENT OF MR. ROSENBERG, REPRESENTING THE ASSOCIATION OF AMERICAN WOOD PULP IMPORTERS.

Mr. ROSENBERG. Mr. Chairman and gentlemen, I will represent the Association of American Wood Pulp Importers. I did not know that Mr. McIlhenney or Mr. Glass were to cover a good part of the matters on which I was to address you. Therefore, it will be unnecessary for me to take up your time with the points covered by them.

If you feel that a duty shall be imposed, the importers are willing to bear their share of the burden, but we urge you, if at all possible, to make this duty specific instead of making it an ad valorem duty. Under previous tariffs wood pulp was always dutiable at a specific price, the lower grades at one-twelfth of a cent per pound, the middle grades at one-sixth of a cent per pound, and the highest grade at one-fourth cent per pound; and we suggest that a similar arrangement be entered into again.

Senator STONE. What would be the difference in the tax result from a revenue point of view?

Mr. ROSENBERG. Wood pulp at present is on the free list.

Senator STONE. I am speaking about the result in the way of revenue as between a specific and an ad valorem duty?

Mr. ROSENBERG. The present value of wood pulp is abnormally high, as was explained to you, I believe, by Mr. Glass and Mr. McIneny. It is the principal thing that goes into the manufacture of paper. Under normal conditions the tax which I have mentioned and which was in force under the Payne-Aldrich bill was approximately 8 to 9 per cent, according to the market fluctuations.

Senator SMOOT. It would not be more than 3 or 4 per cent now on the price of wood pulp.

Mr. ROSENBERG. It would be about 4 to 5 per cent.

Senator SMOOT. It would not be over 4 per cent.

The CHAIRMAN. That is, you mean to say 4 per cent specific would be about the same as 10 per cent ad valorem?

Mr. ROSENBERG. The Payne-Aldrich bill if it were applied to-day would not amount to more than 4 or 5 per cent.

Senator SMOOT. On the value of the pulp to-day?

Mr. ROSENBERG. The price of pulp is abnormally high. Before the war that would have amounted to 8 or 9 per cent.

The other point has been touched upon by previous speakers regarding goods contracted for in other countries and which are sold in this country to paper manufacturers, based on no duty at all. I have covered the point in my brief, which I will submit; and I do not think it is necessary to take up your time with any more suggestions, because ample suggestions have been made.

The CHAIRMAN. Your brief will be printed.

(The brief referred to by Mr. Rosenberg is here printed in full, as follows:)

To the Committee on Finance, United States Senate, Washington, D. C.

GENTLEMEN: With reference to the bill now pending in Congress, whereby it is proposed to levy a duty of 10 per cent on all importations now on the free list, we, the undersigned, beg herewith to offer for your consideration our recommendations in connection with the duty to be levied on paper-making materials, such as chemical and mechanical wood pulp, straw pulp, rag pulp, and casein:

First. We are in perfect accord with the aims and views of the administration to levy a duty on goods now entering the United States free, for the purpose of contributing in some measure to the burden imposed on our country by the war. Our sole aim in appearing before your body is to call your attention to the hardships which would be imposed by an ad valorem duty, if levied on paper-making materials. The market on this class of goods, particularly on wood pulp, both mechanical and chemical, is very fluctuating, and an ad valorem duty would give rise to difficulties and misunderstandings, which would result in litigation and much expense to both the Government and the importer. In previous administrations considering the tariff measure this matter has been brought to the attention of the tariff-making committee, with the result that since many years a duty on wood pulp, when levied, has been on a specific basis. For instance, under the Payne-Aldrich Act, August 5, 1909, Schedule M, paragraph 406, having reference to wood pulp, provides that "mechanical ground wood pulp is dutiable at one-twelfth of a cent per pound; chemical wood pulp, unbleached, at one-sixth of a cent per pound; bleached, one-quarter of a cent per pound; all dry weight."

We respectfully urge upon your honorable body in considering the enactment of legislation imposing a duty on wood pulp to make it specific and recommend, if possible, the adoption of the rates previously in force in the Payne-Aldrich Act. In this connection we also desire, for the sake of avoiding misunderstandings, to have inserted in the schedule referring to wood pulps the item of straw pulp and rag pulp, all of which are used for identically the same purpose and are known in the trade, as generally comprised within the expression of pulp, for paper-making purposes.

Casein under the Payne-Aldrich Act of 1909, paragraph 607, and under the Underwood Act of 1913, paragraph 527, has heretofore been admitted free of duty, and if it is the intention to impose a duty on this article we urgently recommend that on account of the wide market fluctuations to which this article is subject that a specific duty should be imposed rather than an ad valorem duty.

We urgently call the attention of your honorable body to the difficulties to which the enactment of a tariff on articles hereofore imported free of duty will subject the importer. Executory contracts have been entered into by the importer with the American consumer on a small margin of profit, and the imposition of the duty on such importations would work a very material hardship on the importers, and would result in turning what might otherwise be a profitable business into a very unprofitable one. The result, of course, would be a material reduction in the income and taxes which such importers would otherwise contribute, besides deranging normal business.

We therefore ask the consideration of your honorable body to the suggestion that for a stated period of time executory contracts entered into prior to the introduction of the proposed tariff act should be excluded from the scope of the said act.

We submit the foregoing to your earnest consideration.

Respectfully submitted.

ASSOCIATION OF AMERICAN WOOD PULP IMPORTERS,
By JAMES ROSENBERG, *Committee,*
140 Nassau Street, New York City.

NEW YORK, *May 14, 1917.*

I thank you.

The CHAIRMAN. The next item to be heard is that of burlap, and we will hear Mr. Freisleben for 5 minutes.

Sec. 1000. BURLAP.

STATEMENT OF MR. B. FREISLEBEN, OF CENTRAL BAG MANUFACTURING CO., CHICAGO, ILL.

I shall file with your committee a brief relating to the proposed tariff on burlaps.

The CHAIRMAN. It will be printed.

(The brief referred to by Mr. Freisleben is here printed in full, as follows:)

Petition of the Central Bag Manufacturing Co., Chicago, Ill.

We respectfully request that the new revenue law, about to be passed, shall levy duty on burlaps and burlap bags specific instead of ad valorem.

Practically all burlap used in the United States originates in Calcutta, India, where great speculations in this commodity are carried on constantly. The ad valorem duty would vary according to the fluctuations, making the cost of importation very difficult to calculate.

We therefore suggest a specific duty equal to the proposed duty of 10 per cent. This would amount to one-half cent per pound, based on a low market, and to 1 cent per pound on he highest market recorded.

On burlap bags we suggest to double the amount of import duty as levied on the burlaps, this difference in duty being requested on account of the difference in wages paid in the United States as against India, which is one of the cheapest labor markets of the world. Burlaps are the raw material imported for making bags, which are the manufactured article.

It is the practice of manufacturers of mixed feed, fertilizer, flour, and other mill products to accept contracts for a very large portion of their output in sacks many months in advance. In consequence of this, a great many bags were sold to such manufacturers of flour, fertilizer, and mixed feed manufacturers before the agitation of the present tariff.

On account of restricted steamer space for the past two years, imports of burlaps have been below normal requirements; the stocks of burlaps in the hands of the bag manufacturers are relatively small, while the amount of burlaps afloat to this country are, likewise, very much restricted on account of scarcity of steamer space, all of which precludes the possibility of bag manufacturers to acquire in the American market even a small portion of the burlap required to cover contracts entered into for delivery of bags as stated above.

We therefore respectfully request exemption of all contracts entered into prior to the agitation of this tariff by permitting burlaps afloat to this country prior to May 15, 1917, to enter duty free as at present.

Our petition respectfully requests:

(1) A specific duty on burlaps.

(2) A specific and higher duty on burlap bags.

(3) That contracts entered into prior to the agitation of the new tariff be exempted from the new duty by permitting burlaps afloat to this country on or before May 15, 1917, to be admitted free as at present.

Respectfully submitted.

CENTRAL BAG MANUFACTURING COMPANY,
Chicago, Ill.
By B. FREISLEBEN, *President.*

Mr. FREISLEBEN. I wish to call your attention to the proposed tariff on burlaps. At present burlaps are arriving in this country free of duty. The proposition to put a tariff on burlap of 10 per cent ad valorem, of course, is satisfactory to the trade, because in former years we paid nearly 25 per cent. All the burlap which is coming in free is higher in price to-day than it has ever been.

Senator THOMAS. That is not peculiar to burlap. It is a general proposition, I think.

Mr. FREISLEBEN. There is a great demand and a great deal of speculation.

Senator THOMAS. I mean, there are other things which are also coming in at much higher prices.

Mr. FREISLEBEN. The demand all over the world is great.

Jute and the manufacturing of jute entering into the production of burlap does not cost very much more to-day than it did.

Senator THOMAS. You misunderstand me. I mean the entire list of articles on the free list are higher than before the war.

Mr. FREISLEBEN. That is right, Senator. I would suggest that you make the duty specific, instead of ad valorem.

Senator STONE. Why?

Mr. FREISLEBEN. It is necessary to have a consular invoice for the collection of duty. Burlap is bought for delivery—say, May, June, or September. There is a great deal of speculation in Calcutta by the natives on burlap—a wonderful speculation. We might buy burlap on the basis of 3 cents a pound, when on the date of shipment it might be 6 cents or it might be reversed. We never could calculate the value of the duty until after the material arrives. So there is a market in Calcutta on 8-ounce burlap, which is the standard, and means a yard of burlap 44 inches wide weighing 8 ounces to the yard, which would be 210 pence per 100 pounds; that is, $4.20 a hundred in American money. The freight is nearly 50 per cent of that. The freight is over 5 cents a pound. There is very little of that burlap coming over under the restriction in freight, the restriction in tonnage, and the high war rate of insurance; but if you gentlemen will consider a tariff of a half cent a pound specific on burlap it will equalize the 10 per cent, and it will make it so much easier to figure. Burlap is figured 8 ounces to the yard, and it will just equalize the duty all the way—a half cent a pound on burlap would equalize 10 per cent duty on a low market, and 1 cent a pound would equalize 10 per cent on a high market.

Senator SMOOT. You would not object at all to the specifications as found in the Payne-Aldrich bill if the rate is fixed so that it will equal 10 per cent?

Mr. FREISLEBEN. We would not object if the rate is fixed so that it will equal 10 per cent. It would be very easy to make the duty specific.

Senator SMOOT. We have always had it on the specific rate.

Mr. FREISLEBEN. There were both specific and ad valorems.

Senator STONE. If it was made specific, but to equal, say, 10 per cent of the value—I am just stating the figures arbitrarily—how would that strike you?

Mr. FREISLEBEN. It would be all the same; but it again would require calculations. I merely suggest to you gentlemen to make the

duty either a half cent or 1 cent, whatever you choose, but make it specific.

Senator PENROSE. You do not object to the rate of duty, but you want a specific duty and not an ad valorem. The trade does not object to what it is made, provided it is specific?

Mr. FREISLEBEN. The trade does not object so long as you make it specific. As a guide to the Senate, I stated that on a low market for burlaps in Calcutta a half cent would cover 10 per cent, and on a high market 1 cent per pound would cover 10 per cent.

I would also suggest that the rate on burlap bags should be double the rate on burlap itself, on account of the labor in Calcutta being perhaps the lowest paid labor in the world.

Another question that I would like to place before you, gentlemen, is the importation of burlaps against contracts sold. Burlap bags are sold to the flour manufacturers and sold to the fertilizer manufacturers and to the mixed-feed dealers. These three items are the largest consumers of burlap. A mixed-feed dealer will contract for the grain and other ingredients and will then immediately proceed to buy its bags and sell his mixed feeds many months in advance. We burlap manufacturers also sell and buy in advance. We have a great many orders pending now--orders taken months ago, some in December for June delivery and some in February for March delivery. It will be a difficult matter to fill these orders without a great loss, and I would respectfully request the Senate to embody in this bill the proposition to permit importation of sufficient burlap to cover these contracts free of duty, or else permit all burlap now afloat to come to this country free of duty. Either method will suffice; they will just about average up the amount of goods sold throughout the country.

Senator STONE. You want a specific duty for the reason that you could always calculate exactly what the tariff would be?

Mr. FREISLEBEN. Precisely, Senator.

Senator STONE. That is a reason that appeals to you as a manufacturer?

Mr. FREISLEBEN. Yes, sir.

Senator STONE. Or purchaser?

Mr. FREISLEBEN. Yes, sir; as a manufacturer.

Senator STONE. Have you thought about or calculated any upon the governmental view of it, as to the effect of the one plan—that is, the ad valorem plan—or the other plan, the specific duty would have on the revenues; in other words, have you calculated whether it would cost you as an importer more or less one way or the other during the course of a year?

Mr. FREISLEBEN. That is hard to answer. Under the old tariff, when we had 15 per cent ad valorem duty on burlap and a specific duty, we were never able to tell the cost of any lot of burlap until after we had received it and it had been weighed in; and we really did not know whether we lost or gained. Probably it made not a great deal of difference, but would average itself up in the course of a year or two. But it is a much simpler proposition for the Government to collect the duty by the weight and collect it on the invoice at the time of the sailing of the vessel from Calcutta.

The CHAIRMAN. Do you mean to say the Government would realize more or less according to the price of the raw material?

Mr. FREISLEBEN. That depends on the market conditions. If the market is high and declines; in other words, if the goods are bought in Calcutta on the high market and the day of shipment the market was low the Government would lose.

Senator PENROSE. You think it is high enough to make the Government fairly secure at 10 per cent?

Mr. FREISLEBEN. Yes; Senator Penrose. I just mentioned a half cent to 1 cent would cover the lowest to the highest. It is up to the Senators to decide which one. I merely prefer a specific duty; it is easier for the trade and the Government.

The CHAIRMAN. You are willing for us to fix that?

Mr. FREISLEBEN. We are willing for you to fix that; absolutely, gentlemen. I am here to suggest, but I would like to get the opinion of the gentlemen in reference to contracts already entered into and what can be done.

The CHAIRMAN. We can not express any opinion, because we have not taken the bill up yet.

Mr. FREISLEBEN. You will give it consideration?

The CHAIRMAN. Yes.

Mr. FREISLEBEN. I thank you.

The CHAIRMAN. The next subject in accordance with our program is that of electric supplies, and Mr. McGill is entitled to five minutes. Is Mr. McGill in the room.

(No response.)

The next item is that of imports, and Mr. Sprague wishes to be heard, according to this memorandum. Is Mr. Sprague here?

(No response.)

We will then hear Mr. Ardourel on the item of tungsten ore for three minutes.

Sec. 1000. TUNGSTEN ORE.

STATEMENT OF MR. A. P. ARDOUREL.

Mr. ARDOUREL. Mr. Chairman and Senators of the Finance Committee, I want to say that we, the producers of tungsten ore of Boulder County, Colo., are glad to see a tariff of some kind placed on tungsten ore, and I believe that the burden will rest very lightly, and my reasons for that is this: That before the cheap ores were coming in from Peru, Bolivia, and from Japan we received as high as $105 a unit for tungsten ore, and 20 pounds of 60 per cent material is a unit. At the present time we are receiving $17 a unit for the same material. The material is principally coming from Bolivia, about 600,000 pounds per month, making 18,000 units. We are told by those who control most of our mines in Boulder County and who are buying this cheap product from Bolivia that the cost to them is $8 per unit laid down in New York City. It is true they are paying $17 a unit, but they are continually reminding us of the fact that they can get it for $8, and that by paying a little more to the miners of Bolivia they will be able to produce a sufficient quantity to supply the demand of high-grade tungsten for tool steel in the United States.

We would like to see a much higher tariff placed on the crude ore than in the present tariff.

Senator PENROSE. You believe in a protective duty on the crude tungsten ore?

Mr. ARDOUREL. Yes, sir.

Senator PENROSE. Are you affiliated with the Democratic Party or with the Republican Party?

Mr. ARDOUREL. I am a stanch Democrat.

Senator PENROSE. I know good Republicans are in favor of a protective tariff on American products, and I am glad to find an issue here on which the representatives of both parties agree. And I would also like to be permitted the observation that this is advocated by the Congressman not as a war measure, which seems to be an excuse for everything, but as a protective measure.

Mr. ARDOUREL. I wish to say that our condition perhaps is quite different. The same people who control our mines out there—and the great production is made by the leasers, the man who goes out and leases and gives 25 or 30 per cent royalty—are the people that are getting this cheap ore from Bolivia, so that I rather believe it places us in a little different position, and that I can still be a good Democrat and ask for protection on tungsten.

Senator PENROSE. Protection on your own articles and not on the other fellow's?

Mr. ARDOUREL. Perhaps that is true; I am willing to admit it, but I want it clearly understood that the same people control the mines in both cases. This cheap product is being brought in so that they can force the miner to produce it at a less price.

Senator SMOOT. They do not control in my State..

Senator PENROSE. I have been advocating protection on tungsten ore for many years.

Mr. ARDOUREL. I want to thank the Senators for the courteous hearing I have had. It is perhaps quite a relief to you gentlemen to have some to come here and say that they are in favor of what you are trying to do, raise revenue for the Government, and representing the humble tungsten miners of Boulder County, I want to say we are very much in favor of this, and only hope that in the very near future you will have an opportunity of increasing it many times. At a later time I will file with the committee a letter outlining our position on this question.

The CHAIRMAN. When received it will be printed.

(The letter referred to was subsequently submitted and is here printed in full, as follows:)

TARIFF ON TUNGSTEN.

To the Chairman and Members of the Senate Finance Committee,
Washington, D. C.

GENTLEMEN: The average cost of production in Colorado is $16.50 per unit. A unit is 20 pounds of tungstic acid.

Reasons for this high cost: 1. The large amount of development work necessary to keep up production. 2. Because the ore comes in lenses and not in ore shoots.

The cost of the ore laid down in New York from Bolivia is $8 per unit. The reason for this low cost is that the tungsen veins in Bolivia occur in continuous ore shoots, and the large amount of development work is not necessary to keep up production. There should be a tariff of $10 per unit placed on the ore coming from Bolivia, which ships about 600,000 pounds per month of 60 per cent product, making 18,000 units of tungstic acid per month. At $10 per unit, this would produce $180,000 per month or $2,160,000 per year revenue.

Other reasons why a tariff should be levied: First. Our mines should be developed, because this Government should know that we have sufficient tungsten to make the necessary high-grade steel to turn out our munitions of war, and it is impossible to do that without tungsten tool steel. There will be very little development done because our miners know of the cheap product coming in from Bolivia. He never knows when the price may drop to $10 per unit. Second. This cheap product comes direct to the large manufacturing establishments, which are reaping enormous profits from this war.

The price received for tungsten tool steel is $2.50 per pound, while the tungsten it contains is but 18 per cent. Eighty per cent of the tungsten ore produced in Colorado is produced by small leasers, and they are entitled to protection. Most of the mines, it is true, are owned by these same steel concerns which buy the cheap product from Bolivia, and thus bring pressure to bear upon our miners, constantly reminding him of the fact that the companies can get all the tungsten ore they need from Bolivia at a much lower price than they are now paying here. And it is a fact that they are paying the miners of Colorado on an average of $17 per unit for 60 per cent product, which proves conclusively that a tariff of $10 per unit will not work a hardship on anyone.

The output in the United States averages about 19,000 units per month. This could be easily doubled if the miner could feel assured of a price near $20 per unit.

Of course, it is well known that this high-grade tool steel is not used by the common people of the country, but is consumed by the large establishments.

Respectfully submitted.

A. P. Ardourel.

I thank you.

The Chairman. Gentlemen, there seems to be nobody here who desires to speak for electrical supplies and imports, and we will have to close our hearings upon those two subjects, and that concludes the hearings upon all the subjects.

Senator Stone. Can you hear Mr. Horner?

The Chairman. We will hear him for a few minutes.

TITLE VII—WAR TAX ON ADMISSION.

Sec. 700. ADMISSIONS.[1]

STATEMENT OF MR. CHARLES F. HORNER, PRESIDENT LYCEUM AND CHAUTAUQUA MANAGERS ASSOCIATION, KANSAS CITY, MO.

Mr. HORNER. I desire to address the committee briefly on the subject of taxation on admissions to Chautauquas and lyceums.

The proposed tax on the admission to Chautauquas and lecture courses is a matter relatively so small compared to the amount of revenue to be derived by the Government, and I think so large, so far as the interests and the hearts and the homes of a great many people in the rural communities and smaller cities of America are concerned, that I venture to ask for a modification of one feature of the bill. The Chautauquas are about 6,000 in number, with gross receipts of probably $3,000,000. If taxed on the basis of 10 per cent on the tickets of admission it would yield a revenue of about $300,000, if the Chautauquas were permitted or were able to continue running under the operation of the law, which is doubtful. The management of the Chautauquas is twofold: In the first place, they are conducted, guaranteed, and maintained by a voluntary association of citizens in these various communities, who serve without any hope or expectation of profit; sometimes, indeed, make up the deficit, when there is one, out of their own pockets. That is the reason we submit it would not seem wise or advisable to tax the people on the basis of their admission to these Chautauquas.

Senator JONES of New Mexico. Are they not for profit in any particular?

Mr. HORNER. On the other side, if you permit me, the managers of the so-called Chautauqua bureaus administer the affairs of the Chautauquas and do run them for profit, and the managers of the Chautauqua bureaus, like all other patriotic citizens, are not objecting to taxation. But we are trying to save the Chautauqua business by eliminating taxation on the tickets of admission. Under other features of the law, with the proposed tax on railroad tickets, freight and express, advertising, postage, telegrams and telephones, all of which enter so largely into the operation of Chautauquas, about 40 or 60 per cent of the profits of the Chautauqua bureaus will be taken by those items and, of course, all Chautauqua managers are still liable for to the excess-profits and income-tax features of the bill.

Senator STONE. Would it be possible to tax Chautauqua orators a certain percentage of their receipts without passing it on to the consumers of the oratory? [Laughter.]

Senator LA FOLLETTE. I paid an income tax on $10,000 on earnings two years on the Chautauqua platform.

Senator GORE. We are willing to pay a fair tax.

---

[1] The beginning of the hearings on this subject will be found on page 384.

Senator La Follette. The Chautauquas ought not to be taxed locally, where they are not run for making money.

Senator Thomas. Let me suggest in all seriousness whether it might not be possible to arrange with your people to take a little smaller compensation in view of this tax which you want to contribute to the Government.

Mr. Horner. Contracts are already made with all of our people. And, after all, while the Chautauquas cover so wide a field and reach so many people, the actual amount of money involved is not a very large item, and it seems to us that there never was a time when the Chautauquas had a better opportunity to serve the country and the Government than right at the present time. Every Chautauqua manager in the country is adapting his program and his plans to further the patriotism of the country.

Senator Thomas. What I had in mind was, let us assume I am a lecturer—which I am not—and you pay me $50 a night. I would be willing to contribute $2.50, for example, each night to the taxes which the Government must assess, by rebating that amount to you, and not apply the tax upon the admission fee; that is the idea which I have in mind. I feel pretty sure that nearly all of those with whom you have contracts might agree to something of that sort.

Senator Penrose. I think the political speakers ought to bear a double tax.

Senator Thomas. Last year the Chautauquas heard both sides, but I think in alternate years they do not. I have had no experience with that.

Mr. Horner. I will simply submit, in closing, that in our opinion there is no greater need in the country than to promote what we call the "morale" of the country, and we believe that the Chautauquas can do as much toward making the people support the measures that the Government wishes to put in force as any single institution. If it were a matter like large business concerns, where the profits were large, I am sure it would be quite different, but with the greatest average profit that has ever been made not amounting to more than 5 per cent of the gross receipts, it can readily be seen that the proposed tax of 10 per cent could not possibly be paid by those who are in charge of the operation of the Chautauquas; and, besides, in the law of 1914 Chautauquas and lyceum courses were specifically exempted from Federal taxes, and in the law as also amended in 1916.

So we respectfully urge that this clause be written into page 30 and line 14, after the word "organization": "And no tax shall be levied on admissions to bona fide Chautauquas and lyceum courses where same are conducted under contract with local guarantors."

Senator Thomas. Is that the provision in the old law?

Mr. Horner. That is the provision I ask to be placed in this law.

Senator Thomas. Is that copied from the present law or is it broader than that?

Mr. Horner. No; it amounts to practically the same thing.

Senator Gore. These guarantors are local people, made up of local citizens and neighborhoods, who enter into those guarantee contracts?

Mr. Horner. Yes, sir.

Senator Gore. It is not a committee organized for profit, and there is no possibility of profit coming to them?

Mr. Horner. None whatever.

Senator LA FOLLETTE. Mr. Harrison, who is at the head of several musical and lecture bureaus, would like to be heard for two or three minutes.

The CHAIRMAN. We will hear him briefly.

STATEMENT OF HARRY P. HARRISON, TREASURER REDPATH MUSICAL BUREAU, REDPATH LYCEUM BUREAU, AND REDPATH CHAUTAUQUAS, CHICAGO, ILL.

Mr. HARRISON. I wish to point out the essential difference between the church, school, and chautauqua, on the one hand, the circus, theaters, amusements, etc., on the other, as affected by the amendment which Mr. Horner has suggested, viz: Those who locally guarantee the former serve without hope of financial profit, and the object of this proposed amendment is to relieve a bona fide chautauqua whose guarantors is a local committee. The House bill, as it is now is just the opposite from the Senator from Colorado's suggestion—they want to put it onto the ticket buyer. They recognize they are taxing the chautauqua manager heavier than the average man, including 10 per cent on railroad fees, which we have already contracted for; but they want this tax to apply to the man who buys the ticket, and is so written in the bill, and the purchaser of the ticket is the man laboring to raise the ideals of his community. That is the point we wish to bring out. I am not asking anything for the chautauqua managers, but it is for the local guarantors.

I wish to read into the record, if I might, a letter, of which we have a number similar, just received from North Manchester, Ind., in which he asks for a cancellation of our contract. We have had over a hundred requests for cancellations on account of this war, saying that they can not go on.

Senator LA FOLLETTE. This comes from the local committee?

Mr. HARRISON. Yes. It comes from the local committee. It is signed by S. S. Gump, president, and J. W. Domer, treasurer, and is written on the Lawrence National Bank letterhead, of which Mr. Domer is vice president. After stating the struggles on account of war conditions, he closes with this [reading]:

> We also understand that the Government is about to place a tax of 10 per cent on all chautauqua tickets. With this additional expense we know that it will be impossible to hold a chautauqua here this year.

And this is the straw that breaks the camel's back with practically every committee in the chautauqua, because they say, "We are working for a labor of love, and now we are going to have to pay the additional tax, and we can not ask the people to do that." Our tickets are $2.50, and we must have $2.25, and therefore pay it ourselves, and even if we force them to go on they will not renew their contracts for another year, and it seems absolute confiscation of the chautauqua business throughout the country.

And I understand further that Mr. Horner, who is president of the Chautauqua Lyceum Managers' Association, has been requested that our platforms be available to urge people to subscribe for the "Liberty Bond," which, of course, we would be only too glad to do, and we feel we are bearing our part of taxation and service and want to do that; but we do not want the fellow who is working for the labor love to be taxed for that labor.

The CHAIRMAN. The committee will now be glad to hear Mr. Goldfogle in regard to cigarette tubes and cigarette paper.

TITLE IV. WAR TAX ON CIGARS AND TOBACCO.[1]

Sec. 400–401. CIGARETTE TUBES AND PAPER.

STATEMENT OF HON. HENRY M. GOLDFOGLE, FORMERLY REPRESENTATIVE IN CONGRESS FROM NEW YORK.

Mr. GOLDFOGLE. While I understand you have passed the section having reference to cigarette paper and cigarette tubes, yet the men in New York interested in that did not know until last evening about the provision in this bill, and they have asked me to come here and make suggestions in their behalf and enter their protest against the provisions contained in section 404.

The figures in the proposed bill touching this industry, which, after all, is a small industry, will, I think, indicate that they would tax it out of existence. The tubes—I do not know whether you gentlemen have seen them—[exhibiting paper tubes to committee] are used by the smokers of the very poorer class; I mean very poor men who take their tobacco and fill up these tubes with it and use the tubes so filled as a cigarette. They take a little filler and fill in the tobacco through the opening there [indicating] and make the cigarette.

These tubes are not used or sold by the cigarette manufacturers who manufacture and sell the so-called "brand" cigarettes, and the output of those tubes does not exceed, I am told, 260,000,000 a year. I am advised that some representation was made, either to the House committee or to you, that they run into the billions. That is not so. The output does not exceed 260,000,000.

So we find that under the proposed rate in the bill the man engaged in this industry will simply have to shut their shops up. The cost of producing the cigarette tubes, packed a hundred to the box, would be 33 cents per 1,000—10 boxes. They sell for 35 to 40 cents per 1,000, and yet you would tax them 20 cents per 1,000. The proportion of the tax, therefore, to the selling price would be 50 per cent. The tubes that are packed 1,000 to the box and intended for cigarette manufacturers cost 25 cents per thousand to get up, while they sell at only 29 cents; and you propose by this bill to tax them 20 cents per 1,000, the proportion of tax being about 60 per cent. The tubes, without mouthpieces, cost 14 cents to produce, and they sell at about 18 cents, and you would tax them 20 cents per 1,000.

Now, then, these tubes are used for another purpose than filling with tobacco. They are used for filling with cubebs, used to a considerable extent for medicinal purposes. I would suggest that no tax ought to be placed on the tubes used for that purpose.

So far as cigarette paper is concerned, the books of cigarette paper are put up in regular size of 100 leaves to the book, and they cost 70 cents per 100. They sell at less than 90 cents, and so you see the large proportion of tax to the selling price; and the booklets of 20 or

[1] The complete hearings on this title will be found on page 149

30 leaves each cost $1.38 a thousand, while they sell at $1.55, yet you would tax them from $2.50 to $5 per 1,000, a formidable tax which certainly must drive this industry out of existence.

I have heard a good deal here to-day about contracts to deliver in the future, and the argument which has been made with reference to that subject applies equally here. There are contracts made by these men to deliver goods in the future and they are in no wise protected against the loss that must result if the tax is to be paid on these goods now to be delivered after the bill goes into effect.

If a stamp has to be put on, as the bill provides, every little booklet of 50 or 100, the cost will, of course, be correspondingly increased, and the result will be with that cost of labor and of that large tax, as I said before, that the shops will close. It is not the case of a large industry; it is not the case where men have a tremendous large establishment and a large output of goods and who can afford to pay these taxes; neither is it a case where the consumer can well afford to pay or ought under existing circumstances pay a large increased sum in order to meet the conditions that unfortunately now confront us.

In fine, if you will permit repetition, you will find it is the very poorest class of men that use these tubes, and rather than pay this increased cost that must be saddled, of course, upon the last analysis of things, upon the consumer or else must entail grievous loss upon the producer, the class to which I have reference will not smoke them and you can not drive them to smoke the "brand" cigarettes, because they will be too expensive for that class. It means a shutdown of these men who, when you do shut them down, will pay no revenue.

The purpose of the bill is to raise revenue; we need it now; we will all agree to that, but when you kill the hen you will not get the egg; when you drive these men out of business you get no revenue, and how this provision came to be inserted I can not conceive. It was told to me last night, however, that certain gentlemen interested largely in the manufacture of "brand" cigarettes, so-called, saw an opportunity of driving out these cigarette tubes from the market, and saw a way of getting rid of a presentation of booklets of cigarette papers, for they now give those booklets away with tobacco they sell, and if the tax is imposed they will be rid of the expense entailed by giving away the booklets.

The CHAIRMAN. I think you have been imposed upon, Mr. Goldfogle, because Mr. Junius Tucker, who presented the case for the cigarette manufacturers, opposed this tax.

Mr. GOLDFOGLE. Opposed the tax upon the tubes and upon the paper?

The CHAIRMAN. Yes.

Mr. GOLDFOGLE. I am glad to hear that, Mr. Chairman. If I may, as my time is so limited in this oral argument, I desire to submit a brief statement in addition to what I have said.

The CHAIRMAN. We will be glad to have it.

(The brief referred to by Mr. Goldfogle was subsequently submitted and is here printed in full, as follows:)

MEMORANDA SUBMITTED BY MR. HENRY GOLDFOGLE IN OPPOSITION TO PROPOSED TAX ON CIGARETTE PAPER AND CIGARETTE TUBES UNDER SECTION 404.

The proposed tax on cigarette tubes under section 404 is so excessive as will result in driving the men engaged in manufacturing these tubes out of business.

The tubes are not manufactured by cigarette manufacturers. They are made up by a comparatively small number of men engaged in the industry of manufacturing them. They are used by a class of poor men who for economic reasons no not, and mainly can not, purchase the so-called brand cigarettes. The tobacco used in filling the tubes bear, of course, a tax, and to compel the class of men using the paper tubes to inclose their already taxed tobacco to form the cigarette is to compel them to bear a double burden of taxation.

But aside of all this is the fact that the industry now making up these tubes will be taxed out of existence if the rate of taxaion provided is to remain in the bill.

The tubes that are packed 100 to the box cost to produce 33 cents per thousand (packed in 10 boxes), while they sell from 35 to 40 cents per thousand so packed. It is proposed to tax them 2 cents per hundred or 20 cents per thousand, the proportion of tax to the selling price being about 50 per cent.

The tubes packed 1,000 to the box cost to produce 25 cents per thousand, and sell for 29 cents. The tax proposed is 20 cents per thousand, the proportion of tax to the selling price being 60 per cent. And when these tubes are used by a cigarette manufacturer in the making up of cigarettes, it must be borne in mind the cigarette so made up will have to bear the additional internal-revenue tax on cigarettes.

Tubes without mouthpieces cost to produce 14 cents per thousand, selling at 18 cents. It is proposed to tax them 20 cents per thousand, and thus the proportion of tax to the selling price will be over 100 per cent.

The fact that the class of smokers who use these tubes can not afford to be saddled with the increased cost that would have to be charged if the consumer would be called upon to pay the present selling price plus the large tax, the loss resulting from the taxation will, in this particular case, fall on the tube manufacturers.

As has been before observed they are comparatively few in number. The entire output does not exceed annually 100,000,000 tubes, packed in boxes of 100 each; 60,000,000 tubes, packed 1,000 to the box; and 1,000,000 tubes without fouthpieces, making a grand total of 2,600,000. If then, in view of this comparatively small output and the inability to burden the consumer with the heavy tax, the rate proposed be insisted on, the result considering the highest rate of profit that can be made by the industry will be ruination to its business.

Now, as to the cigarette-paper books, the figures are these:

The cost to produce regular books of 100 leaves each is 70 cents per hundred books. They sell at 90 cents. You propose to tax them 1 cent per book, so that the proportion of tax to the selling price will be about 100 per cent.

The cost to produce bookletts of 20 to 30 leaves each is $1.38 per thousand books. They sell at $1.55 per thousand. The proposed tax is from $2.50 to $5 per thousand books, and the proportion of tax to the selling price will be 200 to 350 per cent.

Sight must not be lost of the fact that cigarette paper pays an import duty of 50 per cent and that the additional tax of 10 per cent is to be tacked onto it.

One-fourth of the tubes and a good part of the books are exported, and if taxed as proposed it may well be assumed that part of the business will be lost.

So far as booklets of from 20 to 30 leaves are concerned, that commodity will, under the bill, have to bear the exorbitant tax of 200 to 350 per cent on the selling price. The manufacturers who now give these booklets away with the tobacco will cease that form of presentation. Thus this branch of business upon which it is proposed to obtain a revenue will be wiped out, and as a consequence no revenue will result. This means also a consequent loss of business of the paper manufacturers.

Considering the figures quoted and the circumstances under which the tubes and paper are now sold and used, it may be safely asserted that the business of the tube and cigarette paper manufacturers will be crushed out of existence.

The attention of the committee is called to the fact that many of the tubes proposed to be taxed are used for medicinal purposes, as in the case of cubeb cigarettes.

It is submitted that the bill should make a clear exception in the case of tubes used to make up cubeb cigarettes. The bill should make a fair and equitable provision to guard the manufacturers against loss resulting from contracts heretofore made for delivery of goods in future. There are many outstanding contracts which when filled must, as the bill is framed, bear the tax, causing necessarily a great and grevious loss which ought not be put on the backs of the manufacturers.

Special attention is called to the singular manner in which section 404 is framed. It seeks to impose the tax "on the making up" of the articles covered by that section. In almost every tax on commodities it is on the manufacture and sale.

In the case of articles covered by section 404 the tax is upon the goods the moment they are made up. Thus there will result practically a serious restriction on making up more than the manufacturer finds immediate use or orders for, resulting again, as may readily be conceived, not only in inconvenience but in probable loss.

The men engaged in this industry are mindful of the necessities which require large revenues to be raised. They want to bear their fair share. But they seriously do object to a rate of taxation which will paralyze their industries and crush their business out of existence, the result of which is not only financial disaster to them but a complete loss to the Government of revenue from the articles referred to.

Respectfully submitted.

HENRY M. GOLDFOGLE,
Attorney for the United Cigarette Co., the Strauch Co., Max Spiegel, Gluckman & Son, New York City

The CHAIRMAN. Mr. C. B. Hemingway is here, and he wishes to speak on behalf of the consumers.

STATEMENT OF MR. C. B. HEMINGWAY, WASHINGTON, D. C.

Mr. HEMINGWAY. It seems to me, gentlemen, that some one has been especially neglected before this committee. I have attended a number of hearings—this is the second—and I have not heard anybody talk for the consumer.

Senator PENROSE. Whom do you represent?

Mr. HEMINGWAY. I represent the consumer.

Senator PENROSE. Do you represent some association?

Mr. HEMINGWAY. I am the self-constituted representative of 100,000,000 consumers of the United States. No one has appeared to speak for them or to represent them.

Senator PENROSE. The members of the committee are supposed to represent them.

Senator THOMAS. And that is sometimes a very violent presumption. [Laughter.]

Mr. HEMINGWAY. Quite so. We have had quite a percentage of representatives of various business here, and almost all of them have said that the pending bill spells ruin for either the whole or a large part of their business, and there is no doubt but that they are telling to a large extent the truth.

Senator THOMAS. They repeated every time we consider the bills, so there must be something in it.

Mr. HEMINGWAY. If it spells ruin for the representatives of large business, it also spells ruin for the people who get the profit out of the business, and most of them are seeking a way to shove it along to the consumer.

Senator PENROSE. What is your business, Mr. Hemingway?

Mr. HEMINGWAY. I am a clerk. As I said, they propose to shove it along to the consumer, and the consumer is going to have a pretty large burden to bear.

According to the official reports, there are 27,000,000 of people in this country now who are right on the verge of hard times, that is to say, their food is insufficient in quantity and quality; their clothing is insufficient; and their shelter is insufficient.

Pass this bill with the enormous increase in the cost of living that must certainly come from it, and how many millions then will be added to that 27,000,000? Gentlemen, it will amount to about 90,000,000. There is no doubt about it.

Is this the best way to raise the revenue? Is it the most patriotic way? Had we not better consider that fact, what effect it is going to have on the great mass of people, in consideration of all other aspects of the case? That seems to me to be the most important aspect of the case. We do not want our people half starved, as a very large percentage of them are, and yet it will certainly be the case if this bill is passed, putting the enormous increases in the cost of living.

Is there not other ways to raise the revenue? I think there is. I have submitted to the chairman a draft of an amendment, which is very simple, comprising only a page of letter paper, I believe. Adopt that amendment and you can abolish the whole bill. It is simply a proposition to raise the revenue by the taxation of lands held out of use.

What is the value of some of those lands? Take coal, for instance. There are 500,000 square miles of our territory underlaid with coal from 5 to 7 feet thick.

Senator THOMAS. Have you considered the question of congressional power to tax real estate?

Senator PENROSE. I know many people who are going bankrupt who own that coal and can not find a market for their coal.

Mr. HEMINGWAY. You can find a market. I will deal with that subject presently, if you care to have me do so.

These 500,000 square miles means 320,000,000 of acres underlaid with coal from 5 to 7 feet thick, on the average. The official report of several years ago stated that there are three trillions of tons of coal; a later report says there is more than that, probably three and a half trillions of tons. If it were possible under the Constitution to levy a tax only say as little as $1 per acre-foot on coal, that is, 1,800 tons, it would produce a revenue of $1,500,000 or more.

Senator JONES of New Mexico. How much of that coal land belongs to the Government?

Mr. HEMINGWAY. Quite a bit of it; I can not say exactly how much.

Senator JONES of New Mexico. You can not raise any revenue off of that?

Mr. HEMINGWAY. No; but you could on the other that is in private hands; you could easily do that.

Senator PENROSE. What would you advocate? I am interested in asking about your theory, for I know a great deal about coal. Is it good conservation to force the consumption of the coal beds all in one generation?

Mr. HEMINGWAY. I do not think it would be, inasmuch as there is coal enough to last for probably 7,000 years. I do not think we need concern ourselves about the conservation of coal. That is an argument that is advanced by the people who want to block consideration; I am not reflecting on you, Senator.

Senator PENROSE. I understand.

Senator THOMAS. Mr. Pinchot tells us of the West that unless we conserve our coal owned by the Government we will be out of coal in this country in two or three decades.

Mr. HEMINGWAY. I think I can point out a number of errors in Mr. Gifford Pinchot's statement.

Senator THOMAS. That is the gentleman I refer to.

Mr. HEMINGWAY. As to how much of these coal deposits are in use, more than 99 per cent of the coal deposits are held out of use.

Coming to oil, there are 8,300,000 acres of oil and gas deposits in this country; 93 per cent of that is held out of use. There are 150,000 oil wells. Assuming that an oil well drains 4 acres, that would be 600,000 acres in use; that makes 93 per cent. Ninety per cent of that oil field is under lease. It is a little curious, is it not, that people who lease 90 per cent of the oil fields only use 7 per cent to produce? An increased price is the only answer.

Senator THOMAS. People can not even get it by lease out in my country. They are anxious to do so and can not do it; they can not get it at all.

Mr. HEMINGWAY. There is plenty of it in Pennsylvania and West Virginia and all in the East. All of it in the East is privately owned; in the West it is not.

A tax of $100 per acre on oil lands held out of use would produce $750,000,000; and that, added to the $1,500,000,000 on coal, would produce $2,250,000,000, or more than enough to cover this bill.

Senator JONES of New Mexico. How much of that oil land is owned by the Government?

Mr. HEMINGWAY. In the West, considerable of it; but all in the East is privately owned.

Of course, you would not get those sums. My figures are applying to oil lands reported by the Geological Survey.

Three-fourths of our farm lands are held out of use. It seems to me that that ought to explain the high cost of food. The President has said it is inadequate production that has produced the high cost of living. I think he is right. We have only got to release our lands, let the producer get at them, and we will get an abundance.

The forest lands and the mineral lands, other than those I have mentioned, held out of use, if we were to release them your production would increase enormously. The power of the monopolists to increase prices would be broken, immensely more labor would be required to produce the added quantities, and when those added quantities would be produced prices would fall, and with the increase in the amount of labor required there would be less competition among labor and wages would rise.

Senator THOMAS. Granting all that you have said to be true, I wish you would point out under what part of the Constitution of the United States Congress can levy a tax on real estate.

Mr. HEMINGWAY. The Constitution provides, I believe, that no capitation or other direct tax shall be laid.

Senator THOMAS. Yes, sir. We have amended that with regard to incomes.

Mr. HEMINGWAY. I am under the impression, Senator, that the question of whether we have the right to directly tax lands has never been decided by the Supreme Court.

Senator THOMAS. Well, I must differ with you there.

Senator PENROSE. The Constitution would not stand in the way.

Senator THOMAS. It would not, unless the Supreme Court should decide otherwise; but in the income-tax cases of the early nineties

the Supreme Court very emphatically decided adversely, and followed that with a number of other decisions.

Mr. HEMINGWAY. I have submitted to the chairman a brief and an amendment to the income-tax law which I think would be constitutional.

The CHAIRMAN. Will you file that with the stenographer?

Mr. HEMINGWAY. I will.

(The amendment presented by Mr. Hemingway is here printed in full, as follows:)

AMENDMENT TO REVENUE BILL PROPOSED BY C. B. HEMINGWAY.

That in computing incomes for purposes of taxation there shall be included in such computation all increase in the value of lands during the preceding year, and also the annual rentable value of lands, whether under rent or occupied and used by the owner or held out of use: *Provided*, That annual rentable values shall be held to be not less than as follows: Bituminous coal deposits, $100 per acre-foot; anthracite coal deposits, $300 per acre-foot; gas and petroleum deposits, $2,000 per acre; iron and other mineral deposits, $1,000 per acre-foot; uncultivated farm and garden lands and city lots held out of use, such sums as are equal to the average of neighboring lands that are improved and applied to best use; wild grazing lands, such sums as are paid for neighboring lands for use; forest lands, 50 per cent of the stumpage price paid in the neighborhood: *And further provided*, That 4 acres about each producing gas or oil well shall be exempt from such tax; and that an area of any coal or other mineral tract equal to 50 times the amount of deposit taken out of such tract during the preceding year shall be exempt from such tax; and that where any lands containing mineral (including coal and gas and oil) deposits are leased, both owner and lessee shall be liable for such tax, and that failure to appear and truly declare such lands or deposits, and pay the tax herein laid when due, shall of course forfeit title thereto to the United States, and that this act shall also apply to all leased lands of the public domain.

(The brief referred to by Mr. Hemingway is here printed in full as follows:)

AS TO RAISING REVENUE TO CARRY ON THE WAR.

An annual tax of $1 per acre-foot (or 1,800 tons) on our coal deposits held out of use would yield over $1,500,000,000 a year.

A tax of $100 per acre on gas and oil deposits leased and held out of use would yield about $750,000,000.

A tax of $30 per acre-foot on iron and other mineral deposits and $1 per acre on farming and grazing and forest lands held out of use and 20 per cent on the annual rentable value of vacant city lots would yield many billions of dollars.

Such taxes would reach speculators only, who now pay almost no taxes, and would break up the greatest evil of the age—the restriction of production—due to the fact that high rents and high prices of land make production unprofitable.

Unless such taxes are laid the suffering and death caused by high prices and low wages will be many times greater than that caused by war alone; our people will be poorly nourished and weak and unable to produce what is needed, and therefore our Nation could not put up its best fight, and defeat might be possible.

If such taxes are laid, our own Prussianism will disappear, all of our best lands will be put to use, monopoly will be destroyed, production will be enormously accelerated, giving employment to all labor at the highest wages possible, prices will fall to a minimum fleld by healthy competition, prosperity such as was never known will come to all, reaching down to the very poorest, in spite of the war drain; our people will be well nourished and strong, and they will then be able to invent and forge weapons that will make our Nation invincible.

Official reports show that 27,000,000 of our people are now deprived to a great extent of the necessaries of life. Shall this number be increased to 97,000,000, or shall we let all have opportunity to produce and get an abundance? One path leads to universal peace; the other to universal suicide.

This is no time for quack legislation. Our worst enemies are those short-sighted legislators who, because they fear that some of monopoly's "rights" may be infringed, propose and pass such, and thus drain the very life blood of our people. Civilization itself is now threatened with destruction. Not since the world began was it ever in greater peril; and there is but one certain way to avert it.

The holding of land out of use must be prevented, or the holding of land out of use will destroy us.

C. B. HEMINGWAY.

Mr. HEMINGWAY. Then there is a proviso that would exempt from such a tax certain lands being worked and neighboring land, for instance, about 4 acres from an oil well, an area containing fifty times the amount of deposit that is taken out during the preceding year from any one tract.

I am under the impression that that amendment would be constitutional; but I have this to say about it, that there is not a man in the world to-day—I do not care who he is or what he is—whose opinion is worth very much as to the constitutionality of a law. You will excuse me, Senator for saying that?

Senator THOMAS. Certainly.

Mr. HEMINGWAY. I have weighed my words, and my reason for it is this: That opinion is only to be reached by the Supreme Court after a specific case has been presented to it and duly argued from both sides. And where is a man who has intelligence enough, who has experience enough, to tell what is going to happen after all those ramifications have been had?

Senator THOMAS. You know they change their minds now and then?

Mr. HEMINGWAY. Sure; the same court.

Gentlemen, you can not tell what the Supreme Court is going to do; and in a case of this kind my recommendation is let the Supreme Court decide—declare it unconstitutional, if it finds it so, and then amend the Constitution, as was done in the case of the income-tax law, because, gentlemen, this thing is necessary for the preservation of our civilization. You are up against we do not know what. How many of you have given any real thought to the consumers' side and what is going to happen to him? You see what has happened to Russia; you see what is about to happen in Germany; and it is going to happen all over the world, and if this law is passed conditions throughout the world are going to be immensely worse than they are now.

Gentlemen, I can in the brief time allotted to me only give you an outline such as this. I believe I have said something that is worthy of your most serious consideration.

The CHAIRMAN. It will have the consideration of the committee.

This concludes the hearings upon the bill.

ADDITIONAL BRIEFS IN RELATION TO WAR CUSTOMS DUTIES FILED WITH THE COMMITTEE.

Letter of Mr. Paul H. Cromelin, of the Inter-Ocean Film Corporation.

INTER-OCEAN FILM CORPORATION,
New York City, May 17, 1917.

Hon. FURNIFOLD McL. SIMMONS,
Chairman Committee on Finance, United States Senate.

DEAR SENATOR: Permit us to invite your attention to a possible interpretation of section 1000, H. R. 4280, which we feel sure is not contemplated by Congress, and which it is therefore important to clarify prior to the passage of

the bill. The tariff law to-day recognizes a free list of certain articles exempt from duty. Section 1000 provides for an increase of the present duties (whether ad valorem or specific) by an additional duty of 10 per cent ad valorem, and if not now dutiable by law, a duty of 10 per cent ad valorem. If this law is passed as the bill now reads, everything now admitted free of duty will be taxed at the rate of 10 per cent ad valorem. The intention doubtless is to impose a tax on articles of merchandise of foreign manufacture imported from abroad, but as drawn might be construed to mean goods of American manufacture, which for some lawful purpose are temporarily out of the country, and which at the present time, as they have always been, are readmitted without payment of duty. Under a strict construction of the bill as drawn, absolutely nothing can be admitted duty free. If so construed it would result in the imposition of large and unwarranted duties on goods of American manufacture returned from abroad and now admitted free. It would even go so far as to impose an import duty of 10 per cent ad valorem on a shipment of merchandise of whatever kind sent to a customer, for example, at Buenos Aires, payable sight draft against surrender of documents, and for some reason refused, and of necessity returned to the United States. This surely can not be the intention of the Congress.

The undersigned has just received a telegram from New York indicating that according to the interpretation of the customs authorities there the manner in which the bill is framed would compel payment of 10 per cent ad valorem on moving-picture negatives of American manufacture returned to the United States, which are now free and on the free list, and pointing out the seriousness of such a possible interpretation. American manufacturers have been accustomed to ship their negatives to London in the past, to supply the English and most of the other foreign markets from there. These negatives remain abroad a limited time and then are returned to this country. They have not been altered or improved in manufacture and are admitted duty free. They are coming in week after week. While it is difficult to estimate, it is no exaggeration to say that the cost of the original negatives of this class now abroad is over $1,000,000. If the bill was so construed as to cover goods of American manufacture returned, it would compel these American manufacturers to pay a very large sum to get their negatives back to this country. Such a tax, we submit, would be most unjust, unfair, and unwarranted. These manufacturers would be without redress and unable to protect themselves. This portion of the act as it now reads goes into effect "on and after the day following its passage." The manufacturers shipped their negatives abroad under existing law, made such contracts as were entered into under full faith and belief that the negatives would be returnable duty free as under existing law. They are powerless even now to escape such a tax, which would more than eat up all the profits they may have made on their foreign leases, for if they ordered every negative returned immediately, at the extraordinarily high and excessive freight and insurance rates now prevailing, they would not reach here before the bill will have been enacted into law.

We have, therefore, the honor to present and request your favorable consideration for the following amendment to section 1000 by adding to the section these words:

"*Provided, however,* That no goods of American manufacture returned from abroad and now readmitted exempt from duty under section 404 of the act of October 3, 1913, H. R. 3321, shall be deemed to be subject to any duty provided for herein."

Very respectfully, yours,

PAUL H. CROMELIN,
Vice President Inter-Ocean Film Corporation.

Brief of Manufacturing Chemists' Association of the United States re Dyestuffs.

MAY 15, 1917.

Hon. F. M. SIMMONS,
Chairman Finance Committee, United States Senate.

DEAR SIR: The Manufacturing Chemists' Association of the United States would respectfully call to the attention of the United States Senate the need to amend the act of September 8, 1916, entitled "An act to increase the revenue, and for other purposes," by striking out from section 501 the parenthetical exception therein contained, excepting from the temporary protective provisions accorded to dyestuffs certain important classes of colors, as this exception is

liable to subvert the intentions of Congress in the encouragement of the dyestuffs industry. The specific amendment requested is hereto annexed, marked "Exhibit A."

The act (Title V), after imposing a general 30 per cent duty on colors and dyes, embodies in section 501 the specific rates designed to encourage the foundation of this industry in the United States. This section imposes for a period of five years or more a special duty of 2½ cents per pound on intermediates enumerated in group II and 5 cents per pound on the finished colors and dyes enumerated in group III. But, unfortunately, the parenthetical exception above referred to cuts out from this special 5-cent duty "natural and synthetic alizarin and dyes obtained from alizarin, anthracene, carbazol, and natural and synthetic indigo and all indigoids, whether or not obtained from indigo."

I. The class of colors thus excepted from the operation of the act constituted 27 per cent in money value of all the dyes sent out from Germany to us in the year 1913, and German exports alone represented more than 80 per cent of the American consumption of all colors in that year.

But that is not all. Of the 101 dyes newly invented since 1906, 74 or, roughly, 74 per cent come within this exception. Of the tonnage of these new dyes imported in 1913-14, 90 per cent came under this exception. These new dyes are all adaptable to displace, and in some instances had already displaced, old-line aniline dyes, and to a great and rapidly increasing extent this process of displacement had been going on for some years before the outbreak of the war.

II. The colors thus excepted to the manifest advantage of foreign color makers come into direct competition with the aniline colors. Dr. Beckers testified before the Ways and Means Committee at their hearings on the bill (p. 194) that "it must not surprise you to find that German ingenuity has developed this line of colors (alizarin) lately to such an extent that the importations grew, as per tables of 'Commerce and Navigation,' from 3,163,487 pounds in 1911 to 5,448,749 pounds in 1912 and 8,036,592 pounds in 1913, or in money value to about one-third of the whole importation of coal-tar dyes. These alizarin and alizarin derivative colors coming in duty free are gradually replacing the aniline colors which are under 30 per cent duty. You will see, gentlemen, that we before long will arrive at a point which the European manufacturers will be in a position to import these highly manufactured products of their chemical plants in quantities sufficiently large to supply the greatest part of the requirements of this country and crush the American manufacturers to the wall."

Nearly 8,000,000 pounds of indigo, 20 per cent paste, are annually imported at a value of one and a half million dollars; this is by far the most important single color imported, and no other color approaches a million dollars in value. The two classes—alizarin and indigo—already represent nearly 16,000,000 pounds by weight of our color imports out of a total of 50,000,000 pounds, and if they were permitted to reach our shores at one-half the duty imposed on the others they would soon represent nearly all of our colors. Dyes obtained from anthracene and indigoids comprise every shade of color in the rainbow. The colors thus excepted by the bill may be readily adapted for use on cotton, silk, wool, leather, in making paints, or for any other purpose for which the strictly aniline colors may be used. Taken on the average, the colors thus excepted sell at lower prices in the form in which they are sold than the so-called "anilines."

Nearly all of the excepted colors are made either with or by a combination of anilin oil and salts. Turkey red, it is true, may be made without using anilin, and indigo may be made without using it; but, as a matter of fact, one-half of the indigo in the world is actually made by using anilin, and however made 70 per cent of the weight of indigo consists of anilin in its final analysis or composition.

And it is now recognized that the cheapest and most effective way to make indigo is by the use of anilin. And yet under this exception indigo made with anilin would escape the extra duty or surtax. All the other excepted colors contain as much as 30 per cent of their weight in anilin oil or its equivalent.

And so, as was stated above, these colors dovetail into one another, and it will be chimerical to expect to build up an anilin color industry in this country by a specific tariff whilst thus exposing it to attack from colors that contain anilin, can be made to compete with "anilines" and yet under the exception will not be classed as anilin colors.

III. The duties provided by the act are at best barely sufficient to offset in normal times the handicap of German priority and preeminence.

The range of duties as fixed upon the anilines was adopted with the approval of representatives of the consumers of this country as being just sufficient to

offset the German advantages of labor cost and the like. As for the color manufacturers themselves, some are hopeful that such will be the case, but many others are of the opinion that these duties are insufficient even in the case of anilines. Time only will tell. But all will agree that if makers of anilines are now to be made to meet the competition of these excepted colors paying no surtax the whole scheme of dyestuffs protection will have been jeopardized.

IV. The exclusion of the colors in question would open a way to evade the spirit of the law and would cause endless disputes calling for Treasury interpretations. The consumer would find himself forced to question the derivation of every color imported in the hope that it would be found to be included in the excepted class. Expert witnesses could show that blacks, blues, and 90 per cent of all colors may be produced from alizarin, anthracene, indigo, and carbazol. The European makers would immediately develop colors produced from the privileged group which would have many superlatively good qualities, and soon the new tariff would be found almost as inefficient in building up this industry as we have just found to our cost that the old tariffs have been.

The uncertainty as to the colors that would fall within the exception owing to the difficulties of classification has already been made the subject of controversy among distinguished American chemists specializing on this subject. John C. Hebden makes the bald statement that all sulphur dyes, which are by far the largest group developed thus far by domestic manufacturers, would evade the special tax and fall under the exception. Much capital has already been invested in the construction of plants for the production of colors that have been selling at famine prices, and these works must cease to exist if tariff evasion is possible through the uncertainties of the correct interpretation of the exception. The tariff revenue loss if sulphur dyes fall within the exception would be about $360,000, adding 7.2 per cent to the 27 per cent of otherwise excepted dyes, making a total exception of 34.2 per cent.

V. The terms of the act provide that the special duty shall cease unless an American industry shall have been built up in five years' time from September, 1916, capable of furnishing 60 per cent in value of the country's consumption. The percentage of colors thus excepted will have also added to it 90 per cent of the business developed in new dyes.

Thus the American manufacturer in his race to attain 60 per cent of the American consumption in order to obtain the surtax provided for in the act will be competing against the foreign producer who can defeat this object by obtaining considerably less than 40 per cent of the business.

The collateral importance of this industry must not be overlooked.

The coal-tar color industry has a direct bearing on the steel industry as also on the high-explosives industry, and this last is absolutely essential to national life and security.

Unless the coal-tar color industry can be put on a sound, independent, and paying basis in this country it will be impossible for the country to become independent of the world in the matter of those high explosives which are essential for military purposes.

During the 30 years prior to the war a 30 per cent ad valorem duty on so-called anilines, but leaving indigo, anthracene, and the other excepted articles on the free list, has utterly failed to produce any sort of coal-tar color industry in this country except a small industry which depended on imported intermediates and consisted merely in a business of assembling these. There is no foundation whatever for the belief that a 30 per cent duty which was ineffective in the case of "anilines" would be effective to create such an indigo and anthracene industry in this country. The color industry is, and should be, considered as a whole. If the exceptions are wholly or partly retained they would soon grow to be of more importance than the items not excepted, and this could have only one effect—to defeat the object of the act in establishing the coal-tar color industry permanently in this country.

The industry is in a particularly promising condition at this moment, because, owing to the cutting off of all foreign supplies through the war and the consequent high prices, manufacturers have been able for the first time to make colors from start to finish, a thing never done here before, and to lay the foundation for a permanent industry both as regards colors and as regards high explosives. But these promising efforts are likely to be subverted if the aniline colors to be protected only for five years under the act are to be exposed after the war to the competition of this excepted class of colors not paying the protective surtax.

Finally we venture most earnestly to express the hope that this very intelligent and promising effort to establish the coal-tar industry in this country be made effective and logical by the striking out of the exception contained in section 501.

Respectfully submitted.

MANUFACTURING CHEMISTS' ASSOCIATION OF THE UNITED STATES,
By A. H. WEED, *Secretary*.

EXHIBIT A.

An act to amend an act to increase the revenue, and for other purposes, approved September 8, 1916:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 501 of Title V of an act entitled "An act to increase the revenue, and for other purposes, approved September 8, 1916," be, and the same hereby is, amended by excluding therefrom the following words contained in the parenthetic exception of the first paragraph of said section, to wit, the words "(except natural and synthetic alizarin, and dyes obtained from alizarin, anthracene, and carbazol; natural and synthetic indigo and all indigoids, whether or not obtained from indigo, and medicinals and flavors)," so that the first paragraph of said section 501 shall read as follows: "That on and after the day following the passage of this act shall take effect on the day following its passage.
lected, and paid upon all articles contained in Group II a special duty of 2½ cents per pound, and upon all articles contained in Group III a special duty of 5 cents per pound."

SEC. 2. That except as otherwise provided in said act of September 8, 1916, this act, in addition to the duties provided in section 500, shall be levied, col-

Statement of Mr. Dietrick Lamade, Publisher.

War taxes as they apply to Grit, Williamsport, Pa.:

New taxes created by war-revenue bill:	
Increase in first-class mail	$22,923.98
10 per cent tariff on white paper	16,250.00
Increase in freight rate	1,250.00
Increase in express	250.00
Telegrams, stamp tax	250.00
Ordinary war tax	40,923.98
Increase now being paid for white paper due to war conditions	57,500.00
War tax and increased paper bill	98,423.98
Proposed zone rate increase on second-class mail	109,146.44
Total increase due to war	207,570.42

Brief of Independent Fruit and Steamship Companies Against the Provisions of Title X—War Custom Duties—of the Proposed H. R. 4280.

The independent fruit and steamship companies avail themselves of the courtesy of the committee permitting them to file this brief in support of the oral statements made by the undersigned on their behalf.

A reading of the proposed House bill, 4280, shows that no part of the business operated by these corporations has in any sense escaped taxation. Against this we have no complaint to offer, nor do we suggest any reduction of any kind or character.

In times like these the taxing power can not be expected to do exact justice, nor can it even expect to do substantial justice, nor can the taxpayer complain if deprived of either. His sole right is to attempt to guide the lawmaker to prevent the doing of glaring injustice.

It is because the general provisions of the bill, while not doing exact justice nor substantial justice, do not do glaring injustice that we, out of a sense of obligation, raise no complaint either to the method or the figures, nor to any possible or suggested changes in these methods or figures. We direct our complaint solely to the provisions of Title X, entitled "War customs duties."

Under this provision we believe glaring injustice has been and will be done to the fruit interest, and that such injustice will be of a character to prevent a remedy or possible recuperation. We believe that the glaring injustice resulting from the operation of the title in question will bring about a situation which will annihilate basic conditions existing in an intensely legitimate business, which conditions have arisen from an appreciation of an often-declared policy of the Government that food products should not be made the basis of taxation.

Under the provisions of Title X of the House revenue bill it is proposed to impose an ad valorem import duty of 10 per cent. This attempt is not new to the Congress. It was thoroughly discussed and fully debated at the extra session of 1913. At that time by amendment upon the floor of the Senate a tax of 10 cents per 100 pounds was levied on bananas. It was thought at the time that the banana industry was under the control of a large corporation exercising practically a monopoly, and the proposed tax was defended upon the theory that it could be absorbed by that monopoly. Because of the tactical position of the legislation no argument was had on behalf of the affected interest, but through the investigation of individual Senators it developed that the banana industry was in no sense in the hands of a monopoly, but on the contrary, there was keen and intense competition on behalf of independent companies. It developed also that the banana was one of the staple food articles of this country, and it further developed that it was the main source of support of the Carribean side of several Central American countries, notably, Honduras, Nicaragua, Costa Rico, and Guatemala. At that time the ministers of the Central American Governments mentioned above, called upon the President of the United States and urged of him that he intercede with the Members of the Senate that this tax, which would react upon their people, be not enforced by the Great Republic. That the Great Republic should not enrich itself or operate at the expense of Pan Americanism.

As a result of these and other representations made to this Senate the tax was struck from the bill by the conference report, and it was thought that the issue had settled. Its revival in the proposed war revenue measure comes without any warning of any character and without opportunity for conditions to adjust themselves.

The suggested tax on bananas must of necessity be paid by one of three ways. (1) by being passed to the producer, (2) by being absorbed by the steamship companies, which buy and transport the fruit, (3) by being added to the cost to the consumer.

We will discuss these subdivisions seriatim.

PASSING THE TAX TO THE PRODUCER.

According to the circular of December, 1916, issued by the Department of Commerce and quoting from page 7, there were imported into the United States from Latin America and British Honduras during the entire year of 1916, 25,810,062 bunches of bananas, having a valuation of $8,571,273. There were imported from the Island of Cuba, 2,580,569 bunches with a valuation of $995,000. There were imported a grand total from both sources and other smaller countries, 35,385,291 bunches of the value of $12,189,682.

It will therefore be seen that assuming the production and the importation for 1917 to be as great as the production and importation for 1916, and assuming that the prices for 1917 will be the same as the prices secured in 1916; the total gross revenue which the Government will receive from this source will be a maximum of $1,218,968.20. With restricted tonnage, we are safe in figuring, however, upon a gross of $1,100,000. Of this amount the little Republics of Honduras, Nicaragua, Costa Rica, Panama, and Guatemala will pay on a basis of 25,810,062 bunches and on a cash total of $8,571,273, or $857,127.30, leaving about $300,000 as the amount which will be contributed from the more wealthy countries, including Cuba and the British West Indies.

The independent companies secure their fruit in the main from the planters; as a matter of fact, some of the companies purchase their entire cargoes. It is, therefore, within the power of the steamship companies and of necessity they must attempt to impose this tax upon the producer. The passing of this tax to the producer means a reduction of 10 per cent of his revenue, and if this committee will undertake the investigation it will find that this 10 per cent to these poor people is actually the difference between existing and living. The records will show that the banana planter is a little man. He grows his few bunches of bananas, which he delivers in his primitive way to the steamship

companies weekly or semiweekly, as the conditions present themselves; he is not a large landowner; there are no landed estates among the independent farmers who deal with the independent companies; the business is an assembly of small men, each producing and disposing of his small weekly holdings, all gathered together by the loading plant of the steamship company and paid for weekly in cash. It is through these weekly payments that he exists, and it is through these weekly payments that he makes his settlements with the stores. The banana, therefore, is the medium of exchange by which the small Central American Republics settle their balances with this country. The small planter has had a particularly hard time since the inception of the war. The merchants of the Central American countries who are dependent upon the farmer have also had a peculiarily hard time. Practically everything that these people use on the Atlantic seaboard is purchased in America. These people have had to meet the same problem as the American—the enormous increases in the price of living. Everything that they have brought from this country has borne its enormous share of increased valuations. On the other hand, the product which they had to sell has not increased in value.

It is an accepted fact that the price of the banana has in the past few years, season for season, practically remained the same or been slightly reduced. Therefore these independent producers, selling through the independent companies, have been compelled, on account of the nature of their product, to sell in a stationary or declining market, and on account of the crudeness of their civilization and their dependence on the outside world have been compelled to buy in not only an advancing market but in a hysterically advancing market. Flour, sugar, cotton cloth, shoes, canned goods, and other like articles are their main imports. To mention the names of the articles is to suggest the increased prices which these people have had to pay. The point of living, just like the point of living to the average American to-day, has reached that stage where a 10 per cent reduction in revenue is equivalent to want. In 1913, at the time the first attempt was made to enact the tariff on bananas, it was a pathetic study in the psychology of want and dependence to see the representatives of the small put proud Republics forgetting their sovereign representation and begging this great Republic to permit their people to live. Nothing but the great needs of the occasion prompted it and nothing but an appreciation of the seriousness of the condition could have brought it about. Conditions in 1913 were vastly different from conditions to-day. The price of living and of supplies was far below anything that is suggested to-day, and yet the representatives of these countries were able then to convince the people of the United States and the Members of this Congress were easily convinced that while this country would secure a revenue of about $2,000,000, it would nevertheless be taking bread from the mouth of a helpless people. The position to-day is that the great American people, entering into a war for humanity, spending millions in the cause of humanity, will, by the enactment of Title X of the proposed revenue bill, require these humble, suffering people over whom they have attempted to exercise moral control and to whom they have attempted to point the way to a higher civilization, and with whom they seek to maintain Pan-Americanism, to pass from living to existing and contribute $1,100,000 to the cause they can not and should not be asked to do.

THE ABSORPTION BY THE STEAMSHIP COMPANY.

If as a principle of economics it is asserted that this tax can not be passed to the producer and that it should be absorbed by the transportation lines, at once it is suggested that the ability of the transportation lines to absorb the charge be considered. A slight reference to the functions of the transportation lines doing business with Central America might assist in answering the question. The transportation lines between the United States and Latin America are America's agents of civilization. Starting from nothing these transportation lines have gradually built up a large fleet of vessels, bringing the United States in close contact with the Republics to the south. They were, and still are, pioneers. They had to create the traffic. To create this traffic it became necessary, and it is still necessary, that they should do everything to stimulate the production of the banana. Hand in hand with the stimulation of the production has come the necessity for the stimulation of consumption. All of this has devolved upon the transportation company. Production could only be stimulated by paying the highest price consistent with a reasonable return upon the investment and the stimulation of the consumption could only be

obtained by the creation of an organization which could maintain the cost to the consumer at the minimum. As long as normal conditions existed the ordinary elements of good business prevailed in providing the necessary checks and balances and permitting a smooth flow of the product from the producer to the consumer. The war changed all conditions. Beginning in the fall of 1914, tonnage advanced rapidly. Chartered tonnage is to-day at the prohibitive rate.

With chartered tonnage at prohibitive rates, those who were compelled to go into the market for the purchase of tonnage met the same conditions. These problems, however, were settled and tonnage acquired. With the settlement of the tonnage problems quickly followed new troubles in the enormous increase in everything pertaining to shipping and the operation of transportation lines. As one item, coal advanced from $3.25 a ton to $5.50, and then only under contract. Wages increased at figures so rapid as not to permit of calculation. War insurance increased at a rate by which the companies operating in Central America were and are paying 1 per cent a month. Ordinary repairs to vessels increased at a rate beyond comparison. In fact, everything that has entered into the transportation business—and particularly marine transportation—has gone to figures that are practically incalculable. The transportation company, therefore, finds itself with the producer on the one side who can not live with a lower price, with the consumer on the other side who has been educated to a practically fixed price, and who will promptly resent to the extent of cutting out the use of the banana any additional increase to his price. The effect of a direct tax of 10 per cent upon the transportation company's gross imports must of necessity cause the transportation company to carefully watch the market and, in the event of the slightest suggestion of depression, curtail imports at once and thereby paralyze the service and the efforts of those depending thereon.

Steamship companies operated in other trades are making large sums as a result of the fabulous freight rates that are being paid. The independent steamship lines operating to Latin America have realized and appreciated their sense of duty and their obligations and have steadily refused the temptation to divert their vessels into more profitable trade. They have by hard work and the exercise of skill and brains adapted themselves to the war conditions. They are prepared to adapt themselves to any new condition by which their taxes will be taken from their profits. They are willing to subordinate their profits to the public good, but they can not and should not be asked to pay additional toll upon a staple article of food just because they happen to be willing to remain in business and because they are unwilling to profit at the expense of a people who have treated them fairly. I make bold to suggest that 90 per cent of the vessels now occupied in the fruit trade between the ports of the United States and Latin America could double their revenue by engaging in other traffic at this time. Will this Congress strike a blow at these institutions and force them into other channels? Of what avail for the American people to talk of feeding Belgium, of relieving Serbia, or sympathizing with other small nations, when at the same time the American people, to raise the paltry sum of $1,100,000, is willing to impose injustice upon those engaged in a business which it has taken years to build up, and by the imposition of that injustice encourage men to abandon an existing business and turn to the more profitable lines. It has been suggested in the public press that the proposed House tariff legislation is unscientific. In the instant case its application will unquestionably be a most glaring injustice, resulting in a curtailment of business and the consequent suffering of innocent people.

THE ADDITIONAL COST TO THE CONSUMER.

It might be suggested, as a matter of fact it has been suggested, that the invariable result of the imposition of a tax on imports is to add the amount of the tax to the cost to the consumer. In the debates in the Senate in 1913, it was stated as a fact that the producer could not stand the tax, that the transportation companies could not absorb the tax, and that, therefore, contracts or no contracts, the tax would be passed to the consumer. If such is a fact, if it is a fact that the economic conditions in Central America will not permit the producer being charged with the tax, and if, as is the condition, the independent companies can not absorb the tax, then how can it be justified as an addition to the already existing burdens of the American people? As a food product the banana needs no discussion nor defender. It finds its place as an article on the table of the poor man. It is no form of demagogy to insist that it is

the article of food of the poor man. Scientific handling and the close watching of operations have placed the banana as the one food article that has not risen in price. It finds its way regularly day by day, fresh and clean, into the hands of the consumer at practically a set price. It is in no sense a luxury. The proposed House revenue bill places a 5 per cent tax on enumerated luxuries, and yet proposes a 10 per cent tax on a staple article of food.

The American people are to-day in a hysteria over the cost of living. With and without reason, with and without cause, the plainest articles have mounted until they are outside of the means of the average American and beyond the dream of the poor man. Millions are being spent to teach the American people how to raise food, and millions of men, women, and children are engaged in back-yard gardening in order to avert suggested want. In the face of that it is sought to take a staple article and at the primary point impose a tax of 10 per cent. If that was the only advance it might be suggested that it would not be noticeable. In the banana business, as in others, there are honest and dishonest middlemen. It as an accepted fact of economics that the slightest raise in a price is promptly used by all the intervening handlers as a basis for additions. Therefore it can be expected that the attempt to fasten this tax upon the consumer of necessity will provoke the fastening of additional charges as the article passes through the hands of its various handlers, and an article of staple food will become an article of luxury, although denied the smaller tax imposed upon a luxury.

I assert that if time would permit I could show the members of this committee that the banana enters into every city, town, and hamlet in the United States.

Reducing bunches into pounds, we find that there were 2,000,000,000 pounds of bananas imported in 1916, and reducing pounds into the article, we find there were 6,000,000,000 bananas imported and distributed in this country. In other words, there were 60 bananas per capita.

CONCLUSION.

Realizing as we do, and as we assume the lawmaker must, that the passing of the tax to the producer would be a great wrong; believing as we do, and as we know the investigation of the lawmaker must show the transportation companies can not assume the charge, we are forced to the belief that the lawmaker believes that the tax can be passed to the American public. To the present prices of foodstuffs in this country, to the present fear of possible want from lack of production, to the cry of the American people, ordinary and poor, for relief against soaring prices—we point as a justification for the assertion that $1,100,000 to be raised by this departure from proper economics will not justify the hardships involved. We are not tax dodgers, nor are we "slackers." To the taxing power we offer our best; to the same taxing power we appeal for the right to do business that our best may be available.

Respectfully submitted.

BLUEFIELD FRUIT & STEAMSHIP CO.,
VACCARO BROS. CO.,
CUYAMEL FRUIT CO.,
By WM. C. DUFOUR.

Letter from Charles E. Atwood, R. F. Irwin, and J. C. Wirtz, a committee representing the Tea Association of the United States.

WASHINGTON, D. C., *May 16, 1917.*

Hon. F. McL. SIMMONS,
Chairman Senate Finance Committee.

Re sections 1000 and 1001, pending House revenue measure.

DEAR SIR: As representatives of the Tea Association of the United States of America, we wish to say that the tea trade is not opposed to paying a reasonable tax on tea.

The bill as it appears before the House carries with it an ad valorem duty of 10 per cent. The trade is willing to pay an equivalent amount of 2 cents per pound as a specific rate of duty, but wishes to point out the great difficulty and expense both to the Government and to the trade involved in the collection of an ad valorem duty.

The tariff law provides that duties are to be assessed at the market price at the time of shipment. Teas vary materially in price for approximately the same grades, and also from time to time there are radical fluctuations in the producing markets. Shipping facilities are now very difficult to obtain and considerable time may elapse between the time of purchase and the time of shipment. Meanwhile the markets may also have changed and it will require constant effort on the part of the Government to keep in touch with the foreign market at the time of shipment, to see that entries are made and duties paid on such values in contradistinction to the purchase price shown in consular invoices. The result can only be a great number of undervaluation cases.

The difficulty of collecting this revenue by ad valorem rates can be avoided and considerable expense saved the Government by a specific tax, adequate machinery for ascertaining market values not now existing.

We wish also to call attention to the present excise proposal, which taxes only tea and coffee, while leaving other articles now on the free list only to bear an import tax. Many difficulties will occur in attempting to collect an excise tax, because teas are scattered throughout the country in the hands of various warehouses and dealers. The stock of tea in importers' hands is extremely small and will produce little revenue.

In conclusion we most earnestly ask that the duty on tea be made a specific one of 2 cents per pound, being the equivalent of the present proposal of 10 per cent ad valorem, thus losing no revenue to the Government and avoiding difficulties to all concerned.

Respectfully,

TEA ASSOCIATION OF THE UNITED STATES,
CHARLES E. ATWOOD,
R. F. IRWIN,
J. C. WIRTZ,
Committee.

Memorandum submitted by Mr. J. Van Vechten Olcott on Behalf of Bill & Caldwell, Importers of Hats.

For your earnest consideration we beg to submit the following relative to proposed section 1000 of war-revenue bill, carrying 10 per cent increase in all tariffs and making such increases immediately effective.

Ten per cent increase.—As importers of men's hats from Europe we feel that any increase in the already high rate, lifting it to 55 per cent, would undoubtedly serve to defeat the ends sought—that is, of raising additional revenue. With the large increase in the cost of goods abroad and the extraordinary increase in freight, insurance rates, etc. (now 200 per cent on English and 400 per cent on Italian shipments over two years ago) and all this in addition to the present 45 per cent duty, it has lately been a serious problem how long we could continue our business. All importers whose goods are in competition with American products have been "skating on thin ice" since the war, and the additional burden of increased duty will result in imports being materially restricted, so it is a grave question if the revised tariff schedule would produce even as much revenue as the present. We feel that it would not only fail to produce additional revenue from the tariff schedules but also reduce returns from other sources, for a man who does not make money in his business is not in position to pay much of an income tax and nothing at all of a tax on profits.

Immediately effective.—Another proposition that works a serious hardship is the immediate operation of the proposed section. Under present conditions abroad and with restricted shipping opportunities, all contracts both for the purchase abroad and for the sale in this country of our foreign goods are now made even farther in advance than ever before. In our business, because of the keen domestic competition, we must sell our hats on special import orders at fixed prices or do no business at all. In view of increases on the expense of landing goods (as noted above), we felt justified in considering the tariff a fixed item at least during the year 1917, and made our prices and sold our goods for fall accordingly with deliveries to be made in August and September. Since prices were made and goods sold freights, insurance rates and other expenses have jumped far above our outside figuring; nevertheless, we must fill our orders, and any immediate increase in tariff is a most serious situation.

There is absolutely nothing in any of our contracts which enables us to increase our contract prices of sale by reason of any tax imposed by the United States Government on account of the pending war.

Yours, respectfully,

J. VAN VECHTEN OLCOTT, *of Counsel.*

WASHINGTON, D. C., *May 16, 1917.*

Brief by Mr. Ernest C. Wallace on Behalf of the Cosmofotofilm Co. in Support of an Amendment to Section 1000 of H. R. 4280.

The section referred to above (H. R. 4280, Title X, war-customs duties, sec. 1000) provides that upon articles now dutiable by law, a duty of 10 per cent ad valorem in addition to the existing duty (whether ad valorem or specific); and, if not now dutiable by law, a duty of 10 per cent ad valorem.

You will doubtless have presented to you many arguments as to why articles which are now taxed on a specific basis should not in addition thereto be hastily subjected to an ad valorem duty until the peculiar conditions existing in any particular industry affected can be examined into.

We believe that those articles now subject to a specific duty under existing law are so taxed because, after most careful consideration and a painstaking examination into the conditions in respect to the articles so taxed, it was found to be more scientific, a fairer, and a more equitable method of imposing a duty upon those particular articles.

It is not with a view to avoiding payment of any fair amount of duty Congress may consider it wise to impose that we take the liberty of suggesting that where the present duties are specific they should be increased at such a rate of increase as may be considered proper, but kept on a specific basis and, when ad valorm, be increased by a duty of 10 per centum ad valorem in addition to the existing duty. Such a course, if followed, would work the least injustice, avoid the necessity of prolonged examination into each industry, many of which would be most seriously, in fact in some instances, ruinously affected by the bill if passed in its present shape.

We have the honor, therefore, to propose that you amend section 1000 as follows:

After the word "duty" in line 10, page 47, add the words "Equivalent to an increase," and in line 20, strike out the words "ad valorem," making it read:

"If such articles are now dutiable by law, a duty equivalent to an increase of 10 per cent in addition to the existing duty (whether ad valorem or specific)."

There are many articles now taxed with a specific duty which it would be most difficult to tax on an ad valorem basis without doing immeasurable injury to the business. Then again there are articles which can be and are taxed for customs purposes on a specific basis where it is impossible to arrive at any fair and equitable method of taxing the article ad valorem. Motion-picture negatives imported from abroad is a case in point.

Motion-picture films, for the purpose of customs duties, must be considered from three angles.

(A) The raw stock (unexposed film).

(B) The finished positive film containing a picture ready for projection.

(C) The finished negative film (used only for the purpose of having printed therefrom the positive prints used in projection).

Under existing law—

(A) is duty free.

(B) is charged at the rate of 1 cent per linear foot.

(C) is charged at the rate of 3 cents per linear foot.

It is proposed by the bill to impose a 10 per cent ad valorem duty on A and to add to the specific duty in the case of B and C 10 per cent ad valorem. This would work out about as follows:

(A) The raw stock (unexposed film): There is practically none imported. Such as is made abroad sells in London market at 1d. ($0.02) per foot. The proposed ad valorem duty of 10 per cent, or $0.002 per foot, would yield an insignificant sum even if any considerable footage were brought into the United States.

(B) The finished positive film, containing a picture ready for projection: The present cost price in London is 1½d. ($0.03) per foot. The duty proposed to be added—10 per cent ad valorem—would yield an additional $0.03 per foot, and the total footings is so small that it would hardly yield sufficient to pay cost of administration.

(C) The finished negative film (used only for the purpose of having printed therefrom the positive prints used in projection): These are rarely, if ever, sold. America is, broadly speaking, an export nation in the moving-picture industry. A limited number of negatives are brought into this country from abroad, principally from England. They are not sold in the country of production, and there is no way of placing a value upon them for the purpose of consular invoice declarations. Positive prints from the negatives are let for hire to the moving-picture theaters, and the original cost of making the negative is recovered and the profit made from leasing the multiple copies of positive prints made from the negatives. When a negative is sent to this country, it almost invariably comes for the purpose of having made therefrom in the United States such copies as may be needed to supply United States requirements and then it is returned to England. If the picture is one which appeals to the American public, as many as 30 prints might be made and circulated in this country. If the subject is too foreign in tone and does not suit our people, only a few copies can be disposed of. In some cases the original negative may have cost a large sum to make, and still for some reason not prove either popular or profitable, and then again the very opposite condition may prevail.

A motion-picture negative has no fixed market value which would make it possible to equitably tax it on an ad valorem basis. There is no price in the market of production to determine its value. It may cost $10,000 to make in London, for example. A given number of prints are taken off of it there to supply the English market. Its value may therefore be said to have been reduced to the extent that the purpose for which it was originally made has been accomplished, at least in that market; still, it has not altered or become less valuable as a physical thing, and it continues to represent the original cost of making it. As the world's requirements are satisfied and prints made from it and sent to different markets, it still remains the same physical thing, but its value is rapidly diminishing as the prints required for each market are made. No actual value could be established as the real value, for example, of a negative of "The Battle of the Somme." The subject might prove at this time of great interest and pack theaters in the United States where positives made from the negative are shown. Then, again, the public may be so fed up with war that the very showing of such a film actually made on the battle field and portraying the horrors of war might drive people from the theaters, especially those who go to the theater to be entertained and amused.

Under the bill it is proposed, in section 600, subsections C and D, to tax the positive prints made from the negative, and sold and leased, at the rate of 1 cent per linear foot. If the subject proved popular the Government would derive its revenue from these sales and leases. We would not like to appear to be arguing against any reasonable and proper increase in the specific duty on the negative when it is imported. The point which we desire to emphasize is that in such a case there should not be an ad valorem duty. If you added an ad valorem tax of 10 per cent of the value of the negative in addition to your present specific tax, you would not obtain the increased revenue contemplated, for the very good reason that an importer would not be able to pay this ad valorem tax of 10 per cent and exist.

The purpose of the bill as we understand it is to raise revenue, not to impose what would be an impossible and a prohibitive duty, as it would be in the peculiar circumstances recited and which it will probably be as respects many other industries now taxed on a specific basis and similarly affected.

This company, which represents the leading British producing company, is probably the largest importer of motion-picture negatives, but the total business is small, and the amount of revenue to be derived from imports, no matter how assessed, will be comparatively small. It imports about 30 subjects per year. The negatives when brought in are not purchased outright, and the business is conducted by selling the right to use the negative in the United States. After the American prints are made the negative is returned. There are a few other concerns bringing in an occasional negative, but the war has greatly interfered with the business on account of difficulties in shipping and the high insurance rates. The net result to the United States will be of small importance if the new and additional duty is added or not, but the result to us, if a 10 per cent ad valorem duty is added, based upon the actual cost of producing the negative, is that we must discontinue importing them and get into some other line of business. On the other hand, there could be no objection to any fair increase in the specific duty, 10 per cent, 25 per cent, 50 per cent if necessary, but this would make it possible to calculate properly, make our arrangements accordingly, and carry on.

In no country of the world is there an ad valorem duty on motion-picture negatives. If the duty is placed on an ad valorem basis, it will immediately result, we feel sure, in reprisals on the part of the British Government, and if they retaliate and tax American-made negatives going into England on the same basis there will be enormous losses to American manufacturers, who to-day produce by far the largest number of subjects per year, all of which they aspire to show in Great Britain at some time.

We ask your favorable consideration for the amendment proposed.

COSMOFOTOFILM CO. (INC.),
ERNEST C. WALLACE,
Treasurer and General Manager.

To the COMMITTEE ON FINANCE,
United States Senate.

Memorandum by Mr. Allee I. Smith, on behalf of Cheesebrough Manufacturing Co., regarding the product "vaseline," as enumerated in the war-revenue bill as drafted by the House Committee on Ways and Means.

A provision of the war-revenue bill as reported by the Ways and Means Committee imposing taxes on perfumery and cosmetics specifically enumerates "vaseline" in this classification. The purpose of this memorandum is to show that this classification is erroneous and that this product is neither a cosmetic nor a "similar product," but is a legitimate medicinal preparation of recognized therapeutic value.

Vaseline, which is the trade-marked name of a very highly refined petroleum jelly produced by the Cheseborough Manufacturing Co., has been on the market half a century, and has not only become a household remedy of universal consumption but is utilized by the most reputable and skillful physicians and surgeons. It is largely employed in hospitals as a remedial and curative agent for which there is no substitute. The highly refined character of this product is due to special processes employed in the Cheseborough laboratories, which remove all possibility of the presence of any impurity or adulterant.

After all the lighter portions of the petroleum have been driven off in vapor there remains a thick, jelly-like substance. This is filtered and refined by special processes until finally, after the last traces of impurity or odorous matter, such as are prevalent in all crude petroleum, have been removed, there remains the jelly—clear, tasteless, and odorless—as a trade-mark for which Mr. Robert A. Cheseborough coined the word "vaseline." Being purely a mineral product, containing no vegetable or animal fats, it never becomes rancid or deteriorates in any way. The manufacturers of "Vaseline" petroleum jelly, mindful of the healing qualities of an absolutely pure derivative of petroleum, have spared no effort to secure the absolute purity of their product, which is sterilized in the process of manufacture and contains nothing but its own natural healing properties, with the addition of such standard, high-grade specifics, the value of which is fully attested by the United States Pharmacopœia, as are compounded with it for convenience and general use.

As demonstrating the recognized therapeutic value of "Vaseline" preparations, the following articles may be enumerated, together with the medicinal claims made for them by the manufacturers:

Vaseline Analgic: "For rheumatism, gout, neuralgia, and other nerve pains which can be relieved by outward application."

Vaseline Capsicum: "For all pains and inflammation of the chest, throat, and lungs; valuable for cramps and toothache."

Vaseline Oxide of Zinc Ointment, Benzoinated: "A healing ointment valuable for use in the treatment of eruptions, sores, wounds, eczema, etc."

Vaseline Mentholated: "Brings relief to sufferers of distressing pains in neck and shoulders resulting from neuralgia; also valuable for headache and catarrh."

Vaseline Carbolated: "A valuable dressing for almost any abrasion, cut, sore, etc."

"Vaseline" is so pure in its composition and so soothing in its application that physicians and pharmacists for more than 40 years have realized that it has no equal as a base for medicated ointments. It enters gently into the pores and carries with it the additional medicament, whether it be carbolic acid, menthol, or boracic acid.

"Vaseline" is largely used in the treatment of the diseases of very young children. By the advice of eminent specialists it is rubbed on the head and body of a newly born child and is employed in the treatment of cradle-cap or yellow scurf.

If it be contended that any "Vaseline" product is employed for cosmetic purposes it may be answered very positively that such use is minor and incidental and can not reasonably be held to govern the classification of a product so universally utilized in the treatment of ailments, disorders, and specific diseases. In this connection attention should be drawn to the clear line of demarcation which exists between a medicinal product and a cosmetic. The mere fact that an article is applied to the skin does not make it a cosmetic. The effect produced by a cosmetic is instantaneous, superficial, and transient. The effect of a genuine medicinal product is cumulative, natural, and permanent, such results being obtainable only through the use of agents of actual therapeutic value.

That Congress has recognized the fact that the use of an article as an application to the skin does not bring it within the classification of cosmetics is fully demonstrated by the history of Schedule B as enumerated in the emergency war measure act of 1914, the classification of which has been closely followed in the provision now under consideration. When the act of 1914 was framed by the Ways and Means Committee it provided for the taxing of "applications to the hair, mouth, or skin," but when the measure was taken up by the Senate Finance Committee representatives of the drug trade protested against this language, urging that it would create great confusion and would bring within the taxing provision a large number of reputable medicinal products which could not properly be regarded as cosmetics. Acknowledging the force of this suggestion the Senate Committee struck these words out of the bill, substituting therefor the word "cosmetics," thus narrowing the provisions of the paragraph to articles which are undeniably cosmetics and furnishing a sound basis for the exemption from tax of all articles the chief use of which is medicinal or other than as cosmetics. In making this change in the original draft of the emergency war revenue act Congress established an important principle upon which legislation of this character should always rest, and it is obvious that in view of this principle the inclusion of "Vaseline" in the category of cosmetics is arbitrary and wholly illogical.

The manufacturers of "Vaseline" especially desire to call attention to the fact that the classification of their products as cosmetics rather than as medicinal preparations is distinctly injurious in that it deprives them of the benefits accruing from many years of scientific research in the compounding of their preparations and of much time and large sums of money expended in bringing them to the attention of the medical profession and the public in a legitimate and ethical manner. The reputation which these goods have secured as the result of their employment by physicians, surgeons, hospitals, and the general public as curative agents constitutes a valuable asset of the manufacturers and one which they desire to protect by every means at their command.

In conclusion, we desire to place special emphasis upon a consideration which, from our standpoint, overshadows all others with respect to our products. The word "Vaseline," instead of being a general term, applying to a class of petroleum derivatives made by the trade in general, as would appear from its use in the cosmetic classification of the House bill, is a copyrighted, coined term, the right to use which belongs exclusively to the Chesebrough Manufacturing Co. Its employment in the revenue bill is misleading to the public and detrimental to us, and we therefore earnestly urge that it be eliminated from the statute as it may finally be enacted.

Respectfully submitted.

ALLEE I. SMITH,
Attorney for Chesebrough Manufacturing Co.

Letter from 22 firms and corporations representing the tanning industry of the United States.

WASHINGTON, D. C., *May 15, 1917.*

Hon. F. M. SIMMONS,
Chairman Finance Committee, United States Senate.

DEAR SIR: As representatives of the tanning industry of the United States we beg leave to submit our views regarding the imposition of a tariff of 10 per cent on hides and skins, as provided in H. R. 4280, now under consideration.

At the outset we desire to express our full appreciation of the supreme emergency which has compelled Congress to provide for the great expenses of the war, and to announce our determination to stand by the Government and cooperate with all its departments.

We wish to record our objection to the policy of taxing raw materials. We fully agree with the chairman of the Ways and Means Committee of the House that such a tax is not scientific and should only be tolerated as a necessary war measure. We contend particularly that a tariff on hides and skins adds to the already excessive cost of leather and shoes, which form so large a part of living expenses, adds unnecessarily to the cost of war munitions now being purchased by the Government, and puts a handicap on a large industry. It seems to us that an unscientific and economically unsound method of taxation ought not to be introduced even under the present emergency.

If, however, all raw materials now on the free list must be subject to tariff duties we will cheerfully accept the situation with the understanding that at the end of the war the tax will be removed.

If this tariff clause should become a law it is manifest that purchases actually contracted prior to May 8, 1917, ought to be admitted free of duty, and we suggest the following be added to section 1000:

"*Provided, however*, That articles purchased for import on or prior to May 8, 1917, shall not be affected by the taxes imposed by this section."

Respectfully,

Howes Bros. Co., England, Walton & Co. (Inc.), Hans Rees Sons, Central Leather Co., American Hide & Leather Co., Penn Leather Co., Wilkinson & Reger, Richard Young Co., L. F. Robertson & Sons, E. H. Ellison, Toxaway Tanning Co., W. B. Jones Leather Co., Cover & Co., B. Frank & Sons, J. T. Kirkpatrick & Co., Good Bros. Leather Co., McAdoo & Allen, Stengel & Rothchild, R. Neumann & Co., Cleveland Tanning Co., Geisman Musliner & Brightman (Inc.), Kaufherr & Siegel.

Letter from H. B. Endicott, representing Endicott, Johnson & Co.

Endicott, Johnson & Co.,
Boston, Mass., May 15, 1917.

To the honorable the Members of the Finance Committee of the United States Senate.

Gentlemen: As the largest individual tanners of leather and the largest manufacturers of shoes, we desire respectfully to submit our views regarding the placing of a tariff of 10 per cent on hides and skins as provided in H. R. 4280 now under consideration.

At the outset we desire to express our full appreciation of the supreme emergency which has compelled the Congress to provide for the great expenses of the war and to announce that we are glad of the chance to stand by the Government and cooperate with all its departments.

We deplore the unavoidable departure from sound economic principles involved in placing a duty on imported hides and skins, and respectfully suggest that while we now urge the placing of such a duty, we emphatically protest against this being made a precedent to be used against us after the present critical revenue situation has passed.

When hides and skins were restored to the free list in 1909, the leather-making and leather-consuming industries of the United States succeeded in establishing the economic principle that hides and skins should be on the free list. We regard it as of vital importance that the position we then assumed be not surrendered, our attitude being that free raw materials are a basic element of our business. We therefore most respectfully request that the former status be resumed as soon as possible after the termination of the war.

Since the measure under consideration is as much an excise as a tariff bill we are constrained to direct your attention to the serious injustice and inequality of taxing imported hides and skins without coincidently taxing domestic hides and skins. It is suggested that since the hides and skins tanned annually in the United States are about equally divided between imported and domestic, imposition of an excise tax of 10 per cent placed upon hides and skins of domestic origin will have the effect of at least doubling the revenue to the Gov-

ernment and at the same time would more equitably distribute the burden of taxation.

The domestic production of hides and skins is controlled to the amount of about 70 per cent by the large slaughtering corporations who in recent years have established large tanneries and are now consumers of a large proportion of the hides that they take off, as well as importers of foreign hides. We, Endicott, Johnson & Co., can tan either domestic or foreign hides.

It would appear that an excise tax of 10 per cent on domestic hides and skins, together with the proposed 10 per cent tariff on imported hides and skins, would safeguard the independent tanners from unfair competition, and at the same time add more than 50 per cent to the Government revenue to be derived from hides and skins under the new law.

Respectfully submitted.

Endicott, Johnson & Co.,
By H. B. Endicott.

Letter from Mr. King Upton, vice president of the American Glue Co.

American Glue Co., Boston.

We believe that the proposed 10 per cent duty on raw materials entering into the manufacture of glues, adhesives, and sizes will divert materials which would naturally come to this country to other places, thereby depriving the American manufacturer of needed supplies and causing the increased price of products and also the decreased amount of fertilizer by-products which are most urgently wanted in this country to grow our crops.

The imported raw materials entering into the manufacture of glue, etc., for the last fiscal year show approximately as follows:

Unmanufactured bones	$756,000
Tapioca flour, cassava	1,992,000
Other farinaceous substances	234,000
Glue stock	972,000
Casein	985,000
	4,939,000

Ten per cent of this would amount to $493,900.

In addition to this, there is $670,000 dutiable gum arabic and $50,000 dutiable dextrine, also $151,986 various starches, making a total of $880,986. Ten per cent additional duty on this would be $88,098. This makes a total proposed duty on the materials entering into the manufacture of adhesives, sizes, etc., of $581.998.

These, of course, are approximate figures.

We suggest that the above items should not have the 10 per cent duty levied upon them, but in place of this that an internal-revenue tax of one-half cent per pound be levied on animal and vegetable glues and gelatines, adhesive pastes, mucilage, gums, animal and vegetable manufacturing sizes, and casein; also including any adhesives made and used by the same party.

This tax can be handled, if desired, in the way of stamps, is easily collected, and would put the entire industry on a fair, equitable basis, without preference to any.

We assume that the consumption of—

	Pounds.
Glue and gelatine in this country, both foreign and domestic, to be, per year	130,000,000
Adhesive pastes, mucilages, gums, animal and vegetable manufacturing sizes, including those made and used by the same party, per year	100,000,000
Vegetable glue, per year	20,000,000
Casein	40,000,000
	200,000,000

A tax of one-half cent per pound on this would amount to $1,450,000, giving an additional income to the Government above the tax proposed to levy on raw materials of $868,002, approximately.

I believe the glue manufacturers of this country are sufficiently patriotic to wish to aid the Government to the utmost extent in collecting the revenues.

and that the methods suggested will accomplish this result without hardship and without preventing the importing of raw materials necessary to keep the factories in operation.

Very truly, yours,

AMERICAN GLUE CO.,
By KING UPTON,
Vice President.

Telegram from A. M. Kistler, representing Kistler, Lesh & Co.

BOSTON, MASS., *May 16, 1917.*

Will you kindly see that the following is filed as a brief with the Senate committee as expressing the views of Kistler, Lesh & Co., of Morganton, N. C.:

"We understand that already in relation to the 10 per cent duty on hides two briefs have been placed before the Senate Finance Committee by various tanners, one brief seriously objecting to the contemplated import duty on hides and skins, and the other brief suggesting a like tax on all domestic hides and skins. We have come to the conclusion that the best solution of this problem is that hides should continue on the free list, and that a direct tax should be placed on the finished leather. We believe that this would be an absolutely fair and equitable distribution of a tax on the tanning industry, and from the Government's standpoint it would give much larger net returns and could be very easily collected. We believe that a rate of 3 per cent on finished leather would be a far better revenue producer than a 10 per cent tax on imported hides."

Would appreciate your wire as to this matter having had your attention.

A. M. KISTLER, *Morganton, N. C.*

Letter from C. H. Brown, chairman, hosiery manufacturers legislative committee.

MAY 16, 1917.

HON. F. M. SIMMONS,
Chairman Finance Committee,
United States Senate, Washington, D. C.

DEAR SIR: Does it appear to be good business judgment to have a tariff on any raw material which, for climatic or other reasons, we ourselves are unable to produce in the United States and which must be entirely purchased from outside countries?

A tariff on raw silk at this time would act as a great handicap against the American manufacturer of silk goods who is marketing his product in foreign countries. The United States is now making considerable headway in introducing American-made silk goods in many foreign countries, and it is our experience that we can compete better with silk goods in those countries than we can with either cotton or woolen goods. The reason for this is because we in the United States are able to obtain our raw silk just as cheaply as any other nation, and as the amount of labor constitutes a small proportion of the total value of silk goods, much smaller than is the case with cotton or woolen goods, we are able to name prices on silk goods which will compete with those of foreign manufacturers.

We would regret exceedingly to see our pretty-successful efforts to introduce American-made silk hosiery and underwear in foreign countries nipped in the bud by a tariff on raw silk. It would automatically reverse the competitive situation in favor of foreign manufacturers and against American mills.

We think investigation will show a very large export of manufactured silk goods from the United States, the fundamental reason for which is our ability at the present time to secure raw silk here at as favorable prices as the other countries with which we have to compete. There is good reason to believe a tariff on raw silk would seriously affect the entire silk industry of this country and, in the end, result in a loss of revenue rather than a gain.

Among the few things that Germany is heavily stocked with are silk, hosiery silk, and leather gloves. We can not hope to compete abroad after the war

on either cotton or woolen hosiery, but we have confidence in our ability to hold our own on silk hosiery and underwear, if not handicapped by a tariff on raw silk.

Very truly, yours,

HOSIERY MANUFACTURERS LEGISLATIVE COMMITTEE,
By C. H. BROWN, *Chairman.*

Brief of Sidney Ballou, representing Hawaiian Sugar Planters' Association.

INCREASE OF TARIFF AS AFFECTING SUGAR—BRIEF IN REPLY TO MR. FRANK C. LOWRY.

The opposition to the increase of 10 per cent in the tariff as applied to sugar is based on the assumption that the price to the ultimate consumer will be increased over what it otherwise would be by the amount of the increase in duty. Under market conditions now existing, and which will exist until some time after the war, this assumption is unwarranted. On the contrary, there is every probability that such increase will be absorbed long before it reaches the consumer and will have no effect on the retail price.

Under normal conditions raw sugar can be raised in Cuba and landed in New York at a cost of less than 2 cents a pound. Under war conditions this cost probably does not exceed 2¼ cents. At the present time (May 14, 1917) this sugar is being sold to the New York refiners for 5¼ cents, cost and freight, that is, before the question of duty enters at all. This shows a profit to the Cuban of over 100 per cent on every pound of sugar. It is obvious that this price bears no relation to cost plus fair profit, but that it is wholly a supply and demand price based on the necessities of the hour. There is evidently room for considerable absorption here.

On top of this the New York refiners are maintaining an excessive differential or refiner's margin. While the exact cost of refining is unknown, it is generally assumed in the trade that 0.625 cent represents a fair margin. Before the war the average refiner's margin was 0.879 cent in 1912, 0.772 cent in 1913, and 0.968 cent in 1914, partly war time. In 1915 this was increased to 0.917 cent and in 1916 to 1.076 cents. Since the first of this year, however, the refiner's margin, as given weekly by Willett & Gray, has averaged 1.662 cents, and has occasionally risen above 2 cents. There is more opportunity here for absorption of the additional tax.

These figures, moreover, are based upon the lowest cash price for fine granulated sugar, and therefore represent only the margin of the American Sugar Co. For some months past that company has quoted lower prices than other refiners, necessarily restricting its sales, in a laudable attempt to control a rising market, a movement in which the Federal, represented by Mr. Lowry, has been conspicuously absent. Since February 21 last, the selling price of the Federal has never been less than half a cent higher than that of the American, and frequently three-quarters to an entire cent in excess. The Federal's margin has therefore averaged considerably over 2 cents. It is evident that the Federal is selling its sugar according to the practice testified to repeatedly by its president, Mr. C. A. Spreckels (Hardwick Hearings, pp. 2261, 2300), of "getting all the traffic will bear."

If a man is already selling a supply and demand commodity for "all the traffic will bear," the imposition of an increased tax is not going to enable him to get more than the traffic will bear. It must not be forgotten that it is the refiner, as the importer of raw sugar, who pays the tariff tax into the Treasury in the first instance. The proposition that the payer of such a tax can pass it along to the consumer in an increased price is far from being universally true. Much depends on market conditions in each particular industry. If he can not pass it along, he must absorb it, or take it out of his profits. If his profits are insufficient to warrant this, he must look around for means to reduce his cost.

When under present conditions the New York refiners are selling granulated sugar at 8 cents a pound, it is safe to assume that that is the highest price at which they can sell it and keep their sugars moving. If without any change in the factors affecting supply and demand, they undertake to add another half cent because they have paid that much more into the Government Treasury, they will find that they can not sell their sugars as fast as they can make them.

The president of the Federal Sugar Refining Co. may again be quoted as to what will happen:

"The Federal Sugar Refining Co. produces all the sugar it possibly can and markets its product every day at a price it will bring, and if does not bring the price, the price is immediately lowered, which frequently happens. We get the price, but we move our product every day." (C. A. Spreckels. Hardwick Hearings, p. 2209.)

In other words, the price would come back to the level dictated by supply and demand. The extra cost would either be absorbed by the refiners directly or, if it resulted in a decreased demand, would be reflected in the cost and freight price of Cuban sugar.

The cost and freight price of Cuban sugar is at present from one-eighth to one-fourth of a cent higher than the corresponding price of all other foreign sugars, for no other reason than that it has a quarter of a cent less tariff levied upon it. Under these circumstances, it is particularly sensitive to tariff changes. In an open letter to the President, under date of October 19, 1915, Mr. Lowry makes the assertion that the raw-sugar market advanced one-half cent a pound merely upon the statement that Secretary McAdoo was in favor of the retention of the duty then scheduled to be abolished the next May. The proposal to impose the 10 per cent tax now under consideration caused a broad decline in sugar futures, which are quoted in terms of Cuban cost and freight price. The New York Times of May 11 said:

"The market for sugar futures was easier and prices were lower again under continued liquidation prompted by the uncertainty of the new 10 per cent duty and the outcome of the proposed Government control."

The Wall Street Journal of the same date, still referring to Cuban cost and freight prices, said:

"Reports of increase of 10 per cent to be imposed on import duty on Cuban sugar had a depressing effect."

The New York Journal of Commerce, after referring to the clause inserted by the refiners in their existing contracts adding any tax to the contract price, said:

"In fact, ultimately, according to the view held in some quarters, Cuba will absorb the tax, since it has supplies that must be marketed; and the refiners are pursuing a waiting policy, thus forcing the issue with the planters."

These quotations show that those most interested do not share the opinion that the Cuban can maintain the same in-bond price and pass the tax to the consumer, but that the proposed increase will lower the cost and freight price of Cuban sugar.

A great deal has been said about the profits enjoyed by domestic producers and complaint has been made that the price of domestic sugar bears no relation to the cost of the raw material or the fair profits of the trade. This is equally true of the price of imported sugar. Even at last year's prices, which seem moderate to-day, the Cuban Cane Corporation, during its first 10 months of operation made an operating profit of $14,700,000, on a declared capital of $52,500,000. (Willett & Gray, Jan. 4, 1917.) There is the same lack of connection between cost and selling price in all the great supply and demand commodities, such as wheat, cotton, and corn. In the case of sugar the ruling market is the New York market, where the price of raw sugar is fixed by fair bargaining between the Cuban as seller and the refiner as buyer. In agreeing upon this price the refiner represents the interests of the consumer, and if he can do no better on this basic price than to concede the Cuban over 100 per cent profit on the cost of production it ill behooves him to complain that the price of domestic sugar is subject to the same inexorable law of supply and demand.

Respectfully submitted.

SIDNEY BALLOU,
Representing Hawaiian Sugar Planters' Association.

WASHINGTON, *May 15, 1917.*

Letter from sugar refining companies representing a substantial part of the industry in the United States.

MAY 16, 1917.

Senate Finance Committee, United States Senate, Washington, D. C.

GENTLEMEN: Without attempting to discuss what share of taxation, if any, sugar should bear, the undersigned, representing a substantial part of the cane-

sugar refining industry of the United States, desire to call your attention to what is regarded by the trade as an oversight in the drafting of section 1000 of House bill 4280 so far as it affects the duty upon sugar.

The present tariff act and those of 1789, 1790, 1794, 1795, 1797, 1802, 1816, 1832, 1842, 1861, 1862, 1864, 1870, 1883, 1890, 1897, and 1909 all provide for a specific duty on sugar. The tariff acts of 1846 and 1894 are the only ones which provided for an ad valorem duty.

Thus it will be seen that the present duty upon sugar and that which has been in force for all but a few years since 1789 is a specific duty. At the present time the machinery of the customhouse is adapted to and used effectively in collecting a duty of this character. The method and means of collection of the sugar duty now in vogue is satisfactory to the Government and to the importers. If, in addition to this specific duty, the customhouse and importers have to provide for a duty of another sort, additional machinery to that now in force will have to be employed. Obviously, from an administrative point of view, two methods of collecting a tax upon the same article are unscientific.

So far as we know, no nation of any importance has an ad valorem duty on sugar.

Furthermore, the present customs of the sugar trade have been built up around a specific duty. To add an ad valorem duty would bring the most far-reaching and unnecessary confusion into the trade. The following difficulties immediately present themselves:

1. Appraising officers are required to find and return the value of sugars on the day of shipment in the principal markets of the country from whence they come. The foreign market value on that date may be higher or lower than when the sugars were purchased or contracted for. The buyer accordingly in making his purchase can not know the amount of duty he may have to pay. If the importer fixes the value in his entry at more than the appraiser's estimate of the market value at the time of shipment, the importer is compelled to pay on the value as estimated by him. On the other hand, if the appraiser fixes a higher market value than the importer, the latter is bound by the appraisement. In other words, while the estimated value stated by the importer in his entry may be increased, it can not be lowered.

Sugar imported into the United States comes from countries all over the world and from various ports in these different countries. Cuba alone has many different ports of shipment, with varying values on the date of shipment dependent on ocean freights, cost of storage, port charges, and whether the sugar is for immediate or future shipment, and many other factors. It is difficult, if not impossible, to determine accurately at all times the market value or a wholesale price at these various ports of shipment as of the time shipment is made. The bulk of the transactions in sugar are made for subsequent shipment and seldom are prices made through sales of sugar actually in port for immediate delivery, but rather for sugar to arrive in transit, afloat, or in bond in a United States port.

2. Raw sugars are purchased and duty is paid upon the polariscopic test of the same on the arrival of the sugar in this country, with an advance in price above a certain basis of test and a reduction in price below. Such sugars may lose in weight by evaporation or drainage on the voyage of importation or other causes and are thus increased in test and value per pound after date of shipment from a foreign country. Conversely, sugars through absorption of moisture or damage by sea water may gain in weight on the voyage of importation and thus lose in test and value.

As the entry must be made before the discharge of the sugar upon arrival, it is impossible to state the exact test in an entry. Should the entered value made in the utmost good faith be advanced through appraisement, heavy penalties and seizure may result.

As a matter of fact, while the tariff bill of 1894 was in effect providing for an advalorem duty, heavy penalties were assessed upon importers for erroneous valuations which subsequently were remitted by the Government upon proof of the good faith of the importers being established.

3. Market value being a question of fact and most difficult to fix, would, under an ad valorem system, seriously interfere with, if it did not altogether prevent, the making of contracts in advance of shipment—one of the vital conditions for the carrying on of our business.

4. The new risks, imposed by the ad valorem system would tend to increase the refining margin as the only means of meeting the risks and so operate as to increase unnecessarily the price of refined sugar without serving any useful purpose.

We therefore urge that if additional customs revenues are to be raised from sugar, they be of a specific rather than of an ad valorem character.

We are addressing you by letter as a means of saving your time, but are ready to appear before you if you so desire.

Very respectfully,

The American Sugar Refining Co., Earl D. Babst, president; The National Sugar Refining Co. of New Jersey, James D. Post, president; Federal Sugar Refining Co., C. N. Symonds, president; Warner Sugar Refining Co., C. M. Warner, president; Arbuckle Bros.; Colonial Sugars Co., John Gary, president; Pennsylvania Sugar Co., G. H. Farley, president; The W. J. McCahan Sugar Refining Co., W. J. McCahan, jr., assistant treasurer; Revere Sugar Refinery, Dwight P. Thomas, vice president.

The CHAIRMAN. The committee will now adjourn.

(Thereupon, at 5 o'clock p. m., the committee adjourned subject to the call of the chairman.)

TITLE X. TARIFF.

MEMORANDUM NO. I.

The following letter and papers were submitted by F. W. Taussig, chairman of the United States Tariff Commission:

Hon. F. M. SIMMONS,
United States Senate.

MY DEAR SENATOR: (1) I inclose herewith drafts of provisions for the levy of new customs duties, labeled memorandum No. I. They are prepared upon the lines suggested by your committee. I am also inclosing a summary list, labeled memorandum No. II, of the articles on which duties are suggested, and a list also of important articles on which it is suggested that no duties at all should be levied. This memorandum also indicates what will be the presumable revenue from the several changes suggested.

(2) It is hardly necessary to say that if duties be imposed upon such raw materials as silk, wool, and hides corresponding changes of duties on the manufactured articles should be made. In view of the uncertainty concerning the Finance Committee's final conclusion with regard to the duties on raw materials, it did not seem to us expedient at present to draft in detail paragraphs embodying readjusted duties on the manufactured goods. A summary schedule, however, labeled memorandum No. III, is inclosed, showing in what manner this readjustment might proceed. If it is the desire of your committee, we shall be glad to prepare detailed drafts of such readjusted duties on the manufactured goods.

(3) Lest there be misunderstanding I would say that these papers embody no recommendations of the Tariff Commission, but are prepared simply in order that the Finance Committee may see in concrete form what would be the outcome of the line of action concerning which the committee desires information.

(4) Further, I venture to add a word concerning my own position. The more I reflect on the proposed line of action, the more I am skeptical of the expediency of putting duties on any considerable number of articles now upon the free list. The better plan seems to me to be to select a very few articles, to impose upon them strictly revenue duties for securing as large a revenue as possible from these few articles, and otherwise not to disturb the existing tariff situation at all. A memorandum, No. IV, indicates what revenue might be secured from a very few articles, such as coffee, tea, cocoa, and, among the raw materials, raw silk. The probable revenue from an excise of one-half cent a pound on sugar is also indicated. The total revenue from all the other sources enumerated in the suggestions is comparatively small.

(5) Some minor readjustments in schedule H (spirits) and schedule A (Par. 48, perfumery), will probably be necessary in consequence of the higher internal tax on spirits. We expect to send in a day or two a memorandum in detail about these.

With high esteem, I remain,

Yours, very truly,

F. W. TAUSSIG, *Chairman.*

PRELIMINARY DRAFT OF PHRASEOLOGY FOR NEW OR ADDITIONAL DUTIES ON SELECTED ARTICLES.

SEC. 1000. That on and after the day following the passage of this act there shall be levied, collected, and paid upon the articles enumerated in this section, when imported from any foreign country into the United States or its possessions (except the Philippine Islands and the islands of Guam and Tutuila), the rates of duty prescribed in this section; and paragraphs three hundred and eighty-seven to six hundred and fifty-seven, inclusive, constituting the enumeration of the free list of the act entitled "An act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October third, nineteen hundred and thirteen, be amended accordingly, and so much of said paragraphs and of said act or any existing law or parts of laws as may be inconsistent with this section are hereby repealed:

(1) Asbestos, unmanufactured, ten per centum ad valorem.

(2) Burlaps, or plain woven fabrics of single jute yarns, weighing not more than fifteen ounces per square yard and exceeding sixteen threads to the square inch, counting the warp and filling, ten per centum ad valorem.

(3) All binding twine, manufactured from New Zealand hemp, Manila, istle or Tampico fiber, sisal grass, or sunn, or a mixture of any two or more of them, of single ply and measuring not exceeding seven hundred and fifty feet to the pound, ten per centum ad valorem.

(4) Bolting cloths composed of silk, imported expressly for milling purposes, and so permanently marked as not to be available for any other use. Press cloths composed of camel's hair, imported expressly for oil milling purposes, and marked so as to indicate that it is for such purposes, and cut into lengths not to exceed seventy-two inches and woven in widths not under ten inches nor to exceed fifteen inches and weighing not less than one-half pound per square foot, ten per centum ad valorem.

(5) Books, maps, music, engravings, photographs, etchings, lithographic prints, bound or unbound, and charts, which shall have been printed more than twenty years at the date of importation; books and pamphlets, printed wholly or chiefly in languages other than English, not for the use of the United States or for the use of the Library of Congress, ten per centum ad valorem.

(6) Catgut, whip gut, or worm gut, unmanufactured, ten per centum ad valorem.

(7) Chalk, crude, not ground, bolted, precipitated, or otherwise manufactured, ten per centum ad valorem.

(8) Cocoa or cacao, crude, and fiber, leaves, and shells of, 3 cents per pound.

(9) Coffee, 5 cents per pound.

(10) Coir, and coir yarn, $15 per ton.

(11) Corkwood, or cork bark, unmanufactured, and cork waste, shavings, and cork refuse of all kinds, ten per centum ad valorem.

(12) Glaziers' and engravers' diamonds, unset, and miners' diamonds, ten per centum ad valorem.

(13) Flax not hackled, or dressed, 1 cent per pound.

(14) Flax, hackled, known as "dressed line," 3 cents per pound.

(15) Flax straw and flax noils, $15 per ton.

(16) Tow or flax, $20 per ton.

(17) Flint, flints and flint stones, unground, ten per centum ad valorem.

(18) Fruits or berries, green, ripe, or dried, and fruits in brine, not specially provided for, ten per centum ad valorem.

(19) Furs and fur skins, undressed, ten per centum ad valorem.

(20) Istle or Tampico fiber, jute fiber, $10 per ton.

(21) Jute butts, $5 per ton.

(22) Manila, fiber or grass, $22.50 per ton.

(23) Sisal grass, and sunn, $15 per ton.

(24) Broom root, $20 per ton.

(25) Ramie, $20 per ton.

(26) Mapoc, $20 per ton.

(27) New Zealand fiber and vegetable crin, $20 per ton.

(28) Hemp, not hackled, $22.50 per ton.

(29) Hemp, hackled, $45.00 per ton.

(30) Hemp, tow of, $15 per ton.

(31) Hair of horse, cattle, and other animals, cleaned or uncleaned, drawn or undrawn, but unmanufactured, not specially provided for in this section, ten per centum ad valorem.

(32) Hide cuttings, raw, with or without hair, and all other glue stock, ten per centum ad valorem.

(33) Hides of cattle, raw or uncured, or dry, salted, or pickled, and hoofs, unmanufactured, and horns and parts of, including horn strips and tips, unmanufactured, ten per centum ad valorem.

(34) India rubber, crude, and milk of, and scrap or refuse India rubber fit only for remanufacture, ten per centum ad valorem.

(35) All leather not specially provided for in this section and leather board or compressed leather; leather cut into shoe uppers or vamps or other forms suitable for conversion into boots or shoes; boots and shoes made wholly or in chief value of leather; leather shoe laces, finished, or unfinished; harness, saddles, and saddlery, in sets or in parts, finished, or unfinished, ten per centum ad valorem.

(36) Limestone-rock, asphalt; asphaltum, and bitumen, 50 cents per ton.

(37) Nuts: Marrons, crude; coconuts in the shell and broken coconut meat or copra, not shredded, desiccated, or prepared in any manner; palm nuts and palm-nut kernels, ten per centum ad valorem.

(38) Oils: Birch tar, cajeput, coconut, cod, cod liver, croton, ichthyol, juglandium, palm, palm-kernel, perilla, soya-bean, and olive oil rendered unfit for use as food or for any but mechanical or manufacturing purposes, by such means as shall be satisfactory to the Secretary of the Treasury and under regulations to be prescribed by him; Chinese nut oil, nut oil or oil of nuts not specially provided for in this section; petroleum, crude or refined, and all products obtained from petroleum, including kerosene, benzine, naphtha, gasoline, paraffin, and paraffin oil: and also spermaceti, whale, and other fish oils of American fisheries and all fish and other products of such fisheries, ten per centum ad valorem.

(39) Pearl, mother of, and shells, not sawed, cut, flaked, polished, or otherwise manufactured, or advanced in value from the natural state, ten per centum ad valorem.

(40) Photographic and moving-picture films, sensitized but not exposed or developed, 1 cent per linear foot.

(41) Sago, crude, and sago flour, ten per centum ad valorem.

(42) Shrimps, lobsters, and other shell fish, ten per centum ad valorem.

(43) Silk cocoons and silk waste, ten per centum ad valorem.

(44) Silk, raw, in skeins reeled from the cocoon, or rereeled, but not wound, doubled, twisted, or advanced in manufacture in any way, 40 cents per pound.

(45) Skins of hares, rabbits, dogs, goats, and sheep, undressed, ten per centum ad valorem.

(46) Skins of all kinds, raw, and hides, not specially provided for, ten per centum ad valorem.

(47) Sumac, ground, three-tenths of a cent per pound.

(48) Tagua nuts, ten per centum ad valorem.

(49) Tanning material: Extracts of quebracho, and of hemlock bark; extracts of oak and chestnut and other barks and woods other than dyewoods such as are commonly used for tanning not specially provided for in this section; nuts and nut galls and woods used expressly for dyeing or tanning, whether or not advanced in value or condition by shredding, grinding, chipping, crushing, or any other process: and articles in a crude state used in dyeing or tanning: all the foregoing not containing alcohol and not specially provided for in this section, ten per centum ad valorem.

(50) Tapioca, tapioca flour, cassava, or cassady, ten per centum ad valorem.

(51) Tea not specially provided for in paragraph thirteen, Schedule A, and tea plants, 10 cents per pound.

(52) Woods: Cedar, including Spanish cedar, lignum-vitæ, lacewood, ebony, box, granadilla, mahogany, rosewood, satinwood, and all forms of cabinet woods, in the log, rough, or hewn only, and red cedar (Juniperus virginiana) timber, hewn, sided, squared, or round: sticks of partridge, hair wood, pimento, orange, myrtle, bamboo, rattan, reeds unmanufactured, india malacca joints, and other woods not specially provided for in this section, in the rough, or not further advanced than cut into lengths suitable for sticks for unbrellas, parasols, sunshades, whips, fishing rods, or walking canes, ten per centum ad valorem.

(53) Wool of the sheep, hair of the camel, and other like animals, and all wools and hair on the skin of such animals, ten per centum ad valorem.

(54) Wool wastes: All noils, top waste, card waste, slubbing waste, roving waste, ring waste, yarn waste, bur waste, thread waste, garnetted waste, shoddies, mungo, flocks, wool extract, carbonized wool, carbonized noils, and all other wastes not specially provided for in this section, 10 per centum ad valorem.

SEC. 1001. That paragraphs 68, 163, 168, 221, 223, 226, 231, 235, 335, 336, 337, 339, 340, 345, 348, 368, 369, 374, 376, and 380, constituting parts of the dutiable list of the act entitled "An act to reduce tariff duties and to provide revenue for the Government, and for other purposes," approved October 3, 1913, be amended so that the same shall read as follows:

68. Sponges: Trimmed or untrimmed, but not advanced in value by chemical processes, 20 per centum ad valorem; bleached sponges and sponges advanced in value by processes involving chemical operations, manufactures of sponges of which sponge is the component material of chief value, not specially provided for in this section, 25 per centum ad valorem.

163. Zinc in blocks, pigs, or sheets, and old and worn out zinc fit only to be remanufactured, 15 per centum ad valorem; and zinc dust, 20 per centum ad valorem.

168. Briar root or briar wood, ivy or laurel, and similar wood unmanufactured, or not further advanced than cut into blocks suitable for the articles into which they are intended to be converted, 15 per centum ad valorem.

221. Orange peel or lemon peel preserved, candied, or dried, 1 cent per pound; coconut meat or copra desiccated, shredded, cut, or similarly prepared, 3 cents per pound; and citron or citron peel preserved, candied, or dried, 2 cents per pound.

223. Almonds, not shelled, 4 cents per pound; almonds, shelled, 6 cents per pound; apricot and peach kernels, 3 cents per pound.

226. Nuts of all kinds, shelled or unshelled, not specially provided for in this section, 2 cents per pound; but no allowance shall be made for dirt or other impurities in nuts of any kind, shelled or unshelled.

231. Unsweetened chocolate and cocoa, prepared or manufactured, not specially provided for in this section, 15 per centum ad valorem. Sweetened chocolate and cocoa, prepared or manufactured, not specially provided for in this section, valued at 20 cents per pound or less, 2 cents per pound; valued at more than 20 cents per pound, 25 per centum ad valorem. The weight and the value of the immediate coverings, other than the outer packing case or other covering, shall be included in the dutiable weight and the value of the merchandise.

235. Spices, unground: Cassia buds, cassia, and cassia vera; cinnamon and cinnamon chips; ginger root, unground and not preserved or candied; nutmegs; pepper, black or white; capsicum or red pepper, or cayenne pepper; and clove stems, 2 cents per pound; cloves, 3 cents per pound; pimento, ¾ of 1 cent per pound; sage, 1 cent per pound; mace, 9 cents per pound; Bombay or wild mace, 18 cents per pound; ground spices, in each case, the specific duty per pound enumerated in the foregoing part of this paragraph for unground spices, and in addition thereto a duty of 20 per centum ad valorem; mustard, ground or prepared, in bottles or otherwise, 7 cents per pound; all other spices not specially provided for in this section, including all herbs or herb leaves in glass or other small packages for culinary use, 20 per centum ad valorem.

335. Braids, plaits, laces, and willow sheets or squares, composed wholly or in chief value of straw, chip, grass, palm leaf, willow, osier, rattan, real horsehair, cuba bark, or manila hemp, suitable gor making or ornamenting hats, bonnets, or hoods, not bleached, dyed, colored, or stained, 20 per centum ad valorem; if bleached, dyed, colored, or stained, 25 per centum ad valorem; hats, bonnets, and hoods composed wholly or in chief value of straw, chip, grass, palm leaf,willow, osier, rattan, cuba bark, or manila hemp, whether wholly or partly manufactured, but not blocked, or trimmed, 35 per centum ad valorem; if blocked or trimmed, and in chief value of such materials, 50 per centum ad valorem. But the terms "grass" and "straw" shall be understood to mean these substances in their natural form and structure, and not the separated fiber thereof.

336. Brooms, made of broom corn, straw, wooden fiber, or twigs, 15 per centum ad valorem; brushes and feather dusters of all kinds, and hair pencils in quills or otherwise, 40 per centum ad valorem.

337. Bristles, sorted, bunched, or prepared, 7½ cents per pound.

339. Buttons of vegetable ivory in sizes thirty-six lines and larger, 40 per centum ad valorem; below thirty-six lines, 50 per centum ad valorem; buttons of shell and pearl in sizes twenty-six lines and larger, 30 per centum ad valorem; below twenty-six lines, 50 per centum ad valorem; agate buttons and shoe buttons, 25 per centum ad valorem; parts of buttons and button molds or blanks, finished or unfinished, and all collar and cuff buttons and studs composed wholly of bone, mother-of-pearl, ivory, or agate, all the foregoing and buttons not specially provided for in this section, 45 per centum ad valorem.

340. Cork bark, cut into squares, cubes, or quarters, 4 cents per pound; manufactured cork stoppers, over three-fourths of an inch in diameter, measured at the larger end, and manufactured cork disks, wafers, or washers, over three-sixteenths of an inch in thickness, 20 cents per pound; manufactured cork stoppers, three-fourths of an inch or less in diameter, measured at the larger end, and manufactured cork disks, wafers, or washers, three-sixteenths of an inch or less in thickness, 25 cents per pound; cork, artificial, or cork substitutes manufactured from cork waste, or granulated corks, and not otherwise provided for in this section, 3 cents per pound; cork insulation, wholly or in chief value of granulated cork, in slabs, boards, planks, or molded forms, ¼ cent per pound; cork paper, 35 per centum ad valorem; manufactures wholly or in chief value of cork or of cork bark, or of artificial cork or bark substitutes, granulated or ground cork, not specially provided for in this section, 30 per centum ad valorem.

345. Matches, friction or lucifer, of all descriptions, per gross of one hundred and forty-four boxes, containing not more than one hundred matches per box, 4 cents per gross; when imported otherwise than in boxes containing not more than one hundred matches each, ¾ of 1 cent per one thousand matches; wax matches, fusees, wind matches, and all matches in books or folders or having a stained, dyed, or colored stick or stem, and tapers consisting of a wick coated with an inflammable substance, and night lights, 25 per centum ad valorem: *Provided*, That in accordance with section ten of "An act to provide for a tax upon white phosphorous matches, and for other purposes," approved April ninth, nineteen hundred and twelve, white phosphorous matches manufactured wholly or in part in any foreign country shall not be entitled to enter at any of the ports of the United States, and the importation thereof is hereby

prohibited: *Provided further*, That nothing in this act contained shall be held to repeal or modify said act to provide for a tax upon white phosphorous matches, and for other purposes, approved April ninth, nineteen hundred and twelve.

348. Furs dressed on the skin, not advanced further than dyeing, 40 per centum ad valorem; plates and mats of dog and goat skins, 10 per centum ad valorem; manufactures of furs, further advanced than dressing and dyeing, when prepared for use as material, joined or sewed together, including plates, linings, and crosses, except plates and mats of dog and goat skins, and articles manufactured from fur not specially provided for in this section, 40 per centum ad valorem; articles of wearing apparel of every description partly or wholly manufactured, composed of or of which hides or skins of cattle of the bovine species, or of the dog or goat are the component material of chief value, 15 per centum ad valorem; articles of wearing apparel of every description partly or wholly manufactured, composed of or of which fur is the component material of chief value, not specially provided for in this section, 50 per centum ad valorem; furs not on the skin, prepared for hatters' use, including fur skins carroted, 15 per centum ad valorem.

368. Manufactures of bone, chip, grass, horn, india rubber or gutta-percha, palm leaf, quills, straw, weeds, or whalebone, or of which any of them is the component material of chief value, not otherwise specially provided for in this section, shall be subject to the following rates: Manufactures of india rubber or gutta-percha, commonly known as druggists' sundries, 15 per centum ad valorem; manufactures of india rubber or gutta-percha, not specially provided for in this section, 20 per centum ad valorem; palm leaf, 15 per centum ad valorem; bone chip, horn, quills, and whalebone, 20 per centum ad valorem; grass, straw, and weeds, 25 per centum ad valorem; combs composed wholly of horn or of horn and metal, 25 per centum ad valorem. The terms "grass" and "straw" shall be understood to mean these substances in their natural state, and not the separated fibers thereof.

369. Ivory tusks in their natural state, or cut vertically across the grain only, with the bark left intact, 30 per centum ad valorem; manufactures of ivory or vegetable ivory, or of which either of these substances is the component material of chief value, not specially provided for in this section, 35 per centum ad valorem; manufactures of mother-of-pearl and shell, plaster of Paris, papier mâché, and vulcanized india rubber known as "hard rubber," or of which these substances or any of them is the component material of chief value, not specially provided for in this section, 25 per centum ad valorem; shells engraved, cut, ornamented, or otherwise manufactured, 25 per centum ad valorem.

374. Phonographs, gramophones, graphophones, and similar articles, or parts thereof, 35 per centum ad valorem.

376. Works of art, including paintings in oil, mineral, water, or other colors, pastels, drawings and sketches in pen and ink or pencil and water or other colors, or copies, replica, or reproductions of any of the same, statuary, sculptures, or copies, replicas, or reproductions thereof, and etchings and engravings, and wood cuts, not specially provided for in this section; and all works of art, collections in illustrations of the progress of the arts, works in bronze, marble, terra cotta, parian, pottery, or porcelain, artistic antiquities and objects of art or ornamental character or educational value, which shall have been produced more than one hundred years prior to the date of importation, 20 per centum ad valorem; paragraphs 652 and 656 of the act of 1913 are hereby repealed.

380. Photographic cameras, and parts thereof, not specially provided for in this section, photographic dry plates, not specially provided for in this section, 15 per centum ad valorem; photographic-film negatives, imported in any form, for use in any way in connection with moving-picture exhibits, or for making or reproducing pictures for such exhibits, exposed but not developed, 3 cents per linear or running foot; if exposed and developed, 4 cents per linear or running foot; photographic-film positives, imported in any form, for use in any way in connection with moving-picture exhibits, including herein all moving, motion, motophotography or cinematography film pictures, prints, positives or duplicates of every kind and nature, and of whatever substance made, 2 cents per linear or running foot: *Provided, however*, That all photographic films imported under this section shall be subject to such censorship and rules and regulations as may be imposed by the Secretary of the Treasury.

(Note.—Schedules F and H, relating to tobacco and spirits, respectively, should be readjusted with relation to whatever internal-revenue tax the committee may agree to recommend.)

MEMORANDUM NO. II.

SUMMARY LIST OF ARTICLES, SUGGESTED RATES, ESTIMATED REVENUE.

List of articles now free of duty on which a specific duty or ad valorem duty other than 10 per cent might be levied.

Paragraph in present law.	Articles.		Suggested rate.	Estimated revenue.
534	Asphaltum (all other)	per ton..	$0.50	$75,000
456	Cocoa or cacao, crude	per pound..	.03	7,000,000
457	Coffee	do....	.05	57,500,000
600	Silk	do....	.40	13,619,500
627	Tea	do....	.10	10,000,000
	Fibers and grasses:			
497	Broom root	per ton..	20.00	30,000
485	Flax, not hackled	per pound..	.01	72,000
485	Flax, hackled	do....	.03	200,000
485	Flax, tow of	per ton..	20.00	55,000
485	Hemp, not hackled	do....	22.50	115,000
485	Hemp, hackled	do....	45.00	51,000
497	Tampico fiber	do....	10.00	300,000
497	Jute	do....	10.00	700,000
497	Jute butts	do....	5.00	150,000
497	Kapoc	do....	25.00	120,000
497	Manila	do....	22.50	1,600,000
497	New Zealand flax	do....	20.00	100,000
497	Ramie	do....	20.00	10,000
497	Sisal grass	do....	15.00	3,200,000
497	All other fibers	do....	15.00	85,000
625	Tapioca, tapioca flour, and cassava	per pound..	.00½	300,000
611	Statuary and casts of sculpture	per cent..	20	20,000
656	Works of art	do....	20	22,000
656	Works of art (glass)	do....	20	40,000
	Art works, n. e. s.:			
656	Production artists abroad	do....	20	40,000
652	Proof artists' etchings	do....	20	20,000
652	Original paintings, etc	do....	20	800,000
652	Original sculpture, etc	do....	20	20,000
656	Works of art (rich antiques)	do....	20	2,400,000
618	Sumac, ground	per pound..	.00$\frac{1}{16}$	3,000
				98,677,500

List of articles now free of duty on which is suggested a 10 per cent ad valorem rate of duty.

Paragraph in present law.	Articles.	Suggested rate.	Estimated revenue.
		Per cent.	
403	Asbestos, unmanufactured	10	$270,000
446	Chalk, crude	10	10,000
464	Corkwood, or cork bark, unmanufactured, waste, etc	10	250,000
	Dyewood, crude:		
624	Fustic	10	30,000
624	Logwood	10	360,000
455	Cochineal	10	30,000
624	All other	10	20,000
598	Shell fish	10	150,000
488	Fruits and berries (including bananas)	10	1,010,000
	Nuts:		
557	Coconuts (in the shell)	10	160,000
557	Coconut meat, etc	10	460,000
557	Maroons, crude	10	45,000
557	Palm and palm-nut kernels	10	100,000

List of articles now free of duty on which is suggested a 10 per cent ad valorem rate of duty—Continued.

Paragraph in present law.	Articles.	Suggested rate.	Estimated revenue.
	Furs:	*Per cent.*	
491	Hare and rabbit skins	10	$500,000
491	All other raw fur skins	10	1,000,000
443	Gut, unmanufactured	10	25,000
	Hair, unmanufactured:		
503	Cattle hair	10	55,000
503	Horse hair, all other	10	200,000
503	Other animal hair	10	40,000
	Hides and skins:		
	Buffalo—		
506	Dry	10	300,000
506	Green or pickled	10	10,000
	Calf—		
506	Dry	10	1,000,000
506	Green or pickled	10	500,000
	Cattle—		
506	Dry	10	3,800,000
506	Green or pickled	10	4,000,000
	Goat—		
603	Dry	10	2,800,000
603	Green and pickled	10	250,000
	Horse, colt, and ass—		
604	Dry	10	250,000
604	Green and pickled	10	140,000
604	Kangaroo	10	70,000
604	Pig	10	2,000
	Sheep—		
603	Dry	10	1,200,000
603	Green and pickled	10	900,000
604	All other	10	200,000
504	Hide cuttings and other glue stock	10	90,000
	Hoofs and horns:		
508	Hoofs }	10	10,000
511	Horns }		
513	India rubber, unmanufactured	10	16,000,000
620	Ivory, vegetable, tagua nuts	10	90,000
	Oil:		
561	Mineral, crude	10	1,400,000
561	Paraffin, and other refined	10	25,000
	Shells:		
570	Mother of pearl	10	160,000
570	All other	10	30,000
624	Tanning materials, n. e. s., bark, woods, etc	10	300,000
625	Tapioca, tapioca flour, and cassava	10	300,000
	Wood, unmanufactured:		
648	Cedar ... M feet	10	60,000
648	Ebony	10	25,000
648	Mahogany ... M feet	10	220,000
648	Rosewood	10	8,000
648	All other	10	15,000
648	Rattans and reeds	10	150,000
408	Burlaps, not bleached, dyed, etc	10	3,200,000
	Leather and manufactures of:		
530	Fancy leather	10	50,000
530	Goatskins, tanned	10	450,000
530	Harness and saddle leather	10	20,000
530	Rough leather	10	10,000
530	Sole leather	10	300,000
530	Calf upper leather	10	100,000
530	Goat and kid leather	10	95,000
530	Sheep and lamb	10	70,000
530	All other upper leather	10	32,000
530	All other leather	10	140 000
530	Boots and shoes	10	20,000
530	Harness and saddlery	10	10,000
	Oils, vegetable:		
561	Coconut, not refined ... pounds	10	600,000
561	Chinese nut oil ... gallons	10	200,000
561	Olive oil, fit only for mechanical use ... gallons	10	65,000
661	Palm oil ... pounds	10	300,000
561	Palm kernel oil ... do	10	49,000
561	Soya bean ... do	10	550,000
424-28, incl., and 582	Books and other printed matter ... do	10	250,000
561	Paraffin, not including oils	10	45,000

List of articles now free of duty on which is suggested a 10 per cent ad valorem rate of duty—Continued.

Paragraph in present law.	Articles.	Suggested rate.	Estimated revenue.
		Per cent.	
576 also 404	Films for moving pictures..........linear feet..	10	$80,000
579	Plumbago or graphite..........tons..	10	450,000
474	Glazier's and engraver's diamonds, unset, miner's..........	10	70,000
	Wool of the sheep, hair of the camel, goat, alpaca, or other like animals—unmanufactured:		
650	Class 1, wool—		
650	Unwashed..........	10	8,000,000
650	Washed..........	10	350,000
650	Scoured..........	10	1,000,000
	Total class 1..........	10	9,350,000
	Class 2, wool—		
650	Washed and unwashed..........	10	350,000
650	Scoured..........	10	4,000
650	Camel's hair, washed and unwashed..........	10	6,500
	Total class 2..........	10	360,500
	Class 3, wool—		
650	Washed and unwashed..........	10	$2,000,000
650	Scoured..........	10	10,000
650	Camel's hair, Russian, washed and unwashed..........	10	40,000
	Manufactures composed wholly or in part of wool, worsted, the hair of the camel, goat, alpaca, or other animals:		
	Rags, mungo, flocks, etc.—		
651	Noils, carbonized and other..........lbs..	10	80,000
651	Rags and flocks..........lbs..	10	19,500
651	Shoddies..........	....	....
	Wastes—		
651	Slubbing, ring and garnetted..........lbs..	10	3,000
651	Top roving, and card..........lbs..	10	500
651	Yarn, thread, and other wastes..........lbs..	10	10,000
422	Bolting and press cloth for oil milling purposes..........	10	35,100
	Fibers, vegetable and textile grasses and manufactures of, n. e. s.:		
	Unmanufactured—		
459	Coir, yarns..........	10	30,000
408	Bagging for cotton, etc., weighing not less than 15 ounces, per square yard..........	10	20,000
415	Cables, cordage, and twine..........lbs..	10	80,000
590	Sago, etc..........	10	20,000
486	Flint stone..........	10	30,000
	Total..........		58,264,060

List of articles suggested to be left on the free list.

Some representative articles on which no duty seems advisable, and regarding which no possibilities are suggested:

Abrasives.
Copper.
Cotton, raw.
Cotton, bagging.
Cottonseed oil.
Lumber.
Nitrate.
Petroleum.
Sulphur.
Tin.
Wheat, buckwheat, rye, and flour of.
Coal, coke, etc.
Fish.
Fulminates.
Guano, manures, etc.
Gunpowder, explosives, etc.
Iron ore, and partly manufactured.
Meats, fresh.
Milk and cream.
Seeds.
Stone and sand.
Horses, cattle, swine, and sheep for breeding purposes.
Agricultural implements.
Tar and pitch.
Potash.
Barbed wire, etc.

MEMORANDUM NO. III.

SUGGESTED READJUSTMENT OF DUTIES.

Articles in schedule J.

Paragraph in present law.	Article.	Rate.	Suggested rate.
268	Cables and cordage .... per pound..	$0.0¾ to $0.01	$0.01 to $0.01½
274	Hose .... do....	.07	.10
285	Istle or tampico, etc., dressed, etc .... per cent..	15 to 20	20 to 25
267, 269, 270	Yarns, threads, twines, cords, etc .... do....	10 to 25	15 to 25
273	Carpets, mats, rugs, etc .... do....	30	....
271	Gill nettings, nets, webs, seines, etc .... do....	25	35
275	Tapes .... do....	20	25
275	Linoleum and oilcloth .... do....	20 to 35	35
281	Bags or sacks made from jute .... do....	10	15
278	Bandings, belts, etc .... do....	25	30
	Bands and belts, etc .... do....	30	35
282	Handkerchiefs, etc .... do....	35 to 40	40 to 45
284	All woven articles, etc .... do....	35	40
277	Shirts, collars, and cuffs, etc .... do....	30	35

Under the present industrial conditions the possible increase in revenue from the suggested changes can not be estimated, but it will be slight.

Articles in schedule K.

Paragraph in present law.	Article.	Present rate.	Suggested rate.
286	Combed wool, tops, etc .... per cent..	8	11
287	Yarns .... do....	18	22
305	Hair, alpaca, etc .... do....	15	15
288, 289, 290	Cloths, knit fabrics, blankets, etc .... do....	25 and 35	30 and 40
288, 290, 291	Clothing, ready-made, stockings, and articles of wearing apparel..do....	20 to 40	25 to 45
292	Webbings, suspenders, etc .... do....	35	40
293, 294, 295, 296, 297, 298, 299, 300, 301, 302	Carpets, rugs, etc .... do....	20 to 50	25 to 55
309	Plushes and velvets .... do....	40 to 45	45 to 50

Under present industrial conditions, the possible increase in revenue from these suggested changes in rates of duty can not be estimated, but will be slight.

Articles in schedule L.

Paragraph in present law.	Article.	Present law.	Suggested rate.
311	Carded and combed silk and noils .... per pound..	$0.30	$0.65
312	Spun silk .... per cent..	35	40
313	Thrown, sewing twist, thread, etc .... do....	15	17½
315	Handkerchiefs, cut, not hemmed or hemmed only .... do....	40	45
316	Ribbons, bolting, bindings, broad silks, woven fabrics .... do....	45	50
314	Velvets, plushes, knit goods, clothing, etc .... do....	50	55

Under present industrial conditions, the possible increase in revenue from the suggested changes in rates of duties can not be estimated, but it will be slight.

MEMORANDUM NO. IV.

POTENTIAL REVENUE FROM CERTAIN IMPORTANT ITEMS SEPARATELY INDICATED.

Articles.	Rate of duty.	Revenue derived.
1. Tea .... per pound..	$0.10	$10,000,000
Coffee .... do....	.05	57,500,000
Cocoa .... do....	.03	7,000,000
Total group 1	....	74,500,000
2. Hides and skins .... per cent..	10	15,400,000
Wool .... do....	10	12,000,000
India rubber .... do....	10	16,000,000
Fibers	(1)	6,220,000
Silk .... per cent..	10	13,500,000
Total group 2	....	63,120,000
3. Sugar excise .... per pound..	0½	45,000,000
4. Other miscellaneous items	....	20,000,000
Grand total	....	202,620,000

[1] Various.

REVENUE TO DEFRAY WAR EXPENSES.

MONDAY, MAY 28, 1917.

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

The committee met, pursuant to call, at 10 o'clock a. m., in the committee room, Capitol, Senator F. M. Simmons presiding.

Present: Senators Simmons (chairman), Williams, Thomas, James, Jones, Gerry, Lodge, McCumber, Smoot, Gallinger, and Townsend.

The committee proceeded to consider the bill (H. R. 4280) to provide revenue to defray war expenses, and for other purposes.

The CHAIRMAN. The committee will first hear Senator Hardwick.

STATEMENT OF SENATOR THOMAS W. HARDWICK, OF GEORGIA.

Mr. HARDWICK: I thank you for the opportunity you have afforded me to present the amendment I have offered to the pending revenue bill, with respect to postal matters. I shall endeavor to present that amendment as briefly and compactly as possible.

In the first place, I wish to congratulate you on what I hear, informally, is the tentative decision that you have reached to eliminate Title XII of the House bill. Whatever else may be said on the subject, it is quite certain that the proposition of the House of Representatives ought not to be enacted into law, in anything like the form that it comes to the Senate, if at all. In the first place, the proposition of the House that letter postage should be raised to 3 cents and postage on post cards to 2 cents is utterly indefensible, for the reason that the Government is already deriving, under the present law, a net profit of $60,000,000 per annum in round figures from this class of mail matter, and there is no earthly reason why these rates should be increased. On the contrary, as soon as we can properly readjust rates on other classes of mail matter we ought to be able to reduce letter postage to 1 cent, and we can do so whenever we accomplish a just and reasonable readjustment of the rates on second-class mail matter.

Now as to second-class mail matter the situation is different, and I think is one which absolutely demands a change in the present rates, for while we are making a clear profit of substantially $60,000,000 a year on first-class mail matter, we are losing $70,000,000 a year in round figures on second-class matter.

I quite understand the principle upon which the latter rates were fixed and have been kept so low, and I readily concur in that principle. The principle is that under a free government the diffusion of news and intelligence among the people is indispensable, and in order to promote it the postal system should carry matter of this

kind at a very nominal rate, even if a heavy expense to the Government is thereby entailed. At the same time it is improper to have this privilege abused by publications that have no particular value either from a news or an educational standpoint, and which are primarily, if not wholly, business enterprises and commercial ventures. To permit this is to permit the prostitution of a great and correct principle, and yet to a great extent this is exactly what has happened in recent years, and newspapers, magazines, and publications of all kinds which are almost wholly commercial enterprises and having little news or educational value are being carried through the mails at an annual loss to the Government of $70,000,000, as I have stated above.

We ought to be able to devise and present a remedy for this evil, and I think the amendment I propose on this subject presents such a remedy. It is the result of many years' careful study, not only on my part, but on the part of experts employed by the Post Office Department, and is presented with the full confidence that it rests on accurate and complete knowledge of every essential fact involved.

The amendment I present is offered as a substitute for Title XII of the House bill. It reads as follows:

> That the rates of postage on publications entered as second-class matter, including sample copies to the extent of ten per centum of the weight of copies mailed to subscribers during the calendar year, when sent by the publisher thereof from the office of publication, or when sent by a news agent to actual subscribers thereto, or to other news agents for the purpose of sale, until June thirtieth, nineteen hundred and eighteen, shall be 1 cent a pound or fraction thereof for the portion of the publication devoted to reading matter other than advertising, and 3 cents a pound or fraction thereof for the portion devoted to advertising; and beginning July first, nineteen hundred and eighteen, and until June thirtieth, nineteen hundred and nineteen, the rate of postage shall be 1 cent a pound or fraction thereof for the portion devoted to reading matter other than advertising, and 6 cents a pound or fraction thereof for the portion devoted to advertising; and beginning July first, nineteen hundred and nineteen, and thereafter, the rate of postage for the portion devoted to reading matter other than advertising shall be 1 cent a pound or fraction thereof and 8 cents a pound or fraction thereof for the portion devoted to advertising: *Provided*, That the rate on copies deposited in a letter-carrier office for delivery by its carriers and the free-in-county circulation and rates on copies mailed within the county of publication shall continue as now provided by law: *Provided*, That the Postmaster General may hereafter require publishers to separate or make up in such manner as he may direct all matter of the second class when offered for mailing.

It will be observed that this amendment rests on two propositions: First, that publications of every kind will be allowed to retain the present mail rates on so much of their contents as are of a news or educational character; second, that there shall be a process of gradual and easy readjustment extending through a period of three years, until we reach a figure that represents what it costs the Government to handle and transport the advertising matter they contain.

With respect to the tables of the amounts involved, I present herewith a number of tables prepared by the experts of the Post Office Department, showing exactly how much revenue is derived from second-class mail matter under existing law, and how much revenue would be derived from it under my amendment; showing the circulation and postage pay of several of the leading publications; showing the per cent of advertising matter carried by leading publications of almost every kind and class, including many of the leading daily newspapers; and showing in what way these publications could meet the proposed increases.

The following table shows the revenue which will be derived if the rates of postage on second-class matter were fixed at 1 cent a pound for reading matter and at different rates on advertising matter, from 2 to 8 cents a pound.

1 cent flat rate for all matter, the same as at present	$11,383,530.02
1 cent for reading and 2 cents for advertising matter	15,936,942.02
1 cent for reading and 3 cents for advertising matter	20,490,354.03
1 cent for reading and 4 cents for advertising matter	25,043,766.04
1 cent for reading and 5 cents for advertising matter	29,597,178.05
1 cent for reading and 6 cents for advertising matter	34,150,590.06
1 cent for reading and 7 cents for advertising matter	38,704,002.06
1 cent for reading and 8 cents for advertising matter	43,257,414.07

NOTE.—These computations are based on the quantity of mail handled last year (1,138,353,002 pounds) and an average of 40 per cent of which was devoted to advertising matter.

Statement of circulation and postage with respect to the following publications:

Name of publication.	Frequency of issue.	Total circulation.	Circulation by mail.	Postage paid during fiscal year 1916.
Christian Herald	Weekly	302,889	302,000	$40,175.02
Colliers Weekly	do	842,126	729,032	189,548.40
Literary Digest	do	448,816	278,891	92,731.27
Saturday Evening Post	do	1,825,205	747,228	383,356.70
Country Gentleman	do	310,085	181,338	50,095.00
Ladies' Home Journal	Monthly	1,543,048	976,478	159,448.95
Youth's Companion	do	401,087	401,087	40,306.63
American Magazine	do	520,896	363,497	36,785.96
The Delineator	do	817,480	444,833	52,534.85
Everybody's	do	505,744	358,344	34,938.56
Farm Journal	do	1,036,602	1,000,050	38,001.86
Good Housekeeping	do	389,773	264,744	37,328.99
McClure's	do	359,513	304,129	25,851.01
Metropolitan	do	416,553	347,549	28,777.07
Modern Priscilla	do	560,929	358,393	23,303.63
Mother's Magazine	do	572,044	468,864	31,085.71
American Review of Reviews	do	223,162	209,617	22,722.46
Scribner's	do	100,000	67,572	8,426.30
Woman's Home Companion	do	1,023,939	760,422	100,147.56
World's Work	do	125,039	105,686	12,481.53
Iron Age	Weekly	11,924	10,194	11,214.02
Engineering Record	do	17,863	15,288	13,759.38
New York Times	Daily	344,436		100,232.28
New York World	do	387,549		32,687.49

Proportion of advertising to reading matter in the following publications.

TRADE PUBLICATIONS.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.
		1917.			
Printers Ink, New York, N. Y	Weekly	May 10	312	181	58.01
Fourth Estate, New York, N. Y	do	May 12	128	45.5	35.54
Farm Implement News, Chicago	do	Apr. 26	132	75	56.81
American Builder, Chicago	Monthly	May	408	286	70.09
Concrete and Cement Age, Detroit, Mich	do	April	444	277	62.38
Motor Age, Chicago, Ill	do	May 10	479	322.5	67.32
Automobile Dealer and Repairer, New York, N. Y.	do	April	312	212	67.94
Horseless Age, New York, N. Y	Semimonthly	May 1	420	333	79.28
Automobile Trade Journal, Philadelphia, Pa.	Monthly	April	896	614	68.52
Publishers' Weekly, New York	Weekly	May 12	80	50	62.50
Sartorial Art Journal, New York	Monthly	April	118	40	33.90
Bradstreet's, New York, N. Y	Weekly	May 12	64	3	4.68
Pharmaceutical Era, New York	Monthly	April	180	102	56.66
Dry Goods Economist, New York	do	May 12	191	209	71.82
Furniture Manufacturer and Artisan, Grand Rapids, Mich.	do	Mar	184	78	42.39
Machinery, New York	do	May	936	720	76.93
Iron Age, New York, N. Y	do	May 10	758	598	78.89
Printing Art, Boston, Mass	do	May	172	57	33.14
Railway Age Gazette, New York	Weekly	May 11	256	144	56.25
Boot and Shoe Recorder, Boston	do	May 12	308	242	78.57

Proportion of advertising to reading matter in the following publications—Continued.

RELIGIOUS.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.
Baptist and Commoner, Little Rock, Ark	Weekly	May 2	64	10.5	16.40
Signs of the Times, Mountain View, Cal	....do	May 6	48	2.5	5.20
Southern Christian Advocate, Anderson, S.C.	....do	Apr. 19	64	18.75	29.30
Epworth Herald, Chicago, Ill	....do	May 19	72	13	18.05
Northwestern Christian Advocate, Chicago, Ill.	....do	May 16	72	10.5	14.70
Missionary Tidings, Indianapolis, Ind	Monthly	May	88	3.16	3.59
Christian Observer, Louisville, Ky	Weekly	May 2	87	9.16	10.57
Christian Endeavor World, Boston, Mass	....do	May 17	80	7	8.75
Record of Christian Work, East Northfield, Mass.	Monthly	May	180	36	20.00
Catholic Union and Times, Buffalo, N. Y	Weekly	May 10	56	18.25	32.55
American Missionary, New York	Monthly	Apr	136	4	2.94
Catholic News, New York, N. Y	Weekly	May 12	80	14	17.50
Christian Herald, New York, N. Y	....do	May 16	112	42	37.50
The Churchman, New York, N. Y	....do	May 12	83	18	21.68
American Hebrew, New York, N. Y	....do	May 11	108	35.75	35.64
Forward, Philadelphia, Pa	....do	May 26	32	3	9.37
Sunday School Times, Philadelphia, Pa	....do	May 12	48	9	18.75
Christian Advocate, New York	....do	May 10	96	24.33	25.35
Extension Magazine, Chicago, Ill	Monthly	May	132	48	36.37
Sacred Heart Review, Boston, Mass	Weekly	May 5	48	8.16	17.00

MAGAZINES.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.
Overland Monthly, San Francisco, Cal	Monthly	May	234	36	15.39
National Geographic Magazine, Washington, D. C.	....do	January	284	92	32.39
Blue Book Magazine, Chicago, Ill	....do	June	432	42	9.72
Popular Mechanics, Chicago	....do	....do	620	294	47.42
Atlantic Monthly, Boston	....do	May	458	170	37.12
Youth's Companion, Boston	Weekly	May 10	64	18	28.12
Little Folks, Salem, Mass	Monthly	April	68	20	29.41
Review of Reviews, N. Y	....do	May	496	270	54.44
Cosmopolitan, N. Y	....do	June	348	138	39.66
Everybody's, N. Y	....do	May	408	134	32.85
Hearst's Magazine, N. Y	....do	....do	300	93	31.00
Life, New York	Weekly	May 17	135	62.8	46.54
Literary Digest, New York	....do	May 12	300	173.3	57.77
McClure's Magazine, New York	Monthly	June	304	139	45.72
Scientific American, New York	Weekly	May 12	80	24	30.00
Scribner's Magazine, New York	Monthly	May	506	248	49.01
Munsey's Magazine, New York	....do	....do	444	56	10.36
Leslie's Illustrated Weekly, New York	Weekly	May 10	144	59	40.96
Saturday Evening Post, Philadelphia, Pa	....do	May 19	480	274	57.08
Ladies' Home Journal, Philadelphia, Pa	Monthly	May	488	270	55.32

AGRICULTURAL.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.
		1917.			
Progressive Farmer, Birmingham, Ala	Weekly	Feb. 17	192	115	59.895
Home and Farm, Louisville, Ky	Semimonthly	May 15	128	20	15.62
Farm and Ranch, Dallas, Tex	Weekly	Apr. 21	160	78	48.75
American Farming, Chicago, Ill	....do	May	48	26½	55.20
		1916.			
Better Farming, Chicago, Ill	Monthly	December	96	50½	52.60
		1917.			
Kimballs Dairy Farmer, Waterloo, Iowa	Semimonthly	May	160	99	61.87
		1916.			
Iowa Homestead, Des Moines, Iowa	Weekly	Mar. 9	224	144	64.28
		1917.			
Successful Farming, Des Moines, Iowa	Monthly	May	204	108	52.94
Missouri Valley Farmer, Topeka, Kans	....do	April	96	46⅞	48.78
Hoards Dairyman, Fort Atkinson, Wis	Weekly	May 18	160	94	58.75
American Poultry World, Buffalo, N. Y	....do	May	132	63½	48.10
Farm, Stock, and Home, Minneapolis, Minn.	Semimonthly	May 1	144	79⅓	55.09
The Rural New Yorker, New York, N. Y	Weekly	May 19	112	39⅞	35.56
Ohio Farmer, Cleveland, Ohio	....do	May 12	96	42	43.75
Kansas Farmer, Topeka, Kans	....do	....do	64	35	54.68
Dakota Farmer, Aberdeen, S. Dak	Semimonthly	May 15	192	102	53.12
Country Gentleman, Philadelphia, Pa	Weekly	May 12	160	70	43.75
Farm Journal, Philadelphia, Pa	Monthly	May	141	71½	50.71
American Agriculturalist, Springfield, Mass.	Weekly	May 12	80	32	40.00
Farm and Ranch, Dallas, Tex	....do	Apr. 28	112	55	49.10

Proportion of advertising matter to reading matter in some leading publications.

		Total contents (columns).	Advertising (columns).	Per cent of advertising.
Christian Herald	Apr. 11, 1917	141	59	41
Collier's Weekly	Full year 1916, average	176	80	46
Do	May 5, 1917	176	93	53
Literary Digest	Full year 1916, average	240	122	51
Do	Apr. 14, 1917	348	222	64
Saturday Evening Post	Full year 1916, average	321	176	54
Do	Apr. 14, 1917	528	324	61
Youth's Companion	Full year 1916, average	60	17	28
Do	Four issues, Apr., 1917, average.	61	20	32
American Magazine	Apr., 1917	420	217	52
Delineator	May, 1917	336	124	37
Everybody's	do	156	68	44
Farm Journal	Apr., 1917	192	105	55
Good Housekeeping	do	588	207	35
Ladies' Home Journal	do	528	287	54
McClure's Magazine	do	352	177	50
Metropolitan	May, 1917	344	155	45
Modern Priscilla	Mar., 1917	356	256	30
Mother's Magazine	do	300	108	36
Review of Reviews	May, 1917	502	274	54
Scribner's	do	532	264	50
Woman's Home Companion	do	376	171	45
World's Work	do	511	272	53
Iron Age	Jan. 18, 1917	[1] 358	[1] 300	84
Engineering Record	Feb. 3, 1917	[1] 292	[1] 236	81

[1] Pages.

Proportion of advertising matter to reading matter in the following publications.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.
		1917.			
Times, Los Angeles, Cal	Daily	May 12	144	66.4	46.11
Examiner, San Francisco, Cal	do	do	160	33.4	48.37
Post, Denver, Colo	do	do	96	18.3	19.06
Constitution, Atlanta, Ga	do	May 16	98	49.5	50.51
Tribune, Chicago, Ill	do	do	224	139	62.05
News, Chicago, Ill	do	May 15	208	145	69.71
Times-Picayune, New Orleans, La	do	do	128	64.7	50.54
American, Baltimore, Md	do	May 17	112	45	30.17
Post, Boston, Mass	do	May 16	128	88.5	69.14
Free Press, Detroit, Mich	do	do	176	121	68.75
Dispatch, St. Paul, Minn	do	May 15	112	61	54.46
Kansas City Journal, Kansas City, Mo	do	do	70	10.5	15.00
Globe-Democrat, St. Louis, Mo	do	May 16	112	39.5	39.60
Journal, New York, N. Y	do	do	160	84	52.50
World, New York, N. Y	do	May 17	176	104	59.09
Enquirer, Cincinnati, Ohio	do	May 14	96	21.7	22.60
North American, Philadelphia, Pa	do	May 16	112	58	51.79
Dispatch, Pittsburgh, Pa	do	do	140	64.7	46.21
Times, Seattle, Wash	do	May 12	98	31.7	32.35
Journal, Milwaukee, Wis	do	May 14	112	65.2	58.21

	Total weight of a year's issue of each subscription.	Annual subscription rate.	Amount of increase necessary on each annual subscription, if entire burden of increased rate of postage is borne by the subscriber on the basis of a flat rate of 2 cents per pound, or zone or other rates averaging 2 cents per pound.	Income at gross rate from advertising, for each annual subscription	Percentage of increase necessary, either in rate of advertising or quantity of advertising, if entire burden of increased rates as per column 3 is borne by advertising.
	Pounds.				
Christian Herald	15.2	$2.00	$0.131	$2.58	5.1
Collier's Weekly	26.00	2.50	.225	3.92	5.7
Literary Digest	33.25	3.00	.286	17.41	1.6
Youth's Companion	8.125	2.00	.081	1.06	7.6
Saturday Evening Post	31.17	1.50	.200	6.75	3.1
Ladies' Home Journal	16.53	1.50	.106	3.37	3.0
American Magazine	10.12	1.50	.070	1.62	4.3
Delineator	11.81	1.50	.063	1.50	4.2
Everybody's	9.75	1.50	.065	.34	19.1
Farm Journal	3.80	.25	.036	.86	4.2
Good Housekeeping	11.10	1.50	.095	2.28	4.2
McClure's	8.50	1.50	.046	1.70	2.7
Metropolitan	8.28	2.00	.069	1.90	3.6
Modern Priscilla	6.00	1.25	.038	.73	5.2
Mother's Magazine	6.63	1.50	.058	.80	7.3
Review of Reviews	10.81	3.00	.101	2.01	5.0
Scribner's	12.47	3.00	.081	3.96	2.1
Woman's Home Companion	13.17	1.50	.097	1.83	5.3
World's Work	11.81	3.00	.099	2.61	3.8

It will be observed that the amendment proposes to fix the rates finally beginning July 1, 1919, and thereafter at 1 cent per pound on news and educational matter and 8 cents per pound on advertising matter. This latter figure represents about the cost of handling and transporting second-class mail matter, as will be explained to you in detail by officials of the Post-Office Department who accompany me.

In connection with this amendment, I desire to submit the following copy of a letter written by Postmaster General Burleson to the Senate Committee on Post Offices and Post Roads with respect to this proposition:

May 29, 1917.

Hon. John H. Bankhead,
Chairman Committee on Post Offices and Post Roads, United States Senate.

My Dear Mr. Chairman: Receipt is acknowledged of your letter of the 26th instant, inclosing copy of bill S. 2361, "Readjusting the rates of postage on publications entered as second-class matter, and for other purposes," and asking that I give your committee my opinion regarding its merits.

Careful consideration has been given the number of plans recently suggested for revising the rates upon second-class mail matter and to the general subject, and the proposed legislation covered by the bill meets with the approval of the department. It continues the policy of existing legislation of granting to such publications a low flat rate for that portion devoted to reading matter, that is, for the dissemination of information of a public character or devoted to literature, the sciences, the arts, or some special industry, which, no doubt, was the controlling consideration in fixing such policy, but recognizes a distinction between such matter and purely advertising matter carried in such publications by fixing higher rates for that portion devoted to advertising. The character of those publications has materially changed with the development of business and a new element of advertising has been introduced which was not conspicuous in the early history of the country. The quantity of advertising

matter included in such publications has grown to such a volume and proportion as to exceed the reading matter contained between the covers of many of these periodicals. The great loss to the department on handling and transporting mail matter of the second class as a whole can not at present be covered by an increase in rates which could be paid by the publishers if it were deemed advisable to depart wholly from the principle upon which present legislation exists, and yet it is only fair and just to the Government and to the patrons of the mails who otherwise use the service that these publishers should pay this loss as near as practicable and with due regard to the liberal policy above referred to. If, therefore, the policy be continued of imposing only a low flat rate upon the reading matter, it becomes necessary to consider materially higher rates for advertising matter, which is not entitled to the same consideration.

Rates fixed upon these considerations should have due regard to the ability of the publishers to readjust their business conditions to them. It is believed that the proposed legislation will enable them to do this by gradually increasing the rate on advertising matter to the maximum proposed in the bill. The maximum rate fixed on advertising will still be considerably lower per pound than the postage received by the department for third-class matter, which classification such advertisements would take if issued in circular form and inclosed in envelopes. It is estimated that upon the whole an average of 40 per cent of the space in these publications is devoted to advertising matter. Therefore, the maximum rates proposed in the bill, namely, 1 cent on reading matter and 8 cents on advertising, will equal an average rate per pound of only 3.8 cents, which is still considerably less than the cost of transporting and handling this matter.

There is attached hereto a memorandum and exhibits setting forth further information in detail upon the general subject.

I recommend the proposed legislation.

Yours, very truly,

A. S. Burleson, *Postmaster General.*

In conclusion, Mr. Chairman, the amendment I propose represents a very careful, painstaking, and accurate investigation of this entire subject matter. It is thoroughly approved by the Post Office Department as the just, scientific, and equitable way of dealing with this matter. I earnestly hope that your committee may report it as a substitute for the entire Title XII of the House bill.

STATEMENT OF MR. JOSEPH STEWART, SPECIAL ASSISTANT TO THE ATTORNEY GENERAL (CHARGED WITH THE DUTY, AMONG OTHERS, OF ASSISTING IN MATTERS AFFECTING THE POSTAL REVENUES).

Mr. Stewart. Mr. Chairman, I shall speak specially with reference to the average cost of transporting and handling mail matter of the first class and of the second class and with respect to the theory and terms of the proposed legislation embodied in bill S. 2361.

Under the authority of Congress the Post Office Department held special weighings of the mails in 1906 and 1907 and gathered other postal statistics, which, together with other data, became the basis for the subsequent ascertainment in 1909 of the average costs of transporting and handling the various classes of mail matter. That ascertainment resulted in the determination, among other facts, that first-class matter is transported and handled at a large profit while second-class matter is transported and handled at a comparatively large loss.

The revenue per pound for first-class matter ascertained at that time and revised up to the date of the submission of the data to the Hughes Commission was 83 cents and the expense of transporting and handling 56 cents per pound, leaving a profit of 27 cents per pound. It is believed that the unit revenue and cost with respect to this class of mail matter have not changed materially, and it is therefore concluded, based upon the revenue received for 1916, that the profit to the department in transporting and handling this matter was approximately $60,000,000 for the fiscal year.

Contrasted with this is the great deficiency of the revenues received from second-class mail matter toward paying its estimated cost of transportation and handling. A recent estimate of this loss places it at over $72,000,000 a year. This is a very conservative one and is based upon a cost of not exceeding 7 cents a pound, which is much lower than the estimate in 1909 and 1911 and allows for all economies effected in the service. There were mailed in 1916 1,202,470,675 pounds of second-class matter paid at the pound rate and free in county. The cost at this rate per pound would be $84,172,947. The revenue received on second-class matter was $11,383,530, leaving an excess of estimated cost of over $72,000,000. If applied to only matter paid at the pound rate, it would be over $68,000,000. It should be understood that the entire loss is not out-of-pocket loss but is made up also of the fair apportionment of the common expenses of the service in which second-class matter participates. The principles of such apportionment and assignment are in accordance with the approved methods of cost keeping and were thoroughly investigated and sustained by the Hughes Commission.

It will be recalled that when the department published in 1909 its findings on the cost of transportation and handling the several classes of mail matter they were assailed by the publishers of second-class matter. The findings having been submitted to Congress by the Postmaster General and the President, Congress provided for a commission to inquire into the department's conclusions.

The commission so authorized was appointed by the President and consisted of Hon. Charles E. Hughes, then Associate Justice of the Supreme Court of the United States, President A. Lawrence Lowell, of Harvard University, and Mr. Harry A. Wheeler, president of the Association of Commerce of the city of Chicago. I appeared with the Postmaster General before the commission and presented the department's case with respect to cost and am therefore familiar with the facts aside from what appears in the report. The commission made a finding with respect to all expenses excepting those in the post offices and certain miscellaneous expenses which were not directly assignable. With regard to these it stated that it did not have sufficient information to reach a conclusion. With respect to the first mentioned items of expenditure, namely, railroad transportation, all other means of transportation, railway post office car service, the railway mail service, rural delivery service, and miscellaneous expenses directly assignable, it practically substantiated the findings made by the department and attempted to account for the differences resulting from economies subsequently effected. They found that for these expenditures in 1908 (exclusive of all expenses in the post offices and of miscellaneous expenses not directly assignable) the cost per pound for transporting and handling second-class mail matter on the average was 6.23 cents. They further found that with economies effected thereafter this cost for 1909 was approximately 6.06 cents, and that for 1910 it was 5.58 cents. Finally, after giving due consideration to the economies being effected in transportation by blue-tag and other means they reached the conclusion that the cost was approximately 5.5 cents a pound for matter paid-at-the-pound rate, exclusive of all cost of handling in post offices and of the apportionment of miscellaneous expenses not directly assigned.

These last items amounted in gross to $89,442,000, a fair apportionment of which to second-class matter was not included in the 5.5 cents. They further found that the department had estimated the cost of handling in the post offices and the fair proportion of these miscellaneous expenses assignable to second-class matter as slightly more than 2 cents a pound. This, added to the 5.5 cents found by the commission, would make a total of over 7.5 cents a pound. I have carefully considered this conclusion of cost with reference to the conditions in the service at the present time, and find that after considering the expenditures for the different items of service the actual cost to the service for railroad transportation in 1916 compared with the tons of mails carried on the railroads, would not be below 7.82 cents per pound for second-class mail matter transported its average haul and delivered, and that allowing for all economies in the matter of handling it would not be reduced below 7 cents. On this basis, as before stated, the actual and apportioned cost in excess of revenue is over $72,000,000 a year.

I wish to call the committee's attention to the character of legislation which has heretofore been enacted regulating the rates for this class of mail matter. I submit a brief statement taken principally from the report of the Hughes Commission and which is as follows:

HISTORY OF RATES ON SECOND-CLASS MATTER.

Newspapers, periodicals, etc. (1792-1845).—By the act of 1792, the postal rates for newspapers were 1 cent each for not more than 100 miles and 1½ cents for greater distances. In 1794, there was added the proviso that the rate for single newspapers within the same State should not exceed 1 cent, and further, "that where the mode of conveyance, and the size of the mails will admit of it, magazines and pamphlets may be transported in the mail at 1 cent per sheet for conveyance any distance not exceeding 50 miles, 1½ cents for any distance over 50 miles and not exceeding 100, and 2 cents per sheet for any greater distance." In 1825, while the rate for newspapers was continued that for magazines and phamphlets published periodically and mailed to subscribers was fixed at 1½ cents a sheet for any distance not more than 100 miles and 2½ cents for greater distances, and 4 and 6 cents, respectively, where they were not published periodically; and, in 1827, there was a supplementary provision that where the magazine or pamphlet contained more than 24 pages on a royal sheet, or one of less size, the charge should be by the sheet, with one-half the rate for small pamphlets printed on a half or quarter sheet.

(1845-1879.)—This continued until 1845. Between that year and 1879 there were numerous changes, involving many details, and we mention only some of the illustrative features of the legislation of that period.

The free privilege for newspapers was introduced in 1845. It applied to those not more than 1,900 square inches in size, distributed within 30 miles of the place of printing. This was withdrawn by the act of 1847, which, however, allowed free exchanges between publishers. In 1851, weekly newspapers, not over 3 ounces in weight, sent to bona fide subscribers, were made free of postage within the county where published. This was restricted in 1852 to one copy to each subscriber, and in 1868 it was provided that these copies should be deposited in the office nearest the place of publication and that there should be no distribution by carriers, save on payment of postage. In 1874, the free-in-county privilege was extended to all newspapers save that, unless postage paid, they were not to be delivered at letter-carrier offices or distributed by carriers. In 1879, with the same restriction, this privilege was given to all second-class publications as there defined.

Returning to newspapers and periodicals, other than those made free, the act of 1845 continued the rates of 1825 for newspapers not more than 1,900 square inches. For those of larger size, the same rate was fixed as on magazines and pamphlets, and the latter were charged 2½ cents a copy weighing not more than an ounce, and 1 cent more for each additional ounce or fraction in excess of one-half ounce. Passing the provisions of the act of 1851, which were in force for little more than a year, we come

to that of 1852, which made the rate for newspapers, periodicals, and other printed matter, weighing not over 3 ounces, 1 cent to any part of the United States and 1 cent additional for each additional ounce or fraction thereof, with one-half this rate for those not over 1½ ounces circulated in the State where published. Small newspapers and periodicals published monthly or oftener, and pamphlets containing not more than 16 octavo pages each, when sent in single packages of at least 8 ounces to one address, were charged one-half cent per ounce, or fraction thereof.

In 1863 mailable matter was divided into three classes: (1) Letters, (2) regular printed matter, (3) certain miscellaneous matter. The second class embraced all mailable matter exclusively in print, issued at stated periods. When issued weekly or oftener, not over 4 ounces in weight, and sent to regular subscribers, quarterly postage was charged running from 5 cents a quarter for weeklies to 35 cents for those issued seven times a week. For each additional 4 ounces or fraction thereof, there was an additional rate. When issued less frequently than weekly, the rate was 1 cent a copy, not over 4 ounces, and small newspapers in packages to one address were charged the same rate per package. Transient second-class matter and third-class matter (except circulars and books) were charged 2 cents for each 4 ounces or fraction thereof in one package to one address; books, double; and unsealed circulars, 2 cents for three or less in number and proportionately for more.

In 1872 the quarterly rates on newspapers and periodicals were modified. And in that year there was provided a local-delivery rate of 1 cent each for newspapers (except weeklies), periodicals and circulars, not over 2 ounces in weight, and 2 cents for periodicals over 2 ounces when deposited in a letter-carrier office for delivery by the office or its carriers. By this statute third-class matter was made to include samples of merchandise not over 12 ounces, and all other articles not exceeding 4 pounds, which were not liable to injure the mails; and the third-class rate was 1 cent for each 2 ounces or fraction thereof; books, samples of metals, ores, minerals, and merchandise had double rates.

In 1874, there was introduced a pound rate for newspapers and periodicals mailed from a known office of publication, or news agency to regular subscribers or news agents (save in case the local-delivery rate was payable under the act of 1872). This was fixed at 2 cents a pound or fraction thereof for those issued weekly or more frequently, otherwise 3 cents. And the rate for all third-class matter was made 1 cent for each 2 ounces or fraction thereof.

The act of 1876, put "regular publications designed primarily for advertising purposes," or for circulation free or at nominal rates, under the third-class rate.

Act of March 3, 1879.—The present law classifying mail matter was enacted in 1879. This established four classes: First, written matter; second, periodical publications; third, miscellaneous printed matter; and fourth, merchandise.

Mailable matter of the second class was defined as embracing all newspapers and other periodical publications which are issued at stated intervals and as frequently as four times a year, under specified conditions.

Act of June 9, 1884.—By the act of June 9, 1884, the transient rate on newspapers and periodicals publication of the second class, that is, when sent by others than the publisher or news agent, was made 1 cent for each 4 ounces or fraction thereof.

Act of March 3, 1885.—In 1885, the pound rate for second-class matter was reduced to 1 cent a pound.

Later statutes.—In 1894, the definition of publications entitled to be admitted to the mails as second-class matter was enlarged with respect to those issued by benevolent or fraternal societies, trade unions, and learned associations.

There was a further supplementary act in 1900, with respect to the publications of State departments of agriculture.

Existing rates on second-class matter.—The existing rates on second-class matter are those established by the act of 1879, as amended in 1884 and 1885. There are in the words of the Postmaster General, "seven rates, or variations of rates, applicable to different circumstances," as follows:

(1) The general rate of 1 cent a pound on copies mailed by publishers to subscribers, to news agents, and as sample copies.

(2) The free-of-postage rate on copies mailed to subscribers residing in the county where the publications are printed and published, when not addressed for delivery at a city letter-carrier office.

(3) The cent-a-pound rate on copies mailed for delivery by rural carriers when emanating from a city letter-carrier office.

(4) The cent-a-pound rate on weekly publications mailed for delivery at a city letter-carrier office.

(5) The cent-a-copy rate for newspapers, other than weeklies, and for periodicals not exceeding 2 ounces in weight, when deposited at a city letter-carrier office for local delivery by carriers.

(6) The rate of 2 cents a copy for periodicals exceeding 2 ounces in weight when deposited at a city letter-carrier office for local delivery by carriers.
(7) The rate of 1 cent for each 4 ounces for copies mailed by others than publishers or news agents.

I will now refer briefly to the features of the proposed legislation under consideration. It is drafted upon the theory of continuing the policy of granting to publications entered as mail matter of the second class a low flat rate applying to all distances for that portion devoted to reading matter, that is, for the dissemination of information of a public character, or devoted to literature, the sciences, the arts, or some special industry, and distinguishing therefrom that portion of the periodicals which is devoted to advertising matter and fixing therefor a higher rate of postage. It continues the liberal policy heretofore expressed by the legislation of Congress with respect to that part of the publication which comes within the original intent of such laws and recognizes a new condition and applies new rates with respect to advertising matter. The character of these publications has materially changed with the development of business, and a new element of advertising has been introduced which was not present in a marked degree in the early history of the country. As shown by the tables submitted by the department the quantity of advertising matter has grown to such volume and proportion as to exceed in many instances the reading matter.

It is not proposed, as understood by the department, that the entire apportioned cost of this class of matter should be covered by an increase in rates. This could not be met by the publishers at the present time, and any material increase in rate of postage will require readjustment of their business relations. Nevertheless it is only fair and just to the Government and to the patrons of the mails who otherwise use the service that these publications should pay an appreciable part of this cost, in fact as much as practicable with due regard to the liberal policy expressed in the present legislation. Therefore, if this policy is to be continued it becomes necessary to consider materially higher rates upon that part of the publication devoted to strictly advertising matter.

An increase in postage rates for this class of matter could be accomplished upon either one of two theories. First, as applied to a zone system, and, second, as applied to the entire country through a flat rate as now is the case with reference to the entire weight of this class of matter. The latter method appears to have so many advantages over the zone system for this class of matter that it is preferred by the department. This bill follows this theory, namely, of not only retaining a low flat rate applicable to all distances for reading matter, but also prescribing a higher rate but a uniform one for all distances for the advertising matter. Furthermore, the rates are fixed with due regard to the ability of the publishers to readjust their business conditions to them. It is believed that the proposed legislation will enable this to be done as the increase in rates on advertising is gradual.

With respect to the amount of advertising carried in newspapers and periodical publications the department has made a careful estimate and reached the conclusion that upon the average approximately 40 per cent of the space of such publications is devoted to advertising matter. This conclusion is reached by ascertaining the

number of columns devoted to reading matter and the number of columns devoted to advertising matter in recent issues of representative publications of each subclass. The details of this are set forth in accompanying exhibits. The average for all the publications so selected for the dates in question was found to be 43.84 per cent devoted to advertising matter. This was based upon the assumption that the relation between the weights of the several subclasses is approximately the same as they were found to be during the period of the special record of such weights taken in 1906. There has been no special record of the same kind taken since. Slight changes in the relations of these respective weights would change accordingly the ultimate rate per cent.

The issues used in this estimate were for recent months and the question arose as to whether these fairly represented an average for the year. In order to check this the relation between the advertising and reading matter was ascertained for all the issues of a few representative newspapers and periodicals. The per cent of advertising in these was found to be somewhat less than the per cent named and, after adjusting the 43.84 per cent on the basis of the per cent of these few periodicals for the entire year, the result was the ascertainment of 40 per cent as the approximate proportion of advertising to reading matter for the entire year.

The table which I now submit shows the revenue which would be derived if the rates of postage on the reading matter were made 1 cent a pound and that upon advertising matter made 2 to 8 cents a pound. I include the table in this statement. It is as follows:

1 cent flat rate for all matter—the same as at present	$11,383,530.02
1 cent for reading and 2 cents for advertising matter	15,936,942.02
1 cent for reading and 3 cents for advertising matter	20,490,354.03
1 cent for reading and 4 cents for advertising matter	25,043,766.04
1 cent for reading and 5 cents for advertising matter	29,597,178.05
1 cent for reading and 6 cents for advertising matter	34,150,590.06
1 cent for reading and 7 cents for advertising matter	38,704,002.06
1 cent for reading and 8 cents for advertising matter	43,257,414.07

Note.—These computations are based on the quantity of mail handled last year (1,138,353,002 pounds), an average of 40 per cent of which was devoted to advertising matter.

It should be borne in mind that in speaking of a rate of 1 cent on reading matter and 3 cents on advertising matter, or 1 cent on reading matter and 6 cents on advertising matter, or 1 cent on reading matter and 8 cents on advertising matter, the average rate per pound upon the whole matter will be much less than the 3 cents in the first instance, 6 cents in the second instance or 8 cents in the third instance. For example a rate of 1 cent upon reading matter and 3 cents upon advertising matter upon the basis of 40 per cent advertising will amount to 1.8 cents per pound on the whole weight; a rate of 1 cent on reading matter and 6 cents on advertising matter will amount to a rate on the whole weight of 3 cents a pound; and a rate of 1 cent on reading matter and 8 cents on advertising matter will amount to an average rate on the whole weight of 3.8 cents a pound. Furthermore, it should be remembered that this ultimate rate of 3.8 cents a pound on the whole weight will not compensate the department for the expense to which it is subjected in transporting and handling this matter. In fact, it little more than covers the transportation cost for the average haul.

It is proper to call your attention further to the comparison of this proposed rate on advertising with the rate of postage which the same class of matter would be required to pay if it were inclosed in envelopes and transmitted through the mails to individual addresses. It would then be rated as third-class matter, the rate of postage upon which is 1 cent for each 2 ounces or fraction thereof. Estimating the postage thus paid on the basis of a pound of mail matter it could not be less than 8 cents, while as a practical matter the full rate for the fractional parts of the unit weight brings the actual postage paid or revenue received on third-class matter up to approximately 12 cents a pound. Therefore, if a flat rate be made for advertising matter in newspapers and periodicals at the moderate rates suggested in this bill it will still pay far less postage than if the advertiser used the facility of third-class matter to transmit and deliver his same advertisement.

The provision under consideration offers a solution fair at the present time of the problem of the readjustment of rates on mail matter entered as second class. If some provision for increasing the rates on this class of mail matter, which is such a loss to the Government in the matter of handling and transportation, be not adopted then the proposition to increase the postage on first-class matter, letters, and postal cards, which now yields much more than half of all the postal revenues and a large profit over its expense, should not be included in the measure now receiving the attention of your committee.

STATEMENT OF MR. JOHN C. KOONS, FIRST ASSISTANT POSTMASTER GENERAL.

Mr. KOONS. Mr. Chairman, I wish to answer several inquiries made by the Senators this afternoon regarding one or more features of the amendment proposed by Senator Hardwick.

Inquiry has been made as to whether the proposed amendment would be difficult to administer. It would not. If the rates of postage on second-class matter were fixed as provided in the amendment the publisher would be required to certify to the postmaster at the time of each mailing the total number of columns in a copy of the issue, the number devoted to reading matter and the number devoted to advertising matter, and file with the certificate a copy of the issue. The entire weight of the issue sent by mail would be apportioned in accordance with the percentages devoted to reading and advertising matter, respectively, and the postage computed at the rates prescribed by law. To illustrate: If 100 pounds constituted the mailing of a single issue of a publication of which 40 per cent was reading and 60 per cent advertising matter, the rate of 1 cent per pound would apply to 40 pounds and 3 cents a pound to the 60 pounds, or the entire postage would be $2.20.

Inquiry has also been made as to whether the increased revenue from these rates could be ascertained. It could be readily ascertained, because the department would know the exact number of pounds on which postage is collected and if either the bill as it passed the House or the amendment proposed by Senator Hardwick prevails, all revenue over and above 1 cent a pound or fraction thereof would represent the additional revenue and could accordingly be turned into the

Treasury; so the amount of additional revenue can be as readily ascertained under either of the measures as though a flat tax was placed on gross receipts from advertising.

One feature of the amendment proposed by Senator Hardwick should be especially desirable to the publishers, and that is the length of time before the maximum rate is reached, through the graduated increase in rates, which would be two years. This would give the publishers a longer time to readjust their businesses on the basis of the new rates, which could be done when the subscriptions and advertising contracts are renewed or obtained.

While some publishers may contend that the entire burden of these increased rates of postage will fall upon them, yet it is believed that in the final readjustment of the businesses the additional cost will be borne to a large extent either by the subscriber or the advertiser, or by both, because, by not unduly increasing the subscription rates, the advertising rates, or the quantity of advertising, the publishers can recoup entirely the additional expense. As an illustration, the Christian Herald, a weekly publication, the subscription price of which is $2 per annum, could, by increasing its annual subscription rate 10 cents, or its quantity or price of advertising 4 per cent, recoup itself entirely for the additional expense placed upon it by the rates proposed in the Hardwick amendment for the first year; and by increasing the subscription price, the advertising rates, or quantity of advertising in a similar manner in succeeding years, until the maximum rate is reached, recoup itself entirely for all additional expense incurred.

The Modern Priscilla, a publication for which the subscriber pays $1.25 per annum, could by increasing its subscription rate $0.028 or its advertising space or rate 4 per cent, recoup itself entirely for the additional expense proposed by the Hardwick amendment during the first year; and by similar increases in the succeeding years continue to place the burden of the increased rates upon the subscriber or advertiser.

The Farm Journal, a publication for which the subscriber pays $0.20 per annum, could, by increasing its subscription price $0.028, or its advertising rates or quantity of advertising 3.3 per cent, reimburse itself entirely for the additional expense because of the increased rate of postage during the first year; and by similar increases for succeeding years continue to reimburse itself until the maximum is reached.

There are a number of other publications which could be cited, but I will file with the committee a list showing these increases. The income as shown from the advertising is based upon the best statistics obtainable by the department, some of which I understand were used by the publishers when appearing before your committee.

Statistics based on annual subscription data.

	Weight of year's subscription.	Annual subscription rate.	Amount of increase in subscription rate necessary at the following rates per pound.[1]			Income from advertising.	Percentage of increase in advertising rate or business necessary at following rates per pound.[2]		
			Reading matter, 1 cent; advertising matter, 3 cents.	Reading matter, 1 cent; advertising matter, 6 cents.	Reading matter, 1 cent; advertising matter, 8 cents.		Reading matter, 1 cent; advertising matter, 3 cents.	Reading matter, 1 cent; advertising matter, 6 cents.	Reading matter, 1 cent; advertising matter, 8 cents.
	Pounds.								
Christian Herald	13.200	$2.00	$0.104	$0.262	$0.366	$2.58	4.0	10.2	14.2
Collier's Weekly	26.000	2.50	.180	.450	.630	3.92	4.5	11.4	15.9
Literary Digest	33.250	3.00	.164	.412	.576	4.44	3.6	9.2	12.8
Youth's Companion	8.125	2.00	.064	.162	.226	1.06	6.0	15.2	21.2
Saturday Evening Post	31.170	1.50	.167	.418	.585	6.73	2.4	6.2	8.6
Ladies' Home Journal	16.330	1.50	.082	.206	.288	3.37	2.4	6.0	8.4
American Magazine	10.120	1.50	.056	.140	.196	1.62	3.4	8.6	12.0
Delineator	11.810	1.50	.051	.128	.179	1.50	3.3	8.4	11.7
Everybody's	9.750	1.50	.055	.138	.193	.36	15.2	38.2	53.4
Farm Journal	3.800	.20	.028	.072	.100	.85	3.3	8.4	11.7
Good Housekeeping	14.100	1.50	.076	.190	.266	2.23	3.3	8.4	11.7
McClure's	8.500	1.50	.036	.092	.128	1.70	2.1	5.4	7.5
Metropolitan	8.280	2.00	.055	.138	.193	1.90	2.8	7.2	10.0
Modern Priscilla	6.000	1.25	.028	.076	.104	.74	4.1	10.4	14.5
Mother's Magazine	6.630	1.50	.016	.106	.152	.80	5.8	14.6	20.4
Review of Reviews	10.840	3.00	.080	.202	.282	2.01	4.0	10.0	14.0
Scribner's	12.470	3.00	.067	.168	.235	3.96	1.6	4.2	5.8
Woman's Home Companion	13.700	1.50	.077	.191	.271	1.83	4.2	10.6	14.8
World's Work	11.810	3.00	.079	.198	.277	2.61	3.0	7.6	10.6

[1] Amount of increase necessary on each annual subscription, if entire burden of increased postage is borne by the subscriber on the basis of the rates indicated in the heading for reading matter and for advertising matter.

[2] Percentage of increase necessary, either in rate of advertising or quantity of advertising, if entire burden of increased rate is borne by advertising.

If the additional expense is borne jointly by the subscriber and the advertiser it would be even less burdensome, as the necessary increase would not be so great either in the subscription price or in the advertising rates or quantity of advertising.

That it is practicable to increase the subscription rates is shown by the fact that a large percentage of magazines have already increased their subscription rates, and others are preparing to do so, as is shown by the following letter recently sent out by one publication accompanied by a clipping published several months ago in one of the large dailies.

[Woman's Home Companion, The Crowell Publishing Co., 381 Fourth Avenue, New York.]

FINAL NOTICE OF PRICE INCREASE.

DEAR SUBSCRIBER: Right now is your last chance to save from $1 to $3.50 on your renewal subscription to the Woman's Home Companion.

On June 1 the present long-term subscription rates and low rates with other magazines will positively be withdrawn.

Isn't it true—that in spite of the greatly increased cost of paper stock and of everything else involved in magazine manufacture, isn't it true—that you are getting a bigger and better and finer Companion than you ever got before?

And you will continue to get a still bigger and better and finer Companion each month to come. This, the editors' and publishers' guarantee, even though, in order to do so, they must get more for the magazine.

Here are the most important savings, if you renew now, before June 1:

Woman's Home Companion (two-year subscription), until June 1, $2; saves you $1 (yearly price, $1.50).

Woman's Home Companion and the American Magazine (one year each), until June 1, $2: saves you $1.

Woman's Home Companion and the American Magazine and Every Week (one year each). Until June 1, $2.25: saves you $1.75.

If you wish other magazines with your Companion, the large amounts you can save by ordering before June 1 are shown on the inclosed price list.

Here is one instance where "rising prices" will not affect you, if you act now. Your special acceptance blank is on the back of this letter. Mails are often delayed these days, so take no chances. Mail it to-day.

Cordially, yours,

David Blair.

P. S.—No matter when your present subscription to Woman's Home Companion expires, even though it is many months from now, you can take advantage of this "last chance" offer and arrange for your renewal at the present low prices. Your new subscription will begin at the expiration of your present one, and the saving is worth while.

NEWSPAPER CLIPPING.

MAGAZINES FORCED TO INCREASE PRICES—HIT HARD BY IMMENSE RAISE IN COST OF PAPER AND OTHER MATERIALS.

The magazines as well as the newspapers have been hit hard by the immensely increased cost of white paper and other materials necessary to printing and art work. Announcement was made yesterday that many periodicals have been forced to raise their prices.

The Metropolitan will jump from $1.50 to $2 a year, Vogue from $4 to $5, Country Life from $4 to $5, McClure's from $1 to $1.50, Cosmopolitan from $1.65 to $2.20, Nautilus from $1.10 to $1.60, Hearst's from $1.65 to $2.20, Photoplay from $1 to $1.20, Journal of Education from $1.75 to $1.85, Outlook from $2.75 to $3.35.

This is but a partial list of the magazines that have of necessity been compelled to increase their subscription price as well as the single issue price. Many of them have had at this time to renew their contracts for paper, and so were obliged to meet the extra expense in the only way possible. Those of the magazines fortunate enough to have longer contracts are safe enough for the time being, but they realize that something will have to be done in the near future.

Nearly 100 newspapres in the United States have had to raise prices and have notified their readers that the increase will go into effect with the new year. Most of the newspapers of the country are now making their contracts for white paper for the coming year and have found that they will have to pay nearly 50 per cent more than in the past. Where white paper formerly cost from 2 to 2½ cents a pound it now costs nearly 3½ cents a pound and the magazines, of course, have been subjected to the same cost strain. Of the 20 smaller magazines in New York several have decided to suspend publication entirely and others will merge with publications controlled by the same interests.

That it is practicable to increase the quantity of advertising is best illustrated by the fact that it has already been done by the publishers, and I think it would be safe to say that a large amount of the additional expense for print paper of which so much has already been said has been met to a large extent in many instances by increasing the quantity of advertising. For instance, one magazine during the year 1916 contained 46 per cent of advertising and is now carrying 53 per cent; another containing 51 per cent of advertising during the year 1916 is now carrying 64 per cent; another containing 54 per cent during the year 1916 is now carrying 61 per cent; and another containing 28 per cent during the year 1916 is now carrying 32 per cent.

The rates proposed by either the House bill or the amendment proposed by Senator Hardwick, which is now before the committee, certainly can not be considered excessive when the great loss sustained in the handling of second-class matter is taken into consideration. Careful study has been made of the effect that this amendment would have on the rates of postage of a large number of newspapers, magazines, agricultural, religious papers, etc., and statements showing the effect on each will be filed with your committee. From these statements it will be observed that the average rate per pound for the entire mailing for the daily papers would vary from $0.013 to $0.0239 a pound, according to the amount of advertising carried; on magazines from $0.019 to $0.0215 a pound; on trade publications from $0.0109 to $0.0258; on agricultural papers from $0.0130 to $0.0228; and on religious papers from $0.0107 to $0.0185. It will be observed that the religious publications would as a class be less affected by the proposed amendment than any other, because of the fact that they carry less advertising.

In connection with the increase in the rates of postage, I wish to call your attention to the fact that the postage on each pound of postal cards amounts to $1.70 and on each pound of letters 90 cents; and the revenue measure as it passed the House provides for an increase in the former of 100 per cent, making it $3.40 a pound, and in the latter of 50 per cent, making it approximately $1.35 a pound; or in other words, the department now receives one hundred and seventy times as much for handling 1 pound of postal cards and ninety times as much for handling 1 pound of letters as it does for handling 1 pound of second-class matter. From this statement it can be seen how unjust it would be to increase the rates on first-class matter unless there is also at the same time an increase in the rates on second class. If the latter action is not taken then in fairness to the public the rates on first class should remain as at present. Unless this is done we will increase excessively the rates of postage on a class of matter which is already yielding a handsome profit without increasing the rates on a class of mail handled by the department at the enormous loss of $80,000,000 annually which loss must be borne by the public through excessive rates paid by it on the other classes.

It has been fully explained to your committee by those who have preceded me why the rate was originally fixed so low on second-class matter, but it certainly was never intended that it should apply to advertising matter as carried by the publications of to-day. At the present time the revenue from circulars and other third-class matter, while the rate is only 1 cent for each 2 ounces or fraction thereof, amounts to practically 12 cents a pound, because of the fact that many of the circulars weigh only a fraction of the 2 ounces; so that the revenue on advertising matter under the maximum rate in the bill proposed by Senator Hardwick would still be much less than received from such matter when it is sent as third class in the form of circulars.

It has been argued that second-class mail should enjoy a much lower rate of postage because of the great amount of first-class matter which it creates and on which the department makes a considerable profit. The same could be argued with equal force with reference to the rate on third-class matter and fourth-class matter, as they surely create as much first-class mail as the publication; so that if

second-class matter is entitled to a preferential rate because of the first-class mail which it creates, then the other classes of matter are equally entitled to it.

The amendment proposed by Senator Hardwick specifying the present rate for reading matter and a special rate for advertising matter is in my judgment scientific, equitable, and just. It automatically provides a graduated scale of rates for publications based on the quantity of advertising matter carried, which is just. For instance, a publication that carries only 10 per cent of advertising would have a much less average rate of postage than one carrying 80 per cent of advertising, as the rate on the former would be $0.012 per pound and on the latter $0.260 per pound. When a publication carries 80 per cent of advertising it has to a large extent become a commercial proposition.

The proposed amendment would evidently be less burdensome to the smaller publications than an assessment of a flat rate upon the gross receipts from advertising. It is these publications that must strive the hardest to continue their business.

I will file with the committee some statistical data covering this entire subject, the advertising rates, and quantity of advertising being based upon the best information obtainable by the department.

Statement of circulation and postage with respect to the following publications.

Name of publication.	Frequency of issue.	Total circulation.	Estimated circulation by mail.	Postage paid during fiscal year 1916.
Christian Herald	Weekly	302,889	302,000	$10,175.02
Colliers Weekly	do	812,126	720,032	189,518.40
Literary Digest	do	418,816	278,891	92,731.27
Saturday Evening Post	do	1,825,205	717,228	381,376.70
Country Gentleman	do	310,985	181,338	50,025.00
Ladies' Home Journal	Monthly	1,513,018	976,178	150,118.95
Youth's Companion	do	401,087	401,087	91,306.61
American Magazine	do	520,896	363,197	36,785.96
The Delineator	do	817,190	411,889	51,511.85
Everybody's	do	505,741	358,341	31,988.56
Farm Journal	do	1,056,912	1,000,050	38,091.86
Good Housekeeping	do	389,773	261,711	37,328.90
McClure's	do	550,513	304,129	25,851.01
Metropolitan	do	416,553	347,519	28,777.07
Modern Priscilla	do	399,920	388,303	21,318.63
Mother's Magazine	do	572,041	168,861	31,085.71
American Review of Reviews	do	223,162	209,617	22,722.16
Scribner's	do	100,000	67,572	8,426.30
Woman's Home Companion	do	1,021,929	752,122	100,117.56
World's Work	do	125,039	105,686	12,191.53
Iron Age	Weekly	11,921	10,101	11,211.02
Engineering Record	do	17,863	15,288	13,770.28

Prices for advertising.

	Page price.	Column price.		Page price.	Column price.
Christian Herald	$900	$255.00	Cosmopolitan	$1,750	$443.50
Saturday Evening Post	5,000	1,250.00	McCall's	2,160	804.00
Collier's Weekly	3,000	750.00	McClure's	1,425	425.00
The Youth's Companion	1,600	475.00	Metropolitan	1,400	350.00
Literary Digest	1,280	435.00	Modern Priscilla	1,680	420.00
Harper's Magazine	225	112.50	Review of Reviews	300	150.00
American Magazine	1,200	420.00	Scribner's	250	125.00
Delineator	3,300	1,000.00	Successful Farming	1,800	600.00
Everybody's	700	250.00	Woman's Home Companion	3,800	1,000.00
Farm Journal	2,205	750.00	World's Work	224	112.00
Good Housekeeping	1,000	357.50	Iron Age	72	36.00
Ladies' Home Journal	6,000	1,600.00	Engineering News-Record	48	24.00

The following table shows the estimated revenue which will be derived if the rates of postage on second-class matter were fixed at 1 cent a pound for reading matter and at different rates on advertising matter from 2 to 8 cents a pound:

1 cent flat rate for all matter, the same as at present	$11,383,530.02
1 cent for reading and 2 cents for advertising matter	15,936,942.02
1 cent for reading and 3 cents for advertising matter	20,490,354.03
1 cent ror feading and 4 cents for advertising matter	25,043,766.04
1 cent for reading and 5 cents for advertising matter	29,597,178.05
1 cent for reading and 6 cents for advertising matter	34,150,590.06
1 cent for reading and 7 cents for advertising matter	38,704,002.06
1 cent for reading and 8 cents for advertising matter	43,257,414.07

NOTE.—These computations are based on the quantity of mail handled last year (1,138,353,002 pounds) and an average of 40 per cent of which was devoted to advertising matter.

Statistics based on annual subscription data.

	Weight of year's subscription.	Annual subscription rate.	Amount of increase in subscription rate necessary, at following rates per pound.[1]			Income from advertising.	Percentage of increase in advertising rates of business necessary at following rates per pound.[2]		
			Reading matter, 1 cent. Advertising matter, 3 cents.	Reading matter, 1 cent. Advertising matter, 6 cents.	Reading matter, 1 cent. Advertising matter, 8 cents.		Reading matter, 1 cent. Advertising matter, 3 cents.	Reading matter, 1 cent. Advertising matter, 6 cents.	Reading matter, 1 cent. Advertising matter, 8 cents.
	Pounds.								
Christian Herald	12.200	$2.00	$0.104	$0.262	$0.366	$2.58	4.0	10.2	14.2
Collier's Weekly	26.000	2.50	.180	.450	.630	3.92	4.5	11.4	15.9
Literary Digest	33.250	3.00	.164	.412	.576	4.44	3.6	9.2	12.8
Youth's Companion	8.125	2.00	.064	.162	.226	1.06	6.0	15.2	21.2
Saturday Evening Post	51.170	1.50	.167	.418	.585	6.73	2.4	6.2	8.6
Ladies' Home Journal	16.330	1.50	.082	.206	.288	3.37	2.4	6.0	8.4
American Magazine	10.120	1.50	.056	.140	.196	1.62	3.4	8.6	12.0
Delineator	11.810	1.50	.051	.128	.179	1.50	3.3	8.4	11.7
Everybody's	9.750	1.50	.055	.138	.193	.36	15.2	38.2	53.4
Farm Journal	3.800	.20	.028	.072	.100	.85	3.3	8.4	11.7
Good Housekeeping	14.100	1.50	.076	.190	.266	2.23	3.3	8.4	11.7
McClure's	8.500	1.50	.036	.092	.128	1.70	2.1	5.4	7.5
Metropolitan	8.250	2.00	.055	.138	.193	1.90	2.8	7.2	10.0
Modern Priscilla	6.000	1.25	.028	.076	.101	.74	4.1	10.4	14.5
Mother's Magazine	6.630	1.50	.046	.106	.152	.80	5.8	14.6	20.4
Review of Reviews	10.840	3.00	.080	.202	.282	2.01	4.0	10.0	14.0
Scribner's	12.470	3.00	.067	.168	.235	3.96	1.6	4.2	5.8
Woman's Home Companion	13.700	1.50	.077	.194	.271	1.83	4.2	10.6	14.8
World's Work	11.810	3.00	.079	.198	.277	2.61	3.0	7.6	10.6

[1] Amount of increase necessary on each annual subscription if entire burden of increased postage is borne by the subscriber on the basis of the rates indicated in the heading for reading matter and for advertising matter.

[2] Percentage of increase necessary, either in rate of advertising or quantity of advertising, if entire burden of increased rate is borne by advertising.

Proportion of advertising to reading matter in the following publications.

WEEKLY AND OTHER THAN DAILY NEWSPAPERS.

Name of publication.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue, 1 cent for reading and 3 cents for advertising matter.
Rutherford Republican, Rutherford, N. J.	Feb. 27, 1915	84	29½	35.12	$0.017
Stoutsville Journal, Stoutsville, Mo.	Dec. 9, 1915	24	13½	56.25	.0212
Woodson Beacon, Woodson, Tex.	Mar. 3, 1916	40	25	62.5	.0225
Fryeburg Post, Portland, Me.	Nov. 2, 1915	56	18	32.14	.0164
Simms Enterprise, Simms, Mont.	Jan. 1, 1915	28	12	42.86	.01857
Suffolk Herald, Suffolk, Va.	Mar. 30, 1917	56	34½	61.61	.0222
Amherst Advertiser, Amherst, Ohio.	Mar. 15, 1917	56	22½	41.98	.01839
Colusa Herald (tri-weekly), Colusa, Cal.	May 16, 1916	24	13½	56.25	.0212
Norwalk Free Press, Norwalk, Iowa.	Mar. 29, 1917	48	16	33.33	.0166
The Free Press, Lake City, Fla.	Mar. 27, 1917	24	3	12.50	.0125
The Enterprise, Hardin, Ky.	July 6, 1916	24	10	41.66	.0183
Kenefick Dispatch, Kenefick, Okla.	Mar. 23, 1917	40	24½	61.25	.0222
Democrat & Watchman, Circleville, Ohio.	May 18, 1916	56	17	30.36	.016
Medaryville Journal, Medaryville, Ind.	Mar. 23, 1916	48	23	47.92	.0195
Dighton Herald, Dighton, Kans.	Jan. 5, 1917	48	20	41.66	.0183
Rapid River News, Rapid River, Mich.	Mar. 31, 1917	28	9½	33.93	.01678
Lebanon Democrat, Lebanon, Tenn.	May 6, 1915	48	27	56.25	.02125
Annawan News, Annawan, Ill.	Nov. 23, 1916	36	11	30.55	.0161
True Republican Banner, Morristown, N. J.	May 10, 1917	48	24	50	.02
Murray Co. Messenger, Dalton, Ga.	Mar. 16, 1916	20	8¼	41.25	.01825
		836	361¾	43.21	....

DAILY NEWSPAPERS.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate for pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
Times, Los Angeles, Cal.	Daily.	May 12, 1917	144	66.4	46.11	$0.0192
Examiner, San Francisco, Cal.	do.	do.	160	33.4	48.37	.0196
Post, Denver Colo.	do.	do.	96	18.3	19.06	.0139
Constitution, Atlanta, Ga.	do.	May 16, 1917	98	49.5	50.51	.0201
Tribune, Chicago, Ill.	do.	do.	224	139	62.05	.0224
News, Chicago, Ill.	do.	May 15, 1917	208	145	69.71	.0239
Times-Picayune, New Orleans, La.	do.	do.	128	64.7	50.54	.0201
American, Baltimore, Md.	do.	May 17, 1917	112	45	40.17	.0180
Post, Boston, Mass.	do.	May 16, 1917	128	88.5	69.14	.0238
Free Press, Detroit, Mich.	do.	do.	176	121	68.75	.0237
Dispatch, St. Paul, Minn.	do.	May 15, 1917	112	61	54.46	.0208
Kansas City Journal, Kanas City, Mo.	do.	do.	70	10.5	15	.0130
Globe-Democrat, St. Louis, Mo.	do.	May 16, 1917	112	39.5	39.50	.0179
Journal, New York, N. Y.	do.	do.	160	84	52.50	.0205
World, New York, N. Y.	do.	May 17, 1917	176	104	59.09	.0218
Inquirer, Cincinnati, Ohio.	do.	May 14, 1917	96	21.7	22.60	.0145
North American, Philadelphia, Pa.	do.	May 16, 1917	112	58	51.79	.0203
Dispatch, Pittsburgh, Pa.	do.	do.	140	64.7	46.21	.0192
Times, Seattle, Wash.	do.	May 12, 1917	98	31.7	32.35	.0164
Journal, Milwaukee, Wis.	do.	May 14, 1917	112	65.2	58.21	.0216
			2,662	1,311.1	49.25	....

Proportion of advertising to reading matter in the following publications—Continued.

EDUCATIONAL.

Name of publication.	Frequency of issue.	Date issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917.				
Manual Training Magazine, Peoria, Ill	Monthly	March	168	47	28.00	$0.0156
Teachers' Journal, Marion, Ind	...do	May	60	21	35.00	.017
Southern School Journal, Lexington, Ky	...do	April	72	21	29.17	.0158
The Kindergarten and First Grade, Springfield, Mass.	...do	...do	102	24	23.53	.0147
Popular Educator, Boston, Mass	...do	May	120	28	23.33	.0146
Kindergarten-Primary Magazine, Manistee, Mich.	...do	April	144	16	11.11	.0122
Nebraska Teacher, Lincoln, Nebr	...do	March	96	27	28.13	.0156
American Education, Albany, N. Y	...do	May	136	34	25.00	.015
Normal Instructor, Dansville, N. Y	...do	April	252	80	31.67	.0163
School, New York, N. Y	...do	May	22	8	33.33	.0166
Blue Bird, Cleveland, Ohio	...do	January	32	5	15.67	.0131
History Teachers' Magazine, Philadelphia, Pa.	...do	May	64	6½	10.16	.012
Progressive Teacher, Nashville, Tenn	...do	...do	200	36	18.00	.0136
Virginia Journal of Education, Richmond, Va.	...do	...do	104	35	33.65	.0167
The Catholic Educational Review, Washington, D. C.	...do	April	116	17	14.66	.0129
Primary Education, Boston, Mass	...do	May	128	29	22.65	.0145
Atlantic Educational Journal, Lancaster, Pa.	...do	January	112	23	20.51	.0141
Education, Boston, Mass	...do	April	96	27	28.13	.0156
The Elementary School Journal, Chicago, Ill.	...do	March	92	11	11.96	.0123
School Education, Minneapolis, Minn	...do	February	92	26	28.26	.0156
			2,210	521½	23.59	

SCIENTIFIC.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
Journal of Entomology and Zoology, Claremont, Cal.	Quarterly	Jan.-Mar	50	12	24.00	$0.0148
American Journal of Science, New Haven, Conn.	Monthly	Jan., 1917	94	6	6.38	.01127
American Anthropologist, Washington, D. C.	Quarterly	Oct.-Dec	174	None.	None.	.01
American Journal of Archaeology, Washington, D. C.	...do	...do	136	None.	None.	.01
American Journal of Semitic Languages and Literature, Chicago, Ill.	...do	April	114	8	7.01	.0114
Journal of Geology, Chicago, Ill	Semiquarterly.	Jan.-Feb	112	6	5.35	.011
Journal of Race Development, Worcester, Mass.	Quarterly	Jan.-Mar	111	1	1.00	.0101
Annals of Mathematics, Princeton, N. J.	...do	...do	57	None.	None.	.01
Technologist, Brooklyn, N. Y	Monthly	May, 1917	21	8	38.09	.0176
American Naturalist, New York, N. Y.	...do	...do	67	1.7	2.51	.0105
Bulletin of the American Mathematical Society, New York, N. Y.	...do	Dec., 1916	55	6	10.90	.0121

Proportion of advertising to reading matter in the following publications—Continued.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917.				
Zoological Society Bulletin, New York, N. Y.	Bimonthly...	May-June....	22	None.	None.	$0.01
Journal of the American Chemical Society, Easton, Pa.	Monthly.....	March.......	212	4	1.88	.01037
Economic Geology, Lancaster, Pa....	Semiquarterly.	Feb.-Mar., 1917.	110	8	7.27	.0114
American Mathematical Monthly, Lancaster, Pa.	Monthly.....	April, 1917...	60	6	10.00	.012
Opthalmology, Seattle, Wash........	Quarterly....	.....do.......	176	7	3.97	.0107
American Economical Review, Princeton, N. J.	.....do.......	March.......	272	None.	None.	.01
The Auk, Boston, Mass.............	.....do.......	April........	170	2	1.17	.0102
Journal of Nervous and Mental Diseases, Lancaster, Pa.	Monthly.....	.....do.......	140	41.5	29.64	.0158
Ohio Archaeological and Historical Quarterly, Columbus, Ohio.	Quarterly....	Jan., 1917....	151	None.	None.	.01
			2,307	117.2	5.08	....

RELIGIOUS.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917.				
The Baptist and Commoner, Little Rock, Ark.	Weekly...	May 2	64	10.5	16.40	$0.0122
Signs of the Times, Mountain View, Cal....	...do......	May 6	48	2.5	5.20	.0110
Southern Christian Advocate, Anderson, S. C.	...do......	Apr. 19	64	18¾	29.30	.0158
Epworth Herald, Chicago, Ill...............	...do......	May 19	72	13	18.05	.0136
Northwestern Christian Advocate, Chicago, Ill.	...do......	May 16	72	10.5	14.70	.0129
Missionary Tidings, Indianapolis, Ind.......	Monthly..	May.	88	3.16	3.59	.0107
Christian Observer, Louisville, Ky..........	Weekly...	May 2	87	9.16	10.57	.0120
Christian Endeavor World, Boston, Mass....	...do......	May 17	80	7	8.75	.0117
Record of Christian Work, East Northfield, Mass.	Monthly..	May.	180	36	20.00	.0140
Catholic Union and Times, Buffalo, N. Y...	Weekly...	May 10	56	18¼	32.50	.0165
American Missionary, New York, N. Y.....	Monthly..	April.	136	4	2.94	.0103
Catholic News, New York, N. Y............	Weekly...	May 12	80	14	17.50	.0135
Christian Herald, New York, N. Y.........	...do......	May 16	112	42	37.5	.0185
The Churchman, New York, N. Y..........	...do......	May 12	83	18	21.68	.0143
The American Hebrew, New York, N. Y....	...do......	May 11	108	35½	35.64	.0171
Forward, Philadelphia, Pa..................	...do......	May 26	32	3	9.37	.0118
Sunday School Times, Philadelphia, Pa.....	...do......	May 12	48	9	18.75	.0137
Christian Advocate, New York, N. Y......	...do......	May 10	96	24.33	25.35	.0150
Extension Magazine, Chicago, Ill...........	Monthly..	May.	132	48	36.37	.0172
The Sacred Heart Review, Boston, Mass....	Weekly...	May 5	48	8.16	17.00	.0134
			1,686	335.31	19.88	

Proportion of advertising to reading matter in the following publications—Continued.

TRADE PUBLICATIONS.

Name of publication.	Frequency of issue.	Date issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917.				
Printers Ink, New York, N. Y	Weekly	May 10	312	181	58.01	$0.0216
Fourth Estate, New York, N. Y	do	May 12	128	45.5	35.54	.0171
Farm Implement News, Chicago, Ill	do	Apr. 26	132	75	56.81	.0213
American Builder, Chicago, Ill	Monthly	May	408	286	70.09	.0240
Concrete and Cement Age, Detroit, Mich	do	April	444	277	62.38	.0224
Motor Age, Chicago, Ill	do	May 10	479	322.5	67.32	.0234
Automobile Dealer and Repairer, New York, N. Y.	do	April	312	212	67.91	.0235
Horseless Age, New York, N. Y	Semimonthly.	May 1	420	333	79.28	.0258
Automobile Trade Journal, Philadelphia, Pa.	Monthly	April	896	614	68.52	.0237
Publishers' Weekly, New York, N. Y	Weekly	May 12	80	50	62.50	.0225
Sartorial Art Journal, New York, N. Y	Monthly	April	118	40	33.90	.0167
Bradstreet's, New York, N. Y	Weekly	May 12	64	3	4.68	.0109
Pharmaceutical Era, New York, N. Y	Monthly	April	180	102	56.66	.0213
Dry Goods Economist, New York, N. Y	do	May 12	291	209	71.82	.0243
Furniture, Manufacturer and Artisan, Grand Rapids, Mich.	do	March	184	78	42.39	.0184
Machinery, New York, N. Y	do	May	936	720	76.93	.0253
Iron Age, New York, N. Y	do	May 10	758	598	78.89	.0257
Printing Art, Boston, Mass	do	May	172	57	33.14	.0166
Railway Age Gazette, New York, N. Y	Weekly	May 11	256	144	56.25	.0212
Boot and Shoe Recorder, Boston, Mass	do	May 12	308	242	78.57	.0257
			6,878	4,589	66.70	....

AGRICULTURAL.

Name of publication.	Frequency of issue.	Date issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917.				
Progressive Farmer, Birmingham, Ala	Weekly	Feb. 17	192	115	59.895	$0.0219
Home and Farm, Louisville, Ky	Semimonthly.	May 15	128	20	15.62	.0131
Farm and Ranch, Dallas, Tex	Weekly	Apr. 21	160	78	48.75	.0197
American Farming, Chicago, Ill	Monthly	May.	48	26½	55.20	.0210
		1916.				
Better Farming, Chicago, Ill	do	October.	96	50½	52.60	.0205
		1917.				
Kimball's Dairy Farmer, Waterloo, Iowa	Semimonthly.	May 15	160	99	61.87	.0223
		1916.				
Iowa Homestead, Des Moines, Iowa	Weekly	Mar. 9	224	144	64.28	.0228
		1917.				
Successful Farming, Des Moines, Iowa	Monthly	May.	204	108	52.94	.0205
Missouri Valley Farmer, Topeka, Kans	do	April.	96	46.83	48.78	.0197
Hoard's Dairyman, Fort Atkinson, Wis	Weekly	May 18	160	94	58.75	.0217
American Poultry World, Buffalo, N. Y	Monthly	May.	132	63½	48.10	.0196
Farm, Stock, and Home, Minneapolis, Minn.	Semimonthly.	May 1	144	79.33	55.09	.0210
The Rural New Yorker, New York, N. Y	Weekly	May 19	112	39.83	35.56	.0171
Ohio Farmer, Cleveland, Ohio	do	May 12	96	42	43.75	.0187
Kansas Farmer, Topeka, Kans	do	do	64	35	54.68	.0209
Dakota Farmer, Aberdeen, S. Dak	Semimonthly.	May 15	192	102	53.12	.0206
Country Gentleman, Philadelphia, Pa	Weekly	May 12	160	70	43.75	.0187
Farm Journal, Philadelphia, Pa	Monthly	May.	141	71½	50.71	.0201
American Agriculturist, Springfield, Mass	Weekly	May 12	80	32	40.00	.0180
Fruit Grower, St. Joseph, Mo	Semimonthly.	Feb. 1	174	93½	53.75	.0198
			2,763	1,410.9	51.04	....

Proportion of advertising to reading matter in the following publications—Continued.

MAGAZINES.

Name of publication.	Frequency of issue.	Date of issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
		1917				
Overland Monthly, San Francisco, Cal.	Monthly	May	234	36	15.39	$0.0136
National Geographic Magazine, Washington, D. C.	do	January	284	92	32.39	.0164
Blue Book Magazine, Chicago, Ill.	do	June	432	42	9.72	.0119
Popular Mechanics, Chicago, Ill.	do	do	620	294	47.42	.0194
Atlantic Monthly, Boston, Mass.	do	May	458	170	37.12	.0174
Modern Priscilla, Boston, Mass.	do	do	206	67	32.21	.0156
Little Folks, Salem, Mass.	do	April	68	20	29.41	.0158
American Review of Reviews, New York, N. Y.	do	May	496	270	54.44	.0208
Cosmopolitan, New York, N. Y.	do	June	348	138	39.66	.0179
Everybody's, New York, N. Y.	do	May	406	134	32.85	.0165
Hearst's Magazine, New York, N. Y.	do	do	300	93	31.00	.0162
Life, New York, N. Y.	Weekly	May 17	135	62.8	46.51	.0193
American Magazine, Springfield, Ohio.	Monthly	June	414	205	49.52	.0215
McClure's Magazine, New York, N. Y.	do	do	304	139	45.72	.0191
Scientific American, New York, N. Y.	Weekly	May 12	80	24	30	.0160
Scribner's Magazine, New York, N. Y.	Monthly	May	506	248	49.01	.0198
Munsey's Magazine, New York, N. Y.	do	do	444	46	10.36	.0120
Leslie's Illustrated Weekly, New York, N. Y.	Weekly	May 10	122	50	40.96	.0181
Saturday Evening Post, Philadelphia, Pa.	do	May 19	480	274	57.08	.0214
Ladies Home Journal, Philadelphia, Pa.	Monthly	May	488	270	55.32	.0210
			6,851	2,693.8	39.32	....

MISCELLANEOUS.

Name of publication.	Frequency of issue.	Date issue.	Total columns contents.	Advertising columns.	Per cent of advertising.	Average rate per pound for entire issue at 1 cent for reading and 3 cents for advertising matter.
United States Government Advertiser, Washington, D. C.	Monthly	May 7, 1917	56	17.4	31.07	$0.0162
The Advertising Age and Mail Order Journal, Chicago, Ill.	do	April, 1917	136	53	39.00	.0178
Civil Service News, Chicago, Ill.	Weekly	May 15, 1917	64	11¼	17.58	.0135
Sigma Chi Quarterly, Chicago, Ill.	Quarterly	February, 1917.	150	....	....	.01
Harvard Lampoon, Cambridge, Mass.	Fortnightly	May 9, 1917	72	43¼	60.00	.022
American Federationalist, Washington, D. C.	Monthly	May, 1917	208	82	39.42	.0178
Law Notes, Northport, N. Y.	do	do	24	4¼	17.20	.0135
Infantry Journal, Philadelphia, Pa.	do	do	128	37	28.91	.0157
The Shield of Delta Sigma Epsilon, Menasha, Wis.	Quarterly	February, 1917.	42	3	7.14	.0114
The Club Worker, New York, N. Y.	do	do	17	....	....	.01
Road Maker, Moline, Ill.	Monthly	May, 1917	120	43.25	36.04	.0172
Philatelic Gazette, New York, N. Y.	Semimonthly	Sept. 1, 1914	64	19	29.69	.0159
Physical Culture, New York, N. Y.	Monthly	May, 1914	358	122	34.08	.0168
Prophesy, Manchester, N. H.	Bimonthly	April-May, 1917.	40	6	15.00	.013
Art in America, New York, N. Y.	do	December, 1913.	200	40	20.00	.014
Municipal Journal, New York, N. Y.	Weekly	June 6, 1912	152	81¼	53.51	.0206
Our Dumb Animals, Boston, Mass.	Monthly	December, 1914.	60	9	15.00	.013
Aviation and Aeronautical Engineering, New York, N. Y.	Semimonthly	Aug. 1, 1916	72	15	20.83	.014
The Musician, Boston, Mass.	Monthly	April, 1917	252	66½	26.39	.0152
Pacific Fisherman, Seattle, Wash.	do	January, 1916.	320	171½	51.53	.0158
			2,535	827.73	32.65	....

ESTIMATED AVERAGE PROPORTION OF WEIGHT DEVOTED TO ADVERTISING MATTER IN PUBLICATIONS ENTERED AS SECOND CLASS.

The special record of mailings for six months in 1906 showed the total weights mailed of each of the subclasses, daily newspapers, weekly and other than daily newspapers, scientific periodicals, educational periodicals, religious periodicals, trade journal periodicals, agricultural periodicals, magazines, and miscellaneous periodicals. Applying to these several weights the respective per cents of advertising matter found in periodicals of said classes in selected issues of 1917 as set forth in the special tables herewith, it is found that 43.84 per cent of the total weight of such publications is devoted to advertising matter. This, of course, is on the theory that the relation between the weights of the several subclasses are approximately the same as they were during the period of the special record. Slight changes in their respective relations as to weights would change accordingly the ultimate rate per cent.

Statement of mailings of second-class matter at the cent-a-pound rate for the fiscal year 1916 of certain publications.

Post office.	Publications.	Number of pounds mailed.
	DAILY.	
Boston	Christian Science Monitor	4,951,586
	TRIWEEKLY.	
New York	Thrice-A-Week World	1,026,409
	SEMIWEEKLIES.	
St. Louis	Republic	2,006,034
Do	Globe Democrat	1,401,791
	Total	3,407,825
	WEEKLIES.	
Chicago	Sunday Tribune	4,574,243
Do	Sunday Herald	2,404,863
Do	Ledger	4,063,027
Do	Journal of American Medical Association	2,890,147
Do	Saturday Blade	4,100,936
Des Moines	Wallace's Farmer	1,006,992
Boston	Christian Science Sentinel	1,067,325
Do	Youth's Companion	4,030,663
Des Moines	Homestead	2,625,707
Springfield, Mass	Orange and Judd American Agriculturist	1,424,950
Do	Orange and Judd Farmer	1,606,114
St. Paul	Farmer	1,818,599
New York	Collier's National Weekly	18,954,840
Do	Independent	1,170,241
Do	Literary Digest	9,273,127
Do	Outlook	1,808,012
Cleveland	Ohio Farmer	1,615,816
Philadelphia	Country Gentleman	5,009,590
Do	Saturday Evening Post	38,235,670
Pittsburgh	National Stockman and Farmer	1,492,331
Williamsport, Pa	Pennsylvania Grit	4,949,660
	Total	113,663,563
	SEMIMONTHLIES.	
Springfield, Mass	Farm and Home, Eastern edition	1,641,993
Do	Farm and Home, Western edition	1,967,886
Do	Orange and Judd Farmstead	1,148,766
Do	Orange and Judd Southern Farming	606,636
Do	Farm and Fireside, Eastern edition	1,273,717
Do	Farm and Fireside, Western edition	1,884,644
Total		8,523,642
	MONTHLIES.	
Chicago	Home Life	1,853,832
Do	Woman's World	7,146,115
Washington, D. C	National Geographic Magazine	3,963,661
Elgin, Ill	Mothers' Magazine	3,108,571
Des Moines	Peoples' Popular Monthly	1,906,290
Do	Successful Farming	3,821,613
Topeka	Household	1,565,989

Statement of mailings of second-class matter at the cent-a-pound rate for the fiscal year 1916 of certain publications—Continued.

Post office.	Publications.	Number of pounds mailed.
	MONTHLIES—continued.	
Augusta	American Woman	1,036,020
Do	Comfort	4,107,736
Do	Hearth and Home	1,017,916
New York	Delineator	5,253,485
Do	Good Housekeeping	3,732,899
Do	Ladies World	4,698,236
Do	McCall's Magazine	7,699,819
Do	Peoples' Home Journal	3,561,672
Springfield, Ohio	American Magazine	3,678,596
Do	Woman's Home Companion	10,014,756
Philadelphia	Farm Journal	3,800,186
Do	Ladies' Home Journal	15,944,895
Total		87,952,277
Grand total		219,525,302

	Weight of a year's issue, in pounds.	Cost of paper at 6 cents, in year's issue.	Cost of postage, at 1 cent pound.	Total cost, white paper and postage.	Reading portion, cost of paper and postage.	Advertising portion, cost of paper and postage.	The subscriber pays.	Advertising pays as income of a year's issue at gross rate.
Christian Herald	13.2	$0.792	$0.132	$0.924	$0.546	$0.378	$2.00	$2.58
Collier's Weekly	26.0	1.56	.26	1.82	.983	.837	2.50	3.92
Literary Digest	33.25	1.995	.3325	2.3275	1.1405	1.187	3.00	4.44
Saturday Evening Post	51.17	3.072	.51	3.582	1.648	1.934	1.50	6.73
Youth's Companion	8.125	.4875	.081	.5685	.4092	.1593	2.00	1.06
American Magazine	10.12	.607	.10	.707	.34	.367	1.50	1.62
Delineator	11.81	.708	.118	.826	.521	.305	1.50	1.50
Everybody's	9.75	.585	.0975	.6525	.404	.248	1.50	.36
Farm Journal	3.80	.228	.038	.266	.12	.146	.20	.96
Good Housekeeping	14.10	.846	.14	.986	.641	.345	1.50	2.23
Ladies' Home Journal	16.33	.98	.163	1.143	.52	.623	1.50	3.37
McClure's	8.60	.51	.085	.595	.2975	.2975	1.50	1.70
Metropolitan	8.28	.496	.08	.576	.317	.259	2.00	1.90
Modern Priscilla	6	.36	.06	.42	.294	.126	1.25	.74
Mother's Magazine	6.63	.397	.065	.462	.296	.166	1.50	.80
Review of Reviews	10.84	.65	.108	.758	.345	.413	3.00	2.01
Scribners	12.47	.748	.125	.873	.4365	.4365	3.00	3.96
Woman's Home Companion	13.17	.79	.13	.92	.51	.41	1.50	1.83
World's Work	11.81	.708	.118	.826	.391	.437	3.00	2.61
Iron Age	[1] 110	6.60	11	17.60	2.82	14.78	5.00	52.00
Engineering Record	[2] 90	5.40	9	14.40	1.17	13.23	5.00	32.72

[1] On basis of one issue, Jan. 18, 1917. [2] On basis of one issue, Feb. 3, 1917.

O