

DIARY

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May 4, 1939

Present:

Mr. McReynolds
Mr. Bell
Mr. Harold Smith

HM, Jr: (To Mr. Smith) Thanks for coming around. This is not such an important matter, but I have not had a chance to tell Bell or Mac. I wrote, on the 27th of April, to the President as follows:

"The President,
The White House.

Dear Mr. President:

A year ago I recommended to you that all investigative or police agencies in the Treasury Department be consolidated into a single organization of Treasury Agents.

I have now come to a different opinion and desire to withdraw my recommendation. This referral of my position is due entirely to my observation of events in Europe, where nationwide police and spy organizations are the chief instruments through which the most hateful tyranny and oppression are maintained. I think we ought to avoid by all possible means the danger of duplicating anything like those conditions in this country. Therefore, I am opposed to Federal police consolidation even within one Department.

To this I should add that the degree of consultation and coordination which we have been able to establish under present law between the investigative agencies of the Treasury Department is, in my opinion, proving adequate to eliminate overlapping of effort and to produce coordinated action when that is necessary. I don't think further consolidation

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"would produce any such gains in efficiency as would warrant the risk of future tyranny.

Sincerely yours,

(Sgd) Henry Morgenthau, Jr

Secretary of the Treasury."

And this just came in.

" May 1, 1939

MEMORANDUM FOR

H.M., Jr.

I received your letter of April 27, 1939, advising me that you are reversing your position in regard to the consolidation of investigative or police agencies in the Treasury Department into a single organization.

The difficulty with this is two-fold.

First of all, the reversal of your recommendations comes at a moment when our Reorganization Plan No. 2 is about to go to Congress.

Second, this whole administrative recommendation has been given to the newspapers, thus placing me in a position of great embarrassment.

F.D.R. "

Didn't we ask Merriam about this about a month ago? Didn't I ask you (McReynolds) to call up Merriam or Brownlow to state my position?

Mr. McReynolds: No.

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HM, Jr: Sure I did!

Mr. Mc: Not on police agencies.

HM, Jr: You said you would call up Merriam and Brownlow and tell them I had changed my position and didn't want it done. Anyway, you did not?

Mr. McR: I did not.

HM, Jr: You tried to get them on the phone once.

Mr. McR: I told you I expected to talk to Brownlow. He was coming in from Chicago. He was coming in the following Monday. I told you he did not come. Sick in bed with the grip. And then when he did come down, I was unable to get in touch with him.

HM, Jr: Don't you remember my asking?

Mr. McR: Not this particular thing.

HM, Jr: Is this in Plan 2?

Mr. Smith: No. I was going to say that would be an intra-departmental, would it not? Deals entirely with your own agencies so it would not be in Plan 2. He may have thought of it in relation to the announcement of Plan 2. I think there will be some delay on the intra-departmental stuff.

HM, Jr: Here is what I wrote him. (April 27th letter to the President.)

Mr. Bell: Where was that given out?

HM, Jr: I don't know where it came from.

Mr. Smith: I think what probably happened -- I did not pay any attention to it myself -- I think the President, as a sample of an intro-departmental order, mentioned it at his press conference.

HM, Jr: Pete Brandt asked him and, coming from St. Louis, asked the question because he's very much interested

in the Pendergast case.

Mr. Bell: He's implying that somebody over here gave it out and, therefore, it is embarrassing for him.

Mr. McR: Nothing in the press that came from the Treasury, but there was a statement in the press that seemed like someone had seen that letter.

Mr. Bell: Plan 2 that he talks about is not intradepartmental.

HM, Jr: When I was up in the country on the front page was United Press. I was amazed to read I was opposed to it.

Mr. Smith: I think he's referring to the fact it was in the paper.

HM, Jr: I don't want to write the President and say I understand it's not in Plan 2 and that it would have to be in the form of an Executive Order. Is there any Executive Order on that?

Mr. Smith: No.

HM, Jr: So if I did nothing, wouldn't it stand as it is? He would really have to take the initiative and order it done.

Mr. Smith: Yes. We have given no thought to it in the Budget Bureau at all. We have had nothing to say.

HM, Jr: Could I leave this with you. If it does come up, would you mind talking to me personally, and if it does not I will let this memorandum ride and I will do nothing.

I delivered my letter to him by hand at Hyde Park. I read this in the paper; had not made up my mind whether I was going to sign it; I said I had better do something, so I quickly signed it and sent it by messenger and wrote on the bottom of it "Delivered at Hyde Park by auto at about 6:30 p. m." Do you think it would be good for Mac -- now that he remembers it -- to talk now to Brownlow

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and explain my position or would you let it ride?

Mr. McR: I have not been able to get hold of Brownlow, but it did not register with me that you wanted me to discuss this particular thing with him.

HM, Jr: Mac, did you fix me up an Executive Order for the President to sign so the lending agencies would have to clear with us on any borrowings?

Mr. MCR: They have orders on that.

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THE WHITE HOUSE
WASHINGTON

May 1, 1939.

MEMORANDUM FOR

H. M., JR.

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The difficulty with this is two-fold.

First of all, the reversal of your recommendation comes at a moment when our Reorganization Plan No. 2 is about to go to Congress.

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FDR
F. D. R.

Revised by [unclear] 5-4-39

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HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY
LOWELL MELLETT, EXECUTIVE DIRECTOR, NATIONAL EMERGENCY COUNCIL

ANNOUNCER: (OPENING ANNOUNCEMENT)

MELLETT: The Treasury Department of the United States, commonly known simply as the Treasury, one of the original executive departments of our government, and one that is indispensable to the transaction of the Nation's business. The head of that department, ^{is} the Secretary of the Treasury, the chief financial officer of the United States. His duties cover a wide range that affect all departments and, in fact, all citizens of the United States very directly.

MORGENTHAU: We are conscious of that fact every day, Mr. Mellett.

MELLETT: The Treasury Department's activities cover a much broader field than the mere collection of revenue and the payment of the Government's bills

MORGENTHAU: The strictly fiscal activities are but a part of our work, though of course the most important part. These include the collection of the revenue, the keeping of the central accounts, the care of the government funds and their disbursement, the management of the public debt, the issue and redemption of United States money and the custody of the stocks of monetary metals, the stabilization of the exchange value of the dollar, the supervision of the National banks and the fulfillment of the Secretary's duty under the original act of 1789 which created the Treasury Department to

"digest and prepare plans for the improvement and management of the revenue, and for the support of the public debt."

MELLETT: The revenue is collected

MORGENTHAU: *It is collected* By the Bureau of Internal Revenue and the Bureau of Customs.

Internal Revenue is our largest single unit. Besides a large building of its own in Washington it has offices in every state in the union. Last year it collected 5 billion 600 million dollars at a collection cost of about a cent to the dollar, which includes the cost of investigation of returns, settlement of disputed cases, litigation and action against tax evaders, from the moonshiner to the biggest tax-dodger.

MELLETT: After investigation, tax cases are settled

MORGENTHAU: Now almost altogether in the field. We have decentralized what we call the technical staff. The taxpayer who is dissatisfied with our computation of what he owes can now have his appeal considered and acted upon by a group of our most highly trained experts at a city near his home, without the expense of a trip to Washington and without the necessity of hiring legal counsel.

MELLETT: A great boon certainly to the small taxpayers, and, perhaps, to some not so small—The Customs collectors, Mr. Secretary, the men who meet us at the dock when we return from abroad or on the borders when we return from Canada or Mexico

MORGENTHAU: The Bureau of Customs, oldest of revenue agencies of the government, has had to take second rank to the Bureau of Internal Revenue

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in dollar collections, but it is still an important agency. It is a guardian of our trade and our domestic industry and that function of policeman at our gates probably means more to us than the 350 million dollars the customs collectors turned in last year.

MELLETT: That 350 millions plus Internal Revenue collections makes about six billions in a year. This great stream of cash flows from your collectors to

MORGENTHAU: *It flows into* The depository accounts of the Treasurer of the United States, who is the custodian of the government's operating funds. His immense vault in the Treasury building in Washington always holds a store of currency and coin, but the greater part of his balances are in the Federal Reserve banks and special depositories. He has a large accounting force which has to keep track not only of the stream of receipts but of the stream of payments as represented by the huge volume of government disbursing officers' checks which come in for payment. Every day he handles receipts and payments running into many millions and of course his books must balance daily, just as any bank's; but, unlike the bank, he publishes his figures every day.

MELLETT: The Daily Treasury Statement, sometimes called a real miracle of accounting

MORGENTHAU: The statement is the joint product of the Treasurer's office and that of the Commissioner of Accounts and Deposits, the Treasury's principal accounting officer. It is he who keeps the governing

appropriation accounts, oversees the transfers of funds from one account to another and generally keeps meticulous record of all government fiscal transactions. From his books come data upon which the fiscal assistant to the Secretary, an experienced career officer of the Treasury, bases his reports to me as to fiscal prospects and financial needs. I should add that the checks the Treasurer pays are mostly issued by another Treasury official, the chief disbursing officer, through his offices in Washington and in the field--which means throughout the country.

MELLETT: But when the disbursements exceed revenue

MORGENTHAU: The difference, of course, must come out of the General Fund balance, which must be replenished by borrowing on the general credit of the United States. New or refunding obligations--bonds, notes or Treasury bills, are prepared by the Commissioner of the Public Debt, who also exercises supervision over the issue and redemption of the Government's public debt obligations. Decisions must be made as to when to offer securities, how much and what kind; and since old debt is constantly maturing, maturities must continually be pushed forward so that not too much of the debt is payable in any one year or group of years. These are direct responsibilities of the Secretary of the Treasury, in which he has the help of various members of his staff, including research assistants. Selection of the kind of issues which the

market will most readily absorb has, of course, a bearing on the interest cost to the government. We have been successful in accomplishing very substantial reductions in interest rates in the last five years, as well as in extending the average maturity of the debt.

MELLETT: Secretary Hull, in our broadcast last week, mentioned the Treasury as a department with which the State Department has close contacts.....

MORGENTHAU: Most important of our activities in the international field is the supervision of foreign exchange, including the operations of the Stabilization Fund, through which our own citizens and those who do business with us are protected against violent fluctuations of the value of the dollar. In that work we have indispensable help from representatives of the State Department whom Secretary Hull has assigned to cooperate with us. With their assistance we were able to conclude the tri-partite monetary understanding with Great Britain and France, to which Belgium, the Netherlands and Switzerland later adhered. This has been a strong influence in promoting international monetary stability and preventing trade dislocation. We also have Treasury agents in many countries, whose work is mainly in connection with Customs matters, the enforcement of Narcotic laws and conventions, and the protection of the public health.

MELLETT: Public health is hardly a fiscal function

MORGENTHAU: No, of course it is not. It is an accident of history that the Public Health Service, one of the finest as well as one of the oldest of the government's social and humanitarian functions, has been in the Treasury Department. It started with a hospital service for seamen, associated with the Customs, and from this has evolved the general quarantine and health services which have become of incalculable value to all our citizens. Somewhat similar is the history of the Coast Guard, with its fleet of sea-going cutters, patrol boats, tugs, ice-breakers, its airplanes for rescue work and law-enforcement patrol and its great chain of life-saving stations which girdle the coasts and surround the Great Lakes. That all began with revenue cutters to combat smuggling. But the Coast Guard, which rescues persons in peril at sea and enforces our laws generally in the coastal waters, still has an important Treasury function in the protection of the revenue.

MELLETT: The Treasury has become a policeman

MORGENTHAU: So much so that most of the inhabitants of Federal penitentiaries are put there as a result primarily of the activities of Treasury law-enforcement agents. Our police agencies include, besides the Coast Guard, the Customs agency service, the Secret Service, which, in addition to protecting the President, combats counterfeiting; the enforcement branch of Alcohol Tax Unit; the Narcotics Bureau and the Intelligence Unit of the Bureau of Internal Revenue. Among

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the accomplishments of the Intelligence Unit, which acts in cases of suspected willful evasion of income taxes, have been the conviction of a long list of racketeers, who had made themselves leaders in many varieties of crime.

MELLETT: To go from crime to manufacturing and construction

MORGENTHAU: Yes, the Procurement Division has had the responsibility of designing and building all government buildings, including post offices, throughout the country. We also buy supplies and materials for other government departments, from paper clips to tractors. And as to manufacturing, we do some of that too. The Bureau of Engraving and Printing is a big industrial plant. It occupies two large buildings in Washington, has some six thousand employees and manufactures all our paper money, government bonds and notes, postage and revenue stamps, checks and other obligations and documents. Our mints and assay offices are also manufacturing plants. They assay gold and silver and cast it into bars and they manufacture coins. The Mint Service also has custody of the stock of monetary gold and silver. There is a special depository for gold at Fort Knox, and one for silver at West Point.

MELLETT: You would need, I should think, in all this both legal and economic advice.

MORGENTHAU: Indeed we do. The General Counsel of the Treasury, directing legal divisions in all branches of the Treasury, is one of the most important law officers of the Government. We have three research

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divisions, one concerned with revenue estimates, general Treasury statistics and economic research, another with tax research and a third with monetary investigations.

MELLETT: The United States Treasury—collector, bookkeeper, paymaster, banker, financier, builder, manufacturer, sailor, policeman and physician

MORGENTHAU: All of those, Mr. Mellett, and some we have not had time to mention.

ANNOUNCER: (CLOSING ANNOUNCEMENT)

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5/4/39

5-4-39

Personal + Confidential - See notation on copy, p. 34

Dear Jim:

Confirming our telephone conversation this afternoon, I shall appreciate it very much if you will have a talk with Senators Brown, Miller and Adams of the Subcommittee of the Banking and Currency Committee which now has under consideration the legislation to continue for an additional two years certain of the existing monetary powers (S. 910). The legislation was introduced at the President's request in the House by Congressman Somers and in the Senate by Senator Wagner. The legislation passed the House last week without a roll call vote. Senator Wagner is anxious to have it reported out of the Subcommittee not later than the end of next week. Unless we are able to win over one or two of the above-named Senators, the vote in the Subcommittee is likely to be adverse. This would constitute a serious blow to the Administration's hopes for the success of the legislation and it should be avoided if at all possible.

The legislation relates to three important existing powers--

(1) Stabilization Fund Powers. There seems to be no serious objection to the continuation of the Stabilization Fund. As a matter of fact the acute international situation has emphasized the necessity for the continuation of this power. Briefly, the Stabilization Fund consists of \$2,000,000,000, \$200,000,000 of which is actually being used as a working fund. This \$2,000,000,000 comes from the gold profit when the dollar was revalued. The Fund has been employed for the purpose of stabilizing the

exchange value of the dollar in relation to other currencies and for no other purpose. On balance sheets submitted to the Congressional Committee showing the condition of the Fund as of December 31, 1938, a profit of \$12,000,000 was shown. I cannot stress too strongly the powerful and effective weapon the Stabilization Fund has been during the past five years in dealing with the exchange value of the dollar so as to protect American economic, fiscal and trade interests. With the international situation being what it is, it would seem obvious that the continuation of the Stabilization Fund is vital to the adequate protection of American interests. I think that there will be very little difficulty in having this power extended since even the more conservative interests in and out of the Government recognize the important role that the Stabilization Fund has played in stabilizing the international monetary situation and thereby helping American business interests. The current international crisis has served to crystallize support for this power both in the public generally as well as in Congress.

(2) Dollar Devaluation. The Thomas Amendment of May 12, 1933, as amended by the Gold Reserve Act of January 30, 1934, gave the President the power to fix the gold content of the dollar between 50 and 60 per cent of its former gold content. This power was to expire in January 1936 unless extended by the President for an additional year. Pursuant to such power vested in the President, on January 30, 1934, the President revalued the dollar and fixed its gold content at 59.06 per cent of the former gold content. This gave gold a monetary value of \$35 an ounce as against the prior value of \$20.67 an ounce. The power ^{of} further revalue the dollar down to 50 per cent of its old gold content was extended by Presidential Proclamation

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until January 30, 1937 and by Congressional enactment to June 30, 1939. There is no present intention to further reduce the gold content of the dollar. This power is fundamentally a defense in the event that other countries seek trade advantages by depreciating their currencies. Furthermore the mere existence of our power to revalue the dollar has the effect of restraining other countries from trying to take unfair trade advantages by currency depreciation. It is over this power that most controversy has developed. Contrary to what some people believe, I feel that the mere existence of this power has had a stabilizing influence in international exchange and has helped rather than hampered American business. It would be unwise and inimical to American interests for this country to enter into the period with which we are confronted without continuing to have available to the Chief Executive the power to revalue the dollar within the narrow limits which Congress has fixed.

(3) Domestic Silver. The same paragraph that includes the power to revalue the dollar includes the power to provide for the unlimited coinage of silver pursuant to which the Government has been acquiring newlyGained domestic silver at a price higher than the world price. If domestic silver is to continue to receive such preferential treatment over foreign silver it is desirable that this power be continued.

I shall appreciate any help you may be able to give me in connection with this legislation.

Sincerely,

Hon. James A. Farley
Postmaster General
Washington, D. C.

EHF: & BB:s Typed 5/4/39

5-4-39

BANKING & CURRENCY COMMITTEE
OF THE SENATE.

Democrats

- ✓ Robert F. Wagner, of New York.
Carter Glass, of Virginia.
- ✓ Alben W. Barkley, of Kentucky.
James F. Byrnes, of South Carolina. —
- ✓ John H. Bankhead, 2d, of Alabama.
Alva B. Adams, of Colorado.
- ✓ Francis T. Maloney, of Connecticut.
George L. Radcliffe, of Maryland. —
- Prentiss M. Brown, of Michigan. —
- ✓ James H. Hughes, of Delaware.
- ✓ Clyde L. Herring, of Iowa. —
- ✓ William H. Smathers, of New Jersey.
John E. Miller, of Arkansas.
- ✓ D. Worth Clark, of Idaho.
- ✓ Sheridan Downey, of California.

Republicans

- John G. Townsend, Jr., of Delaware.
- ✓ Lynn J. Frazier, of North Dakota.
- Charles W. Tobey, of New Hampshire
- John A. Danaher, of Connecticut.
- Robert A. Taft, of Ohio.

Red. O.K.

RE FINANCIAL ASSISTANCE TO NICARAGUA
(AND OTHER LATIN AMERICAN COUNTRIES)

May 4, 1939.
4:00 P. M.

Present: Mr. White
Mr. Foley
Mr. Lochhead
Mr. Jesse Jones
Mr. Warren Pierson
Mr. Sumner Welles
Mr. Feis
Mr. Duggan
Mr. Briggs
Mr. Collado
Mr. Young

H.M.Jr: Yes.

Welles: I think it's up to me to listen today, not to talk.

H.M.Jr: Well, I've given my proxy to Mr. Jones.

Jones: We've got about three dollars and a quarter to divide up among all these 230 million dollars worth of applications.

Pierson: Four and a quarter.

Jones: Four dollars and a quarter, to be exact?

Pierson: Four and a quarter.

Jones: Now, do you want to just talk about Nicaragua?

Welles: I think if it's agreeable to you we should concentrate on that, because the time element is involved. The President, I may say, has fixed 5:30 P. M. tomorrow afternoon in the Oval Room to discuss some of these questions with him.

Jones: To discuss it. Will the President discuss the loan?

Welles: I think only in general terms. But he'll want to indicate, I think, very definitely that we are able to do something, and naturally it would be easier for him to indicate what sort of thing we could do....

Jones: Why wouldn't it be better for him to indicate that we would like to do something and then have us

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get down to cases across the table, like we would with anyone else?

Welles: I think that's entirely all right. The President spoke to me this morning about that idea. That's entirely satisfactory, and I would suggest that it be handled just as the Brazilian negotiations were, when you and the Secretary of the Treasury took the lead in some of the specific suggestions. But I think we ought to be able to indicate to the President of Nicaragua tomorrow - I think we ought to be prepared to indicate to the President of Nicaragua tomorrow that we are prepared to do something and that he can be referred to some of you gentlemen who will undertake discussions.

Jones: Of course, we are not prepared to do a great deal until we get some more money, and that's the reason I thought if we could be a little "choosy" in our words first, that "we want to do something, would like to do something, and if you would have someone sit down with our agencies we'll discuss it and see what you've got that you'd like us to do and what is the most desirable, and then we'll talk further" - I mean that would be the natural way to do the job, and it seemed to me that the natural way is the best way.

Welles: It's entirely satisfactory to me.

Jones: We don't want to tell the man necessarily we've only got four and a quarter million dollars that we could lend to all of South America. We'd rather not show our hand in the beginning. He might say, "Well, I'll take the four and a quarter."

So I think if we could handle it that way, it would be more satisfactory. Then those of us who do the negotiating or discussing with these men, of course, must keep in intimate contact with the Treasury and the State Department. Anybody else interested? Is Commerce?

I think - naturally think we can allocate some of this money, but I have the feeling that whatever amount we do will be disappointing in the first instance. At the same time I am also sure that

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a small amount of money to us is an enormous amount of money to them.

Welles: Perfectly true.

Jones: And if we handle ourselves right maybe we can satisfy them with a small amount of money and accomplish more for ourselves than if we gave them too much money. I think we can very well profit by some of our past mistakes in lending people more money than they can pay back. And I realize too that some of this money will probably be a long time coming back. We'd like to make it as business-like, and make it look as business-like, as possible.

Welles: Certainly.

Jones: Those are about my views.

Welles: Well, I would like to have some indication, not for the President of Nicaragua, but for my own information, as to what kind of thing you have in mind.

Jones: Nothing until I talk to the man and see what he wants. Now, if he wants to build a road for two or three million dollars or if he might want two million that he could do something else with or one million he could do something else with - I think we ought to talk about the things that would be interesting to him, that would be helpful to him.

Welles: Well, I think we want to decide this afternoon that certain things that he wants to bring up should be discarded from the beginning and that none of us should discuss those particular things.

Jones: For instance?

Welles: Canalization of the San Juan River.

Jones: I think I agree to that.

Welles: That is something that I think for political reasons should be out of consideration, and I think the

- 4 -

President should indicate that to him tomorrow afternoon. And I think the President should say in general terms that when it comes to questions of road construction or the construction of public utilities, or some form of assistance for the National Bank of Nicaragua, that those are matters that have possibilities in them and he would be glad if the President would discuss those questions with the Secretary of the Treasury or yourself, whatever the situation may be.

Is that agreeable to you?

Jones: I concur.

H.M.Jr: Make it Mr. Jones.

Welles: All right.

H.M.Jr: Mr. Jones said that he'd keep me posted....

Jones: Keep everybody posted.

H.M.Jr:as we go along.

Jones: Yes.

Welles: Entirely satisfactory to me.

Jones: All right. Now, what else for that? Is that about the program on Nicaragua?

Welles: So far as Nicaragua is concerned, I think that's all right.

Jones: You got anything else?

H.M.Jr: No.

Jones: Now, I'd like to discuss while we're here, then, this possible program. This runs obviously, I think, to more than a hundred million dollars. I'd like for us to determine what is the proper amount of money to try and make available for South America. If we can't do that this afternoon, I'd like for us to be thinking about it and not just guess too much.

- 5 -

Let's do as good an estimating job as we can do.

- Welles: Well, I'd like to answer that in this way. You are a far better judge than I am of what the political possibilities are, what the attitude on the Hill may be. But I for one am sold on the idea of the Secretary of the Treasury, which is the possibility of asking for authority to obtain a charter for a new Bank which would be called the Bank of North, South and Central America, some term of that kind, and attempt then to get capitalization for that Bank of one hundred million dollars.
- Jones: One hundred million?
- Welles: Yes.
- White: Does that mean the maximum lending capacity would be a hundred million?
- Welles: Yes.
- White: I think that should be subject to some further consideration. That's a little low.
- Jones: What's that?
- White: If that's going to be the maximum, I think possibly it may be low.
- Welles: Well, as Mr. Jones said, this is merely a preliminary discussion. I am simply throwing out my own suggestion.
- H.M.Jr: Well, I'd like to say this. I think it is most important for the President of the United States to make up his mind, does he want us to go ahead and do a real job in South America? Then, if we do, we ought to get a Bank of North and South America. And I think unless there is some great - it would be just as easy to ask for two hundred million and let them whittle us down. But I think it's important - I mean just the fact that we ask for it and get it is a good gesture.
- Welles: My suggestion is not the asking point, but what would be the minimum. In my judgment, we'd be satisfied with....

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- H.M.Jr: I mean towards South America and the rest of the world at this time, that the United States Government is forming a Bank of North and South America with X millions of capital - I think that just in itself would be worth a lot just at this time.
- Welles: No question about it.
- H.M.Jr: I think it's up to the President to make up his mind and if he wants to do it, to do it. I mean you have four or five countries on the fire and if that was known I should think it would strengthen your hand.
- Welles: Very much so.
- H.M.Jr: I'm heartily in favor of it.
- Then if these loans - I mean explaining these loans, I think we ought to tell the people on the Hill that these are going to have an effect of a - I don't like the word "political" - State Department, give me any better word?
- White: Long-run.
- Jones: What kind?
- White: Long-run. Very long-run.
- H.M.Jr: Well, anyway....
- Jones: What's the diplomatic word for political loans?
- Feis: Policy loans.
- H.M.Jr: Policy loans.
- Jones: Do you think that's diplomatic? Can't you think up a better word than that?
- Feis: Loans in the general interest.
- Welles: It seems to me the issue that you want to stress is the fact that these loans will be in the interest of the development and stimulation of trade between the United States and the other American Republics.

- 7 -

- H.M.Jr: Well, why don't we bring the thing to a head by having a bill drafted, send it to the Budget Bureau, let them send it over to the President, and let him say yes or no? I mean that would bring the thing to a head.
- Jones: It seems to me on short notice - I hadn't thought much about a Bank of North and South America. Normally, naturally, I would assume that it would be easier to get an increase for one existing bank than to set up another. There might be something in the psychological - might be some psychological effect desirable in having a bank just for North and South America. I can see something to that. Outside of that I think you'd get along better on the Hill if we asked for something for the Export-Import Bank.
- H.M.Jr: Well, the other thing, Jesse, talking here, is that we could tell the people on the hill, "Now, this North and South America - we're going to take risks for policy reasons that we don't expect to take in the other Bank." And then if Poland or Turkey or Portugal comes in, you could have a pretty hard-boiled attitude with those fellows in that Bank; but in this Bank the policy would be different.
- White: And the type of loans might vary - very long-term loans.
- Feis: That's right.
- White: This other is, after all, to promote exports. An Export Bank fulfills a different function.
- H.M.Jr: Keep your records for the Export-Import Bank the way it is, good, and on this thing just tell the fellows, "Hell, we expect to lose half the money."
- Jones: I wouldn't want to do - I don't think we could get very far with it politically on the Hill.
- H.M.Jr: You don't think so?
- Jones: No.

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- Feis: I think we are now talking presentation, not drafts. An argument of certain validity can be made to the effect that these countries are all young, growing countries, and like ours during that period of development....
- Jones: Sixty or seventy or eighty years ago.
- Feis: ...look towards the older industrialized countries for industrial resources. Private industrial resources of all kinds are absent because of disturbed economic and repayment prospects, and so on, and the healthy development of our relationships with this area compels us as a Government to step in and assume that activity, to a certain extent, and assume some of the risk. And at that point you can go on appropriately and say, "And it may be that for reasons of another character in the world of today we will want to assume risks of a rather unusual nature." I think you can build the two things more or less in together.
- H.M.Jr: Well, to get back - you made a seed loan to a farmer and the Congress is glad if we get back 70 percent. Then you come along with Farm Security and you're glad if you get back 50 percent. You make a loan out of Intermediate Credit Banks and you expect to get back a 100 percent. We've got different kinds of agencies with different kinds of records as to collections. There's all the difference in the world.
- Jones: It's just the means I'm thinking about.
- H.M.Jr: I was thinking in terms of Farm Security - if you collect 50 percent back, why, swell. But in the Intermediate Credit Banks you expect a hundred cents back on the dollar.
- Jones: I can see the desirability of making loans to these countries down there in proper amounts and with proper terms. I can see that.
- White: There is also something in the fact that they have only recently limited this hundred million, and therefore if you ask for an increase there would be a little more opposition than if you ask for a new instrument so they wouldn't have to reverse themselves so quickly.

- 9 -

Jones: I don't think any of us would know about that. My first thought is that it would be easier to expand something you've already got; but if there is any advantage in doing it the other way, I certainly would have no objection.

H.M.Jr: Well, wouldn't it bring it to a head if your organization would bring up a bill - Foley is available if you want to use him to help - and get it over to the President? I mean do it both ways.

Feis: Couldn't it be drafted in alternative form and then Mr. Jones perhaps ascertain down on the Hill what the response will be to the two forms?

Jones: Well, I think that we can - I'd like a little time to think that over if I may have it.

H.M.Jr: Why not? Couple days?

Jones: We're all working to the same end.
Now, did you have - we finished on Nicaragua, did we?

H.M.Jr: What else have you (Welles) got?

Welles: I haven't anything else.

H.M.Jr: You mean all you want to do today is Nicaragua.

Welles: That's all that I was here for.

H.M.Jr: Is it in such shape then that you're satisfied?

Welles: Entirely satisfied.

Jones: Then I'll expect to hear from somebody from your place about this next step.

Welles: Well, the President of Nicaragua is only going to be here four days, and either you or somebody acting for you ought to be in a position to start talking with him Saturday morning.

Jones: All right.

- 10 -

Welles: All right. Well then, I'll make the arrangements with him and send you word.

Jones: Fine.

H.M.Jr: I'm satisfied.

Jones: Anything else?

H.M.Jr: No, sir.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

House 29
DATE May 4, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Nicaragua

Summary

1. Is Nicaragua a good business risk for a loan of \$3½ million?

A loan to Nicaragua would be a good business risk only if the loan were soundly invested in productive enterprises which would yield additional foreign exchange more than adequate to service the loan. A loan for the purpose of building the Pan American highway is not such a productive investment, badly as it may be needed for the development of Latin American relations.

The loan to the bank would not be productive except insofar as the loan is necessary to buy our way into having an American control the bank with sufficient powers to prevent further mismanagement.

Therefore, the wisdom of making the particular loans that are being proposed must be decided chiefly on a political basis.

Nicaragua has serviced her foreign debt (amounting to \$300,000 to \$500,000 a year) since 1911 because American Marines have been there to collect the debt (the upkeep of the Marines was probably as much as the debt service).

2. What political considerations are there that justify a loan of that amount to Nicaragua?

The loan is small but on a per capita basis it is equivalent to a loan to Brazil of almost \$300 million.

There is no special reason for making the loan on political grounds. There is, however, the general objective of keeping the Caribbean countries friendly to the United States. In the case of Nicaragua there is the additional specific consideration that we ought to do something to erase the bitterness left by the occupation by our troops during so long a period. The small countries in the Caribbean area are amply large enough to provide a basis for either military or propaganda centers for the aggressor nations, and full cooperation between any Caribbean country and a foreign power could probably menace the Panama Canal.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 3, 1939

TO Mr. White
FROM Mr. Hanson
Subject: Nicaragua

1. Proposal for loans.

(a) A public works program is to be initiated in which Nicaragua is to finance the domestic materials and labor and the Export-Import Bank is to finance external expenditures, all of which will be made in the United States. An American engineering firm will be selected to plan and execute the program.

(b) It is further proposed that the Export-Import Bank advance up to \$500,000 to the National Bank of Nicaragua to be used for exchange stabilization. This loan will be granted upon the condition that an American financial advisor be employed by the bank to control the use of the bank's foreign exchange assets.

2. A public works program is needed in Nicaragua.

Public works can be selected which will be highly productive to the country in the long run. But the Pan-American highway, which has been suggested as a likely project, is not the most needed public work in Nicaragua and from the point of view of developing the productivity of the country much better projects could no doubt be found. The Pan-American highway is not an economic project at the present time and many years will elapse before it can be considered as a source of revenue and wealth to Nicaragua.

3. Nicaragua cannot afford to increase its annual debt service by undertaking additional obligations unless such obligations arise from highly productive investments.

(a) Nicaragua's only source of foreign exchange is in her favorable balance of trade, which has averaged about \$750,000 a year for the past six years, (including exports of its current gold production, which amounts to a little more than \$300,000 a year).

Although adequate information is not available it is likely that between \$300,000 to \$500,000 a year is needed to service its debt now in foreign hands and from \$300,000 to \$500,000 a year is needed to transmit profits of American companies operating in Nicaragua.

Mr. White - 2

At the present time Nicaragua maintains strict control over imports. It is unlikely that she could gain more free foreign exchange by further reductions of imports without imposing severe burdens on her population.

(b) Although the current indebtedness of the Nicaraguan Government amounts to only \$8 million, the burden of servicing that debt is very heavy on the small and relatively impoverished country. Of the total indebtedness, from one-third to one-half is held abroad.

(1) The present debt service takes 20 percent of its annual budget.

(2) Government revenue at the present time is dependent on customs taxes, which constitute 50 percent of total government receipts.

(c) The favorable balance of trade of Nicaragua is precarious because of its dependence upon the export market for bananas and coffee. These two products comprise 70 percent of total exports. The position of the coffee industry is entirely dependent upon the policy Brazil adopts with respect to price control. The banana industry is in a weak position at the present time because its welfare has recently been menaced by banana diseases and furthermore a few large companies controlling banana production in other countries can weaken Nicaragua's position through their policies of shifting production from one area to another.

(d) The bulk of Nicaragua's imports consist of consumption goods, particularly cotton textiles, pharmaceutical supplies and machines. The import control system successfully reduced the total volume of imports.

4. There has been sharp inflation in Nicaragua in the past few years.

(a) From 1930 through 1938 the budget of Nicaragua has been in approximate balance with deficits alternating with surpluses.

(b) The currency in circulation increased from 3 million cordobas in 1934 to 12 million in March, 1939. In the past nine months alone the circulation increased from 8 million to 12 million.

(c) Total foreign exchange assets of Nicaragua amount to \$1 million, of which perhaps \$100,000 is in blocked German marks. The note circulation amounts to \$2½ million. (Five cordobas are equivalent to \$1.00.)

(d) The currency of Nicaragua has been depreciating sharply in the foreign exchange markets since 1934. The cordoba was valued at 90 cents in 1934, 50 cents in July 1937, and 20 cents in March 1939.

Mr. White - 3

5. United States-Nicaraguan economic relations

(a) In 1938 the United States took 67 percent of Nicaragua's exports and supplied 59 percent of her imports. The country next in importance was Germany, which purchased 10 percent of Nicaragua's exports and supplied her with 14 percent of her imports.

(b) The trade position of the United States in Nicaragua has been improving in the past two years and Germany's position has been worsening.

6. Nicaragua is not in default on her foreign debt

In 1937 when she was having difficulty in meeting her foreign exchange obligations she arranged an agreement with her creditors resulting in lower amortization payments and a lower interest charge per year.

7. Nicaragua is one of the countries in which the dollar diplomacy of previous administrations was most vigorously applied and the presence of American marines is acutely remembered.

Diary

May 5, 1939

TO THE SECRETARY:

The free silver in the Treasury has accumulated to the amount of \$67,000,000 due to the fact that the Federal Reserve Banks have been loaded up with \$1 and \$5 denomination silver certificates and the Treasurer has reached his limit of \$250,000,000 in issuing \$10 denominations. I do not care to see the amount of \$10 silver certificates increased as they merely replace Federal Reserve notes, but in view of the increase in free silver in the Treasury and the possible criticism that may be directed at you from Congressional sources, I see no other course open at this time.

In view of all the circumstances I recommend that you increase the amount of silver certificates in the denomination of \$10 which the Treasurer may issue from \$250,000,000 to \$300,000,000. This will enable us to reduce the free silver to a normal amount.

swB

DWB:NLE

Secy approved
increase from
\$250M to \$300M
swB
5/8/39

May 4, 1939.

PERSONAL AND CONFIDENTIAL

Dear Jim:

Confirming our telephone conversation this afternoon, I shall appreciate it very much if you will have a talk with Senators Brown, Miller and Adams of the Subcommittee of the Banking and Currency Committee which now has under consideration the legislation to continue for an additional two years certain of the existing monetary powers (S. 910). The legislation was introduced at the President's request in the House by Congressman Somers and in the Senate by Senator Wagner. The legislation passed the House last week without a roll call vote. Senator Wagner is anxious to have it reported out of the Subcommittee not later than the end of next week. Unless we are able to win over one or two of the above-named Senators, the vote in the Subcommittee is likely to be adverse. This would constitute a serious blow to the Administration's hopes for the success of the legislation and it should be avoided if at all possible.

The legislation relates to three important existing powers--

(1) Stabilization Fund Powers. There seems to be no serious objection to the continuation of the Stabilization Fund. As a matter of fact the acute international situation has emphasized the necessity for the continuation of this power. Briefly, the Stabilization Fund consists of \$2,000,000,000, \$200,000,000 of which is actually being used as a working fund. This \$2,000,000,000 comes from the gold profit when the dollar was revealed. The Fund has been employed for the purpose of stabilizing the

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exchange value of the dollar in relation to other currencies and for no other purpose. On balance sheets submitted to the Congressional Committees showing the condition of the Fund as of December 31, 1938, a profit of \$12,000,000 was shown. I cannot stress too strongly the powerful and effective weapon the Stabilization Fund has been during the past five years in dealing with the exchange value of the dollar so as to protect American economic, fiscal and trade interests. With the international situation being what it is, it would seem obvious that the continuation of the Stabilization Fund is vital to the adequate protection of American interests. I think that there will be very little difficulty in having this power extended since even the more conservative interests in and out of the Government recognize the important role that the Stabilization Fund has played in stabilizing the international monetary situation and thereby helping American business interests. The current international crisis has served to crystallize support for this power both in the public generally as well as in Congress.

(2) Dollar Devaluation. The Thomas Amendment of May 12, 1933, as amended by the Gold Reserve Act of January 30, 1934, gave the President the power to fix the gold content of the dollar between 50 and 60 per cent of its former gold content. This power was to expire in January 1936 unless extended by the President for an additional year. Pursuant to such power vested in the President, on January 30, 1934, the President revalued the dollar and fixed its gold content at 59.06 per cent of its former gold content. This gave gold a monetary value of \$35 an ounce as against the prior value of \$20.67 an ounce. The power ^(a) to further revalue the dollar down to 50 per cent of its old gold content was extended by Presidential Proclamation

until January 30, 1937 and by Congressional enactment to June 30, 1939. There is no present intention to further reduce the gold content of the dollar. This power is fundamentally a defense in the event that other countries seek trade advantages by deprecating their currencies. Furthermore the mere existence of our power to revalue the dollar has the effect of restraining other countries from trying to take unfair trade advantages by currency depreciation. It is over this power that most controversy has developed. Contrary to what some people believe, I feel that the mere existence of this power has had a stabilizing influence in international exchange and has helped rather than hampered American business. It would be unwise and fatal to American interests for this country to enter into the period with which we are confronted without continuing to have available to the Chief Executive the power to revalue the dollar within the narrow limits which Congress has fixed.

(3) Domestic Silver. The same paragraph that includes the power to revalue the dollar includes the power to provide for the unlimited coinage of silver pursuant to which the Government has been acquiring newly-mined domestic silver at a price higher than the world price. If domestic silver is to continue to receive such preferential treatment over foreign silver it is desirable that this power be continued.

I shall appreciate any help you may be able to give me in connection with this legislation.

Sincerely,

(Signed) H. Morganthau, Jr.

Hon. James A. Farley
Postmaster General
Washington, D. C.

HJP: & HBS Typed 5/4/39

Sent out by hand 4:30 p.m.

May 4, 1939
12:38 p.m.

HMJr: Hello.

Operator: Mrs. Bone. Go ahead.

HMJr: Hello. Hello.

Mrs. Homer
T. Bone: Hello. Mr. Morgenthau?

HMJr: Talking.

Mrs. B.: Ah - This is Mrs. Bone.

HMJr: Yes, Mrs. Bone.

Mrs. B.: I called you because - of course you don't know, but Mr. Saul Haas, Collector of Customs under your department in Seattle.

HMJr: Yes. I know Saul Haas.

Mrs. B.: I beg pardon.

HMJrs: I know him.

Mrs. B.: Oh, you do?

HMJr: Yes.

Mrs. B.: Well, he has been very seriously sick.

HMJr: He's been what?

Mrs. B.: I say he's been very seriously sick.

HMJr: Oh, I'm sorry.

Mrs. B.: And he has not yet been discharged from John Hopkins - what I mean is he's in Washington now.

HMJr: Yes.

Mrs. B.: But Johns Hopkins Hospital has not yet discharged him.

HMJr: Yes.

- 2 -

- Mrs. B.: Now, he has been absent from his Seattle office for several months. Mr. Gibbons, who is under you -
- HMJr: Yes.
- Mrs. B.: - has been very kind -
- HMJr: Yes.
- Mrs. B.: - and very nice to Mr. Haas. He has assured him that his absence from Seattle is not too serious.
- HMJr: Yes.
- Mrs. B.: Well, we -- he collapsed day before yesterday and Senator Bone and myself rushed him to the hospital.
- HMJr: I see.
- Mrs. B.: And -- now, John Hopkins also thinks that because Mr. Haas feels that he should be back in Seattle -
- HMJr: Yes.
- Mrs. B.: - on the job -
- HMJr: Yes.
- Mrs. B.: - that it is deterrent to his progress.
- HMJr: I see.
- Mrs. B.: And I -- Mr. Gibbons has been so nice and reassured him, but I thought that if you felt that you could give him a personal call -- you probably could reach him through Senator Bone's office, -- and reassure him.
- HMJr: Where is he now, Mrs. Bone?
- Mrs. B.: I beg your pardon.
- HMJr: Where is he now?
- Mrs. B.: Well, he left a little while ago and -

- 3 -

HMJr: Well, supposing I write him a note.

Mrs. B.: Well, that would be all right. That would be fine.

HMJr: I'll do it right away.

Mrs. B.: And if you'll reassure him that his absence from Seattle is not impairing, you know -- I mean -

HMJr: I understand.

Mrs. B.: It's not going to ruin everything.

HMJr: I know what you want. I'll be delighted to do it.

Mrs. B.: Will you do it?

HMJr: I'll do it right away.

Mrs. B.: Uh-huh, and tell him that - to stay here until he's well.

HMJr: Yes. I'll do that. I'll be glad to do it. Thank you for bringing it to my attention.

Mrs. B.: Thank you so much.

HMJr: Good bye.

(Pause)

Operator: Operator.

HMJr: I just want to dictate on this thing a minute.

O: All right.

HMJr: This conversation with Mrs. Bone should be copied and given to McReynolds. I want him to write a letter for my signature right away, please.

May 4, 1939
2:07 p.m.

HMJr: Hello.
James A. Farley: This is J. A. Farley.
HMJr: This is H. Morgenthau, Jr.
F: Glad to be able to talk with you, sir.
HMJr: I don't mind -- I've been associating with Royalty, but it's all right.
F: You're doing all right for a young fellow from the country.
HMJr: That's right.
F: I never thought I'd meet Kings and Queens and what have you.
HMJr: I only thought I'd hold them in my hand if I was lucky.
F: Right. I never could hold many in my hand; I was always getting tens and nines. How are you?
HMJr: Fine!
F: Good!
HMJr: Did Steve call you up about Ed Foley?
F: Yeah, I told him it was all right.
HMJr: All right.
F: I told Steve anything you do with me is all right.
HMJr: Now, wait a minute -- wait a minute. Now, I want some help.
F: Go ahead.
HMJr: Bob Wagner was just here for lunch.
F: Yes.
HMJr: And he's got this Committee on Banking that's sitting on this Stabilization Fund.

F: Yes.

HMJr: Now, there are three fellows on it.

F: Yes.

HMJr: That will -- that he needs some help on.

F: Yes.

HMJr: One is Alva Adams.

F: Yes, sir.

HMJr: The other is Prentiss Brown.

F: Yes.

HMJr: The other is John E. Miller of Arkansas.

F: Yes.

HMJr: Could you help us?

F: Well, I'll do my damndest. I don't know what I could do with Adams, but I'll -- I'll talk with all three and do my very best, Henry.

HMJr: Would you let me know?

F: Yes, definitely.

HMJr: I'd appreciate it.

F: Now, I'll tell you what -- well, you just get over to me on -- two or three or four lines, so that I'll know what I'm talking about, what the Bill is, and so I'll send for them.

HMJr: Sure, and do you want me to put a note in, "Dear Jim, will you speak to Adams and Brown and Miller"?

F: Yeah, about -- about what? Now, Adams, Brown -- Adams, Brown and John Miller about what? Now just what do you want me to -- to support Wagner on the.....

HMJr: I'll have it over to you as quick as I can write it.

F: That's all right. Send it over to Bray. That's all I want, see?

- 3 -

HMJr: Thank you.

F: And I can get busy right away. I was -- I talked with him yesterday and it was agreed that I just sit by until he told me or you told me, see?

HMJr: Bob Wagner?

F: Yeah, I talked with him last night, you see.

HMJr: Oh?

F: At Steve's request, I talked with him last night and he left -- he left it with me this way, that if -- when he wanted my assistance he'd call me in and for me not to do anything until he talked with me.

HMJr: Fine.

F: So now that he's talked with you, it's all right, Henry.

HMJr: Thank you so much.

F: You're all right, are you? How do you like the post office?

HMJr: That one up there?

F: Yeah, of course I made a terrible mistake. I was trying to boost Rhinebeck and make a real community out of it before twenty years was out. It was apparent to me that they want that -- they don't want the town to grow.

HMJr: That's right. That's right.

F: I always say the wrong thing at the wrong time, but that's all right.

HMJr: (Laughter)

F: I kidded the Boss about it today. I told him I didn't think they wanted Dutchess County to grow.

HMJr: I guess they don't.

F: O. K.

HMJr: Thank you very much.

F: Good bye.

May 4, 1939
2:10 p.m.

HMJr: Ed.....

Ed

Foley: Yes, Mr. Secretary.

HMJr: I talked to Jim Farley, and he said if I'd write him a letter along these lines, "Dear Jim, referring to my conversation, if you could talk to Senators Adams, Brown and Miller about....." And then tell him -- he wants me to put in the letter a few things -- what's -- on this Bill, you see?

F: Sure.

HMJr: He knows what it's about.

F: Sure.

HMJr: I'll be back here a little after three o'clock and if you could give it to Mrs. Klotz to give me.....

F: I'll have it for you.

HMJr: And then I'll send it over by hand. He said he'd be very glad to do it.

F: Fine! Thank you.

May 4, 1939
3:15 p.m.

HMJr: Hello.
Edwin
Watson: Hello.

HMJr: Is this "Dollar" Watson?

W: Yeah. Hello there, Mr. Secretary. How are you?

HMJr: Well, I -- this is old "Twenty-five cent" Morgenthau.

W: Yes, sir. Yes, sir.

HMJr: Listen, I had Senator Robert Wagner of New York for lunch.

W: Yes, sir.

HMJr: We talked about this Stabilization Fund Bill which.....

W: Yes, sir.

HMJr:is locked up by one, Carter Glass that I hear comes from Virginia.

W: Yes, sir, that's where he's from, I'm ashamed to tell you.

HMJr: He's trying to get it out. Now there's three fellows that are kind of on the fence.

W: Yes, sir.

HMJr: And I didn't know whether you fellows could do a little trading for me.

W: Um-hm.

HMJr: One is a fellow by the name of Alva Adams.

W: Adams? I don't think you'll do any trading with him.

HMJr: All right. The other is a fellow by the name of Prentiss Brown.

W: Well, I don't know about him.

HMJr: And the other fellow by the name of Joe E. Miller of Arkansas.

- 2 -

W: Well, on what basis?

HMJr: Well, just to get them to vote "Yes" for what -- on the Bill, that's all.

W: And to get -- get it out of Committee.

HMJr: Well, they can get it out of the Committee, but -- you see, there's four fellows -- there's Carter Glass.....

W: Um-hm.

HMJr:and Townsend and Taft that they know are against us.

W: Yes, sir.

HMJr: Barkley and Burns and Bankhead are all right -- and Smathers.

W: Pardon me, the President is giving me a ring. Let me call you.

HMJr: All right.

May 4, 1939
3:20 p.m.

HMJr: George.....
George
Haas: Yes.

HMJr: I asked the President of the United States and his secretary whether that suggestion I gave you this morning was all right.

H: Yeah.

HMJr: About trying to remember people who have got 'yobs'.

H: Yes.

HMJr: You used to come from Minnesota, didn't you?

H: That's right. I -- I understand that pronunciation very well.

HMJr: You understand 'yobs' don't you?

H: That's right.

HMJr: You also understand 'Minneesotah'?

H: (Laughter) Yes, sir.

HMJr: Well, anyway, it's just to check with the Central Statistical Board to make sure no one else is doing it.

H: Oh, fine! Fine! If the letter were putting it this -- that your request is by the direction of the President.

HMJr: But make sure that the Central Statistical Board and no one else is doing it.

H: Fine, I'll check right away, Mr. Secretary.

HMJr: Have you talked to Edna?

H: Yes, she's in my office at the moment.

HMJr: Can she hear you?

H: Yes, she can hear me, yes.

HMJr: Can she hear me?

- 2 -

H: I don't think so.

HMJr: All right. Now, Georgie, treat her nicely.

H: O. K. All right.

HMJr: Now you know if you treat her nicely, everything will be lovely.

H: All right.

HMJr: All right, Georgie.

H: Good bye.

May 4, 1939
4:55 p.m.

HMJr: Hello.
Key
Pittman: Hello.

HMJr: Key?

P: Yes.

HMJr: Henry talking.

P: Yeah.

HMJr: How are you?

P: Pretty good.

HMJr: Key, I am going over with Bob Wagner this Stabilization Fund, silver legislation and gold devaluation.

P: Yes.

HMJr: And the one fellow that none of us know how to approach and haven't got any approach to is -- is Adams, and I didn't know how well you knew him or whether you'd care to say something to him or sound him out. I hear he hasn't made up his mind yet and.....

P: Who is that, Wagner?

HMJr: No, no, no, Wagner is all right.

P: Oh, you mean Adams?

HMJr: Adams.

P: Well, I had a little talk with him yesterday.

HMJr: Yeah.

P: But I've got to come down and see you about an important matter before hand.

HMJr: Well.....

P: I'd like to drop in and see you sometime.

HMJr: I'm at your service.

P: I -- I can't in the morning. This -- this hearing is going on still on foreign relations.

HMJr: I see.

P: But I guess I can drop in in the afternoon.

HMJr: Well.....

P: I -- I'll do that if you'll.....

HMJr: Well, do you want to come in after Cabinet? We have Cabinet from two to three.

P: Yeah. Yes, later than that.

HMJr: Four thirty?

P: About four thirty.

HMJr: Tomorrow.

P: Yeah. All right.

HMJr: And -- four thirty tomorrow.

P: Yeah.

HMJr: All right.

Diary

May 4, 1939

The Secretary stated today that he would announce on Monday, May 8, an offering of Home Owners' Loan Corporation bonds in exchange for the 1-1/2% Home Owners' Loan Corporation bonds of Series F maturing June 1. The new securities will be dated May 15, 1939.

He stated at the same time that consideration had been given to the calling of the 2-3/4% Home Owners' Loan Corporation bonds Series B 1939-49 for payment August 1, 1939, but in view of the large aggregate amount of the two issues involved it has been decided not to call at this time the Series B bonds.

He explained, however, that these bonds have a two months' call provision under which a call for redemption on August 1, 1939, might be made at any time during the present month.

MAY 4 1939

My dear Mr. Cairns:

**I request that you attend in my behalf
any meetings of the National Munitions Control
Board at which I am unable to be present.**

Very truly yours,

(Signed) H. Morgenthau Jr.

Secretary of the Treasury.

**Mr. Huntington Cairns,
Assistant General Counsel,
Treasury Department.**

**HPK/avp
Typed: 4/14/39**

Speech to be delivered by Senator Pat Harrison at
The Annual Dinner of the United States Chamber of Commerce,
on Thursday night, May 4, 1939.
(To be released after delivery, or for Friday morning papers, May 5th)

At the end of this week's harmonious sessions—so free from the storms of controversy—I want to congratulate your organization on its courageous and characteristic settlement of all public questions. No more will there be fear on your part from the administration of the N.L.R.B., the S.E.C., the S.S.B. and the X.I.Y. You will have to take to your breast and woe in the future the F.S.A., the F.W.A. and the F.L.A. All friction heretofore existing between the government, the railroads, the utilities and business generally is removed amid the symphonious strains of appeasement.

And so, in the environment and circumstances of this occasion, you businessmen can confidently expect to experience a longer breathing spell, returning to your homes conscious that there yet remains in Washington a superabundance of gold, a tincture of passion for anonymity and a craving thirst for appeasement.

If there are two questions upon which there is complete accord between the President and the Congress and the Treasury and the membership of your organization they are government expenditures and Federal taxes.

At the risk of serving you too much meat and too little dessert, I am going to discuss briefly, but I hope candidly, these two non-controversial questions.

In 1928 the national income of our country was 84 billion dollars.
In 1932 it dropped to 40 billion dollars.

Our national income for 1938 was 62 billion dollars.

We may differ as to the method to be employed in reaching that goal, but we are all agreed, I am sure, in the fond hope of achieving an 80 billion dollar national income.

There is one group of very conscientious Americans who subscribes to the philosophy that free and increased spending is the quickest and surest way to attain that goal. If revenues decrease and larger and continuing deficits result, they are not disturbed, but believe that increased Federal expenditures will lead us onward and upward to higher and surer ground.

There is another group, equally as conscientious, who believes in rational and sane economy in expenditures. They believe that the sooner we begin to approach balancing our receipts and expenditures, the earlier can results be accomplished that will bring greater confidence and surer prosperity to our people and financial stability to our government. They believe that

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continued indifference to this important question will inevitably result in economic confusion and chaos.

When one realizes that our national debt has increased over 18½ billion dollars in six years, when our annual expenditures have climbed to a six-year average of over 7 3/4 billion dollars, when our annual receipts over the same period have averaged only 4½ billion dollars, one should know that it is time for the red light to be flashed. Because of my sincere convictions and my respect for this danger sign, I recently expressed my vigorous opposition to any suggestion of increasing by law at this session the present 45 billion dollar limit of the national debt.

I received a postal card the other day, and penciled on it was this wholesome expression: "You can no more spend yourself into prosperity than you can drink yourself sober." That fellow had something. While I have never been so unfortunate as to visit one of the Keeley institutions, I am told that the practice to effect the cure is to make the patient sick at first by too much drink and then to continue the treatment by a gradual tapering off into sobriety.

We have experienced in Washington an excess of the initial treatment. The time is ripe for tapering off.

In looking over the letters of Mr. Jefferson the other night, I found a very interesting one, written by that distinguished Democrat and great American statesman on April 17, 1791, to Mr. Monroe. Even at that early period in the history of our government, when Federal expenditures did not reach 5 million dollars annually, Mr. Jefferson said:

"We are ruined, sir, if we do not overrule the principles that the more we owe the more prosperous we shall be."

The country must appreciate that governments, like individuals, cannot go along indefinitely unless income is sufficient to meet expenditures. Debts and interest charges never sleep, and when payday comes, which it assuredly will, governments, like individuals, must pay or seek refuge in bankrupt courts and experience an impairment of credit. With world conditions unsettled, with threats and rumors of war being heard on every hand, we must place our own house in order and preserve the credit of the United States.

In 1933, with a disorganized and depressed economic condition upon us, some honest differences of opinion arose as to the wisest course to pursue in our efforts to meet and combat that tragic adversity. With few exceptions, however, there was unanimity of action in the Congress, because the situation which confronted us then demanded a humane prospectus to relieve the unemployed and needy of the country. Unusual and large appropriations at that time were

necessary. But this is 1939. Nineteen billion dollars have been appropriated and spent by the Federal government for relief purposes. Why, in the light of past experience, after six years of trial and continued application of the spending theory, should we not follow prudence and caution and detour from the road we are now traveling and continue our journey for a while at least over a safer and less dangerous highway? Certainly one should not be accused of violating the sacrosanct by making such a suggestion.

The action of the President last week in submitting his government reorganization plan, unifying and consolidating many agencies, is a clearance in the sky that should give hope and promise of a more propitious day. The transferring, unification, and consolidation of bureaus and agencies in themselves point in the right direction but accomplish little toward reducing expenditures unless in the administration of the new agencies a courageous effort is made to effect rigid economy. Personally I congratulate the President on this administrative policy and pledge him my support in this which I hope is not the last effort toward reorganization of government departments in the interest of economy and efficiency.

To reduce expenditures is not without its difficulties. In the Constitution of the Confederacy there was written a very wise inhibition upon government appropriations. In order to pass an appropriation item, that historic document made it mandatory upon both Houses of the Confederate Congress that two-thirds of those voting be recorded in favor of the appropriation. In this day it would be most wholesome if such a policy could be invoked by our own Federal government.

In creating the budgetary system some years ago, the Congress had in mind the establishing of an agency that would serve in an advisory capacity to the Executive, to investigate and coordinate activities dealing with the expenditure of public funds, and at the same time serve as a check upon excessive inroads on the Treasury. It has played a fine part and in many instances has been a restraining force against unwise Federal appropriations. But neither that agency, nor the Congress, nor Cabinet heads, nor the President, acting separate and alone, can accomplish the task of retrenchment in federal expenditures. There must be sincere accord and a common purpose, both in the Executive and the Legislative branches of this government, if the right sort of economies

are employed and a rational approach is made toward a balanced budget. Experience has taught us that a watchdog must always be on guard. Either the Executive or Legislative branch must apply the brakes. It was ole' Ben Franklin, I believe, who described the membership of the Constitutional Convention as a team of horses, some of which held in check those who desired to travel too fast.

Speaking tonight to your organization, which is perhaps composed of the greatest number of businessmen and women in our country, an organization whose influence is felt in every hamlet throughout this country, whose views are pronounced, and the members of which have never been charged with modesty in articulation—you who are a conglomeration of critics, and who sometimes conceive and resolute constructively—let me say to you that your associates in the Chambers of Commerce from Mississippi, and no doubt in every other state of the Union, have played a greater part in forcing large congressional expenditures than any organization with which I am familiar. There isn't a project desired at Squedunk or Yellow Rabbit or Vinegar Bend, whether it be for a recreational lake, playground or sanitary rendezvous, whether it be for the deepening of the Oakshay, the regulation of the Tallapoosa or the creation of rural route No. 18, that your local Chamber of Commerce doesn't meet and resolute and frighten with the fire of your influence the Congressman or Senator representing that bailiwick to obtain the approval and appropriations for the project. Frankness compels me to admit that the difficult task of retrenchment in government expenditures cannot be accomplished without the active interest, encouragement, and support of the citizens of this country. If economies are to be employed by this government—if expenditures are to be reduced, it will be because such a sentiment has been created back home and the demands made upon the Congress for such a policy.

In the matter of taxes, a subject upon which all the people have never agreed and never will, I regret that on this occasion I cannot cheer your hearts and thrill your imaginations with phrases of definiteness and encouragement. I am willing, but like the little girl who asked her mother's permission to go swimming and was told: "Yes, my darling daughter, but hang your clothes on a hickory limb and don't go near the water."

There are so many minds to meet and the mingling of so many diverse views on taxation, whether it is for revenue, or for purposes of social reform, incen-

tive or deterrent, that a common ground is hard to reach.

We appreciate that Federal taxes are heavier today than in any other peace-time period. We have tapped practically every source of available revenue; but those taxes cannot be reduced until there is a radical retrenchment in government expenditures.

When we realize that today 45% of the revenue of the government comes from the income tax, and that since its adoption the rate has been increased from 7% normal and surtax on individuals above \$20,000 until now it runs as high in normal and surtax as 79% in the highest brackets, it calls for a sane analysis to ascertain if the rate has not reached, in the highest brackets, a point of diminishing returns. It is not difficult to understand that when one whose income is such that he is compelled to pay to the Federal government as high as 75¢ out of every dollar, and in addition taxes, in some instances heavy, to the city, county and state, that he will not employ his capital in new investments which might give employment to thousands. The venture may be too uncertain, the risk too great. I wish it were in my power to reduce the high surtax rates to at least a point below that rate which influences diminishing returns. It would go far toward the employment of capital in the natural development of the country and toward the restoration of our general prosperity.

After being bruised and battered and wounded, my compatriots and I were finally able, during the last Congress, to write into the tax laws some very remedial provisions—provisions that were conceived in the spirit of justice, and I am confident that our efforts have proven most beneficial to the country.

In that Act we provided that personal holding companies might be liquidated without being subjected to heavy tax penalties. Under previous legislation dealing with public utility holding companies, these companies were forced to liquidate within a certain specified time. In the process of liquidation many of them would have been almost ruined by reason of taxes imposed in prior revenue acts. This situation was corrected and in the last Act we provided that these public utility holding companies could simplify their corporate structures without facing such heavy tax penalties.

In addition we provided for the modification of the inequitable and burdensome undistributed profits tax. Small corporations, that is, corporations with net incomes below \$25,000, were entirely relieved of any undistributed profits tax and were subjected to a graduated rate, the maximum of which was not more than 16 per cent. Corporations with net incomes above \$25,000 were taxed at rates ranging from 16 $\frac{1}{2}$ per cent. to 19 per cent., and the maximum rate of 19 per cent. applied only where the corporation retained all of its earnings and had no debts, deficits or net losses. Those corporations which were in debt or which sustained net losses or deficits in prior years were relieved of this same maximum rate by a series of cushion provisions.

In the 1938 Act the tax on capital gains was materially reduced so that in the case of property held over two years the maximum rate could not exceed 15 per cent. regardless of the amount of the taxpayer's other income. This gave encouragement to those in the higher brackets to release frozen assets and put capital in circulation to help unemployment and business recovery.

Surely no one can contend at this time that the same reasons apply today as formerly for forcing distribution of corporate reserves through the undistributed profits tax.

In the 1938 Act we sharpened the teeth of Section 102—that provision which places a very high tax rate on those corporations which accumulate unreasonable reserves for the purposes of tax avoidance. Since the enactment of the Revenue Act of 1938, the Supreme Court has upheld the constitutionality of this section, and from this time henceforth it can be used most effectively.

Our fiscal condition will not, at this session, permit any changes in our tax structure that would result in lowering the total of the government's revenues. I do not believe there will be any new or increased taxes levied at this session of the Congress. In all probability some legislation will be passed dealing with taxing the income from future issues of securities. Assuming that legislation along this line is enacted, it will apply to future issues only, and the Committee which has been studying this question has found such divergent views as to the constitutional question involved, the economic affect upon the communities, and such crosscurrents of opinion of the many and varied aspects of the question, that I dare not hazard a guess as to whether the conclusion of the Congress will be found in the passage of a constitutional amendment for submission to the people or through straight legislative enactment. Regardless of what method is finally evolved, the proposal will be reciprocal in nature and without

discrimination between Federal, state and local issues.

I look for no general or sweeping revision of our tax structure at this session. Without question, the House and the Senate will accept the freezing of the contributory old age insurance tax as recommended by the Treasury and already approved by the Ways and Means Committee. Miscellaneous taxes, which expire on June 30 or July 1, this year, involving revenue in the aggregate of over 400 million dollars, will be continued. Some legislation must be enacted dealing with corporate taxes. Provisions of the 1938 Act, dealing with corporate taxes, to which I have already referred, will expire December 31, this year. More than one billion three hundred million dollars in revenue are involved in these taxes. Many conferences have been held between those of us in the Congress interested in tax legislation, the Treasury officials, and the President. No definite conclusions have been reached. My colleague in the House, Chairman Doughton, and I, as heads of our respective committees, believing that we expressed the sentiment of our respective groups, congratulated Secretary Morgenthau on his fine expressions with reference to the modification or elimination of those provisions of the tax law which act as a deterrent to business. We expressed to him and others in the executive branch of the government our earnest and sincere desire to cooperate in effectuating the purposes recently announced by those in high authority in the Administration. In every conference we have held there has been complete harmony. Our study and conferences will continue, and I hope and believe that before the Congress adjourns we will have written corporate tax provisions that will encourage private industry to increase employment, add to the purchasing power of the people and stabilize the revenues to the government.

I am one of those rare specimens who believes that certainty in any legislative program, economic administration of the government, and wise and prudent expenditures, fair and impartial administration of laws by courageous and able and unbiased administrators, is the surest and best way to retain the confidence of the people.

Reasonable profits and fair treatment to business are essential to the preservation of our capitalistic form of government, and go hand in hand with fair treatment of labor. Our laws must be administered without prejudice or favoritism to any class of our people, whether they be the employer or employee, capital or labor, farmer or tenant.

There is no such thing as perfection in government. There are always faults to be corrected, evils to be avoided and new remedies to be worked out. Those things must never be wrought in passion, nor by arraignment class against class. Jefferson said:

"Restrain men from injuring one another, but leave them otherwise free to follow their own pursuits of industry and employment."

The right of collective bargaining is guaranteed by the law, and the most reactionary employer should recognize that it is a just and proper means toward obtaining deserving objectives. On the other hand, our Constitution and our laws protect one in the right to own and possess property and to control it, when that control does not injure another; and I do not sanction the right of labor or any group to usurp an employer's property and hold it through sit-down strikes or other means. To me one of the most precious gifts from God is the gift of freedom and a free life under the cherished principles of American institutions. How can a real American prefer Socialism or Communism to free enterprise? In one there is the Hymn of Hate, the shackling of the human soul and death to freedom. Under the other, there is life and hope and happiness. There is the right of free speech, the right of free press, the right of free assemblage, and more valuable than all, the right of man to worship the God of his fathers in his own way, without the tutelage of state or the domination of a master.

I have been classed by prejudiced and jaundiced critics as a conservative. I am not interested in what designation is given me. For twenty-eight years I have served in the Congress, the record of which service reflects the views, the actions, and the votes of one who has followed in an American way the progressive thought of the country. So, it matters not to me if I be classed as a liberal or as a conservative. I believe as did Disraeli when he said:

"I am a conservative in that I would save what is wholesome; yet I am a liberal in that I would destroy what is evil."

The American system has brought us a long way. At times perhaps we have climbed too high; but in our adversity we have been taught bitter lessons in character building that will, if left unhampered, make us an example to the civilization of the world. It cannot be done through antagonisms within any political party. It cannot be done by any one political party, but it must be done by the

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united patriotic and cooperative spirit of right-thinking Americans who believe in the preservation of our form of government. There can be no better time than now, in the circumstances surrounding the world, to rededicate ourselves to the broad principles upon which this government was founded and labor together to dissipate the faults that sometimes appear to blur our vision. Let us remember that in the tangled thought of the nation, Voltaire was right when he said:

"I don't agree with you, but I will give my life to see you have the right to disagree with me."

What we need now, in all our people, is the highest quality of magnanimity, forgiveness and understanding.

5/4/39

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Pending and Probable Future Requests for
Financial Assistance by the Export-Import
Bank in Connection with the Other American
Republics

Actively Pending

<u>Country</u>	<u>Millions of Dollars</u>
Brazil (to carry out second part of recent arrangements)	25 - 50
Chile	20 - 30
Cuba	15 - 25
Ecuador	5 - 10
Nicaragua	3.5
Paraguay	<u>3 - 5</u>
Total	71.5 - 123.5

Probable Future

Argentina (coupled with trade agree- ment exchange)	25 - 50
Colombia (contingent on debt settlement)	10 - 30
Uruguay (similar to Argentina)	1 - 5
Venezuela (reconstruction of Caracas)	<u>10 - 15</u>
Total	46 - 100

Possible Future

It appears likely that Honduras and Costa Rica may request assistance in completing their portions of the Pan
Pan

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U.S. DEPARTMENT OF STATE

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Pan American Highway. This might necessitate on a plan similar to that discussed for Nicaragua some 10 - 12 million dollars. In addition Peru may eventually make some form of debt settlement which would open that country for moderate credits. The remaining other American republics would probably also make requests.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

63
DATE May 4, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Paraguay

Summary

1. The information available to us concerning Paraguay is inadequate for any comprehensive understanding of the Paraguayan economic and financial situation at the present time.
2. From such information as is available to us the financial condition of Paraguay is not stable and unless the economic assistance will give to Paraguay highly productive investments, additional loans can be made only with considerable risk.
3. Paraguay is in the economic orbit of Argentina. If the United States is to obtain maximum benefits from the loan it is probably necessary that United States-Argentine relations be improved. If these relations are not improved, economic assistance to Paraguay will not yield the political benefits that such loans might yield if given to other countries in Latin America.

TREASURY DEPARTMENT

64

INTER OFFICE COMMUNICATION

DATE May 4, 1939

TO Secretary Morgenthau
FROM Mr. White
Subject: Paraguay

1. Proposals for loans of \$3 millions to \$5 millions.

It is proposed that a public works program be initiated in which Paraguay would finance all domestic costs and the Export-Import Bank would finance the necessary foreign expenditures, all of which would be expended in the United States. An American engineering firm would be selected to plan and execute the public works program.

It is further proposed to purchase agricultural machinery to develop such agricultural industries as the American engineering consultant would deem worthy.

It is further proposed to extend a modest line of credit to the national bank for purposes of exchange stabilization.

2. The information available concerning Paraguay is inadequate for any comprehensive understanding of the Paraguayan economic situation at the present time.

3. The following significant facts concerning Paraguay seem to be the only pertinent information available:

(a) Paraguay's exports normally run from \$7 to \$10 million per year and consist largely of quebracho, hides, canned meat and cotton. Paraguay is entirely dependent upon Argentina's trade channels for disposal of her exports in world markets. All of her export items compete directly with Argentine exports and most of her exports are handled by Argentine trading companies and utilize Argentine transport.

(b) As far as it is now known, Paraguay has no mineral wealth.

(c) The Chaco war (1932-36) cost Paraguay \$10 million, which was financed internally, largely by the issuance of paper money. Armament purchases abroad were made at the expense of peacetime imports which were handled through a rigid control over imports.

Secretary Morgenthau - 2

The note issue is now claimed to be about 1000 million paper pesos, which is the equivalent at the present foreign exchange rate to \$5 million. At the beginning of the war the note issue was only 200 million paper pesos and reached a peak during the war of 1,400 million paper pesos.

The gold holdings in December 1937 were placed at \$1.5 million but the holdings are undoubtedly less than that now.

The Paraguayan peso has gone through a process of depreciation in the foreign exchange markets as a result of the war. At the present time the Paraguayan peso is worth .4 cents or about 220 pesos to the dollar. In 1932, the peso was valued at 2.2 cents, or about 45 pesos to the dollar.

(d) Accurate figures as to the state of the public finances of Paraguay are not available. It has been reported that the external debt is probably about \$7 million and the internal debt, \$4 million, a total of \$11 million.

The President of Paraguay has reported that the foreign debt is now being serviced, although it is not known to what extent the full debt service is being met. The foreign debt was in complete default during the four years of the Chaco war.

(e) Paraguay is reported to be a very fertile country and experts studying the country will probably report that investments in agriculture in Paraguay will be profitable.

(f) Paraguay and Ecuador are the only two South American countries which did not borrow extensively from the United States during the 1920s.

(g) Argentina has very strong economic interests in Paraguay. Brazil, on the other hand, aspires to the use of Paraguay as a highway to Bolivia. This little country, with a population of about one million, therefore, is caught between the conflicting interests of Argentina and Brazil. Paraguay, of course, has no direct access to the sea and must use Argentine railroads, rivers and ports for its contact with the outside world.

RE TAX STATEMENT

May 4, 1939.
9:35 A. M.

Present: Mr. White
Mr. Blough
Mrs. Klotz
Miss Humphries
Mr. Duffield

H.M.Jr: I asked for everybody last night.

White: I knew you would come back and ask.

Blough: I was out in this office.

White: I wasn't worried.

H.M.Jr: Didn't they tell you I asked for you last night?
No, I asked for everyone of you. Sorry. Mrs. Klotz
was here. You can ask her. She always talks.

Klotz: And I had to take that.

H.M.Jr: Well, anyway, it's better to be on tenterhooks and
see the Secretary cheerful than to have been on
tenterhooks and see him down.

Duffield: That's right. I even polled Miss Chauncey to see
how you were feeling when you came back.

H.M.Jr: What did she say?

Duffield: Said you came in smiling, so I went home happy.

H.M.Jr: That's good. I guess she knew. She knew. That's
very cute.

Well, I was with the President yesterday from
4:00 o'clock to quarter of six. And on the first
paragraph the President said, "Well, this is in
direct conflict with what I have said since I
have returned from my cruise, and if they pass
this kind of bill I've got to veto it."

Now, he wants the first sentence out and the second
sentence should read something like this: "Your
Chairman, Representative Doughton, together with
Senator Harrison, has expressed a desire to receive
our views with regard to certain suggestions made
by them and others."

- 2 -

See? In other words, he's very anxious to get over the thing that the suggestions are somebody else's, see? Now, again he says "Made by them and others." You'll have to, because not everything in here has been made by Doughton. But that's the underlying philosophy he wants to get over.

Now, the way I'm going to divide this thing up is - I mean the actual work - I expect White and Duffield to do the actual work on the philosophical changes, and you (Blough) are going to have a big job on the tax changes, see? You can get together. Herbert and I will supervise it when you fellows come in, see?

Now, the next sentence - "In formulating our suggestions for a fiscal program.... - " - that's out, that sentence, and start the sentence with a capital - "We have taken account of the fact that we are now in the midst of a world...."

Duffield: We start there.

H.M.Jr: You start with the capital - "We have taken account of the fact that we are now in the midst...."

Gaston: That "We have taken" doesn't stand up very well.

H.M.Jr: Herbert, please let me run through this. It isn't balanced as to every word. I mean this isn't a final thing from the throne, but the President's - I mean I've got 45 minutes to run through this thing and this isn't the final. I mean I want to get over - try to talk it out to you the way he did to me, what the thing is. I want to give it to you just as he did it in his handwriting, you see?

Now, there is nothing more in that page. The next paragraph starts "Preservation of our democratic form of government requires, in my opinion...." Now, what the President said is this: "Do you mean to say if you don't make any changes in 1939, the democratic form of government is going to collapse?"

- 3 -

- White: That isn't implied here at all. He puts it that way.
- H.M.Jr: "The preservation of our democratic form of government over...." - this is new - "...over a long period of years requires, in my opinion...." What?
- White: That's all right.
- H.M.Jr: Then three - instead of saying "The placing of our public finances," he says "Maintenance of our public finances." Huh?
- White: That's all right.
- Blough: I expected that change.
- White: That's a significant change. The assumption there is that we already have it, whereas the implication in ours is that we haven't it and we want to put it there.
- H.M.Jr: That's the point. He says, "What's the matter with our public finances?" He says, "Having any trouble with your bond market?" He's perfectly right. He says, "Having any trouble with our bond market? I'm surprised."
- Duffield: White wrote this.
- White: O. K.
- Klotz: He's taking it.
- H.M.Jr: Well, on page 2 he said - top of the page - "equitable distribution of tax burdens and a more equitable distribution of national income," he says.
- White: It's even better.
- H.M.Jr: The President said here - he said, "I want to say it - we've said it so often and just an equitable distribution isn't enough." He said, "A more equitable distribution." And it's very interesting that that sentence should please him so and that certain people in the Treasury wanted that sentence out.
- aston: I was particularly pleased to see it in.

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H.M.Jr: Now, before I read this, the President said that if we could by arranging the figures make it seem or show that our deficit was accounted for by our armaments, it would be very nice. So I said that was impossible. He said, "How about taking the armaments plus soldiers' pensions, everything that has to do with soldiers, so forth and so on?" He says, "Take a look at it."

So I told him you'd have to include relief. He said, "No. Take a look at it."

This is what he wrote here. I'll give this to you: "It's interesting to note that while our own current expenditure....(words not understood)....an amount of only 25 percent of our national expenditure, this sum more than represents the total deficit." And then he had me put in - well, try and fix it up if possible.

White: There's the interest on the war debt, too - would be almost half a billion.

H.M.Jr: Well, we don't get any.

Duffield: No, he means the interest we pay on the debt we incurred.

White: That's part of the military burden.

H.M.Jr: Right. He says....

White: It would probably make close to three billion.

H.M.Jr: Then if we can say 75 percent of our deficit, or anything, he says - and you can get Bell to help you. He said, as he put it, "It's a nice idea." I don't know whether you can do it, but if you can it would be nice to show that practically all of it is war debt.

Now, from the last sentence - "For us the danger is that these developments...." - the new word is "abroad" - "...may mean a necessarily increased cost for national defense here, together with monetary instability...."

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Should I do that again, Miss Humphries? Can you follow it?

Humphries: No, I have it all right, thank you.

H.M.Jr: "...that these developments abroad may mean a necessarily increased cost for national defense here, together with monetary instability.."

Now, there is nothing else until he gets down to the third line, and he is against this background - he cuts out the word "must" in "that we must re-examine our fiscal program."

Then we come down to....

Klotz: Next page.

H.M.Jr: Then you come down to line 9. "The unmistakable implication of the international situation is that we should look ahead to our fiscal position and redouble our efforts to attain full recovery." I'll do that again. "The unmistakable implication of the international situation is that we should look ahead to our fiscal position and redouble our efforts to attain full recovery." Huh? I think that's a distinct improvement, don't you, Harry?

White: It is from my point of view.

H.M.Jr: Herbert?

Gaston: Yes, yes.

H.M.Jr: I mean the whole thing - "Well, if we don't do this right away, this country is going down."

Now, the next paragraph. "Also there are periods during which...." - At this point he said, "Why be so 'pussyfoot' about this?" Don't you love it? You see, I had "maybe" and they juggled it, you see, left and right. "Also there are periods during which sound fiscal policy...." - I'll take it and grin.

Gaston: That's the exact point that I raised.

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Duffield: You remember, you asked for the "may well be."

H.M.Jr: I know. Well, he's been so reasonable about it that....

Now, the last three words on this page, "We cannot face...." - he cuts that sentence out entirely and leaves it "The sequel to deficits and emergencies will be surpluses during the years of prosperity." Again he says that's too strong.

Now, Insert A - before I do Insert A, the next paragraph - "Mere talk of a sound fiscal policy...." - that paragraph he took out entirely. And Insert A: "That was and is the broad purpose of seeking to raise the national income to such a high point that there would be surpluses with which to...."

White: To accomplish this, huh?

H.M.Jr: Well, I'll read what I got. You'll have to fill it in afterwards. I'll read it just as I took it from him. It isn't correct, but I'll read it exactly as I've got it. "That was and is the broad purpose of seeking to raise the national income to such a high point that would be surpluses with which to reduce and eliminate the deficits which began in 1930."

White: Do you want to raise questions of philosophical content? I don't think he quite could mean that. That was one of the purposes, certainly not the purpose.

H.M.Jr: Well, again, not - I want to get this over first. The point that he made is - he said, "You made me say in my speech in January at the Hill that we were going to raise the income to 80 billion and in that way get the additional revenue." He said, "You made me do that. Why don't you say it again? You're the fellow that made me do that." Well, of course, it wasn't I.

White: Of course, it still holds true, if he did raise it.

H.M.Jr: Well, the point that he's getting at - the deficits began in 1930. There's no argument about that, is there? Now, all I'm trying to do is to get

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over this thing so that you fellows can have it and drop everything else and go to work on it. Now, you get what he's after, don't you?

White: You just said something about the deficits beginning in 1930. Is that something he said?

H.M.Jr: You (Miss Humphries) have that, don't you?

Humphries: Yes.

White: Was that supposed to be in somewhere?

H.M.Jr: That's an insert.

White: Excuse me, I'm sorry.

H.M.Jr: "Mere talk of a sound fiscal...." - that's out.

Then B comes next. I'll read it again. I mean for me to take this stuff as fast as he gives it is awfully hard. B: "It is not the prerogative of any department to make suggestions to the legislative branch of the government for the conduct of its work, but I am sure that you would wish me to be frank in telling you some of the difficulties which attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department to coordinate their efforts."

White: It's an excellent one, very good.

H.M.Jr: Now, this comes next. Now, the next paragraph starts off "If, for instance...." - and then cross off the whole first sentence: "In order to move in this direction, I suggest that...." - that all comes off. So we'll start "If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance Committee of the Senate could meet each session as a joint committee on fiscal policy and consider the over-all in respect to expenditures and revenue programs, simplification would result."

Now, you drop down to the last sentence: "that this innovation...." - cut out the word "this" and it reads "that some such innovation."

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Duffield: Pardon me - by dropping down did you mean we eliminate everything else?

H.M.Jr: No, no.

Klotz: No, it stays in.

Gaston: "...that such an innovation"?

H.M.Jr: "...that some such." You see, you people - you (reporter) can type this right away, so that Miss Humphries - you have it - don't you have it?

Humphries: Yes, I'm getting it.

H.M.Jr: "...that some such innovation."

And if you have any questions you can go to Mrs. Klotz and check with her.

Now we'll go over it. Now, I'll read this paragraph - this next the way he has written it. I'm going to read this - top of page 5. "By providing for a preliminary legislative consideration of the over-all appropriation and revenue measures, it would give within the Congress a broad picture of the management of the Government's finances and permit a better-ordered coordination between the executive and legislative branches in this field." The President says, "You can't tell the Congress they are not intelligent."

Have you got it, Miss Humphries?

Humphries: Yes, sir.

H.M.Jr: Which I think - you see, what he's doing all through here - he's making what I tried to do - make it much more courteous to Congress and much more - would you use the word "subservient"?

Duffield: No. I think this is fine, this change.

White: His deletion of the words "centralizing responsibility" is interesting.

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H.M.Jr: Yes, he doesn't want that.

Now, this is intensely interesting. Beginning with "This joint committee...." down through "....a consistent fiscal policy" - out.

Duffield: There goes the funnel.

H.M.Jr: What?

Duffield: There goes the funnel.

H.M.Jr: Well, he's got something else. This should read: "This joint committee would in effect be a lens through which all appropriations and revenue measures could be viewed...."

White: Much better metaphor.

H.M.Jr: "...in relationship both to what the nation needs and the nation can afford." I think that's wonderful. Isn't this interesting? Huh?

"This committee should have continuous life and could be actively studying fiscal problems...." and so forth.

Then the sentence "I understand...." - that from there - the rest of that's off. He says, "They'll all say this is LaFollette and they won't like it."

White: Anyway, Wisconsin got us in trouble with our Social Security.

H.M.Jr: I'm sorry - Mrs. Klotz says those "shoulds" should both be changed to "coulds." It's good for you to check me. It's hard to write the stuff and then be watching it and thinking about it.

The next paragraph is all right.

Then the next is "We have talked about moving... it is now time to act" - he cuts that out entirely. He says, "We've been saying that for five years."

Nothing more on that page.

- White: It begins with "I recommend"?
- H.M.Jr: Yes - "I recommend that the Congress be...."
- Duffield: Oh, we cut out the first sentence too?
- H.M.Jr: No, just cut out "it is now time to act."
- White: I see.
- H.M.Jr: Page 7, line 5 - "...are becoming intolerable" - cut out the word "intolerable" and think of some mild word. He said he doesn't think they are. He says, "Who says so?"
- I say, "My neighbors."
- He says, "They have no reason to."
- "As a result of this Commission's work, which will be able to achieve a more orderly relationship...." - got it, Miss Humphries?
- Humphries: Yes, sir.
- H.M.Jr: Now, where I come down to the thing that I was so proud about, my three alternatives - they've gone with the wind. They've gone with the wind. Now, at this point here, before we do anything, the President wants me to make a statement which, as I remember, was on sixteen or seventeen.
- White: "We shall not discuss the detail"?
- H.M.Jr: It's the one that has to do with the revenue-producing capacity.
- Blough: That's 17.
- Duffield: 17.
- H.M.Jr: Now, he wants to start this thing off - he didn't dictate it - he wants to start off and make a forceful statement that whatever we do in changes, we mustn't lose any revenue. I mean he didn't give me that, but here he says - wait a minute - he says - well, anyway, he said something like we have on 17, but he wants it at the end and wants it to be a

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very forceful statement that whatever we do, we mustn't lose any money.

Duffield: May I ask, Mr. Secretary, whether the paragraph on page 7 which says "Thus far I have talked...." is all right, or is that out too?

H.M.Jr: No, that's all right, but beginning "It seems to me that Congress has three choices...."

Duffield: That's right.

H.M.Jr: Yes, that's out.

Now, what he's given me is what he calls four things, and he wants me to make a statement - I mean I'll read it to you, but to get the thing - "...a renewal of the recommendation which we have already made." You see?

And those are, according to him - he says here "1 - same amount of revenue." I'm reading now as I wrote it out. "1 - same amount of revenue." And devote a page to this.

"2 - I have already recommended renewal of all expiring taxes." Now he says he's done that. You've got to look it up. He said, "We've already done that." He said we made the recommendation on January 4. He may have done it. He's quite sure; I'm not.

"3 - Repeat recommendations of Social Security taxes."

Now, you see, what he's saying here - "These are all recommendations, but they are renewals; I've made them before."

"4 - Renew recommendation on taxing outstanding bond issues."

Duffield: Outstanding? Future.

H.M.Jr: New ones. Well, I'll write "taxing all new bonds."

Then this next I'll read just as I got it: "It seems physically impossible at this session of Congress

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to rewrite the tax laws before the Special Study Committee has conferred with States and municipalities and brings in a report. It has been suggested to me by the Chairmen and members of the Committees that I report...." - now get this thing; this is his thing; this, I think, is marvelous - "...that I report on the pros and cons of certain corporate taxes and personal income taxes. Pursuant to these requests, I hereby give the pros and cons."

Humphries: I missed one word, Mr. Secretary, after "Pursuant to these...."

Duffield: "Requests."

H.M.Jr: "...to these requests, I hereby give the pros and cons."

White: So that moves over into the speech the pros and cons of each measure which you wish to suggest here.

H.M.Jr: Now we're going into the pros and cons.

Blough: No wonder you said there was some work to do.

H.M.Jr: Well, this isn't hard.

Blough: Oh no.

H.M.Jr: I mean, in other words, the President hasn't thrown down a single one of his recommendations, but he is maintaining the position which he's taken with Pat Harrison that the recommendations have to come from them and not from us. And I think at one point where we were talking about it I said, "I won't talk to Pat Harrison, I'll just talk to Doughton, and I'll let him bring these down to you as his suggestions."

So he said, "Well, twelve hours later a columnist will write that you put it in Doughton's hands." So this is his way of doing it, and as far as I am concerned I take it cheerfully.

White: It serves the purpose if the pros and cons should point to action in one direction. Otherwise, you should....

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H.M.Jr: Now, on page 18....

Duffield: Is it page 8?

H.M.Jr: Page 18.

Humphries: Page 8 is out.

H.M.Jr: Why do I go from - oh, excuse me.

Klotz: Just went back, you see.

H.M.Jr: Everybody happy so far?

White: Happier.

Duffield: Yes.

Klotz: He'll give you the superlatives soon.

You went back to refer to something, you see.

H.M.Jr: Oh.

Blough: It wound up at the end of 7 and 8.

H.M.Jr: Miss Humphries, at 10:30 I have a press conference, and at a quarter of 11:00 you go into Mrs. Klotz's room and read your notes to her and she'll have these two books here, you see, and you can read it back. Or Mr. Blough and - why don't you - well, as many of you as want to go in there. Who do you want to take, Miss Humphries?

Klotz: Yes, I'll get her straightened out, then she can work with them.

H.M.Jr: I think you'd better go in at a quarter of 11:00 to Mrs. Klotz and read back your notes.

Now I go to page 9. He didn't say anything about 9. 9 stood.

Blough: Hardly fits now, though.

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H.M.Jr: What?

Blough: Hardly fits now. I'm glad it's in, though. We can fix it.

H.M.Jr: As I say, I'm not - I'm trying to get all the changes. And now we have, of course, this tax-exempt security thing.

Duffield: It moves up, doesn't it?

Blough: Already taken care of.

H.M.Jr: Yes.

White: Is it your thought that there would be pros and cons of those things that are merely renewals?

H.M.Jr: No, no.

White: Not going to mention the pros and cons on those that are merely renewed.

H.M.Jr: No, no. And you'll have to look up.... Now we go to page 11. Now, on the left hand side we have "Carry-forward of business losses." Cross out the "Recommendation."

Klotz: "Recommendation."

H.M.Jr: All "Recommendations" out.

Klotz: On the left side.

Blough: Does he want this sort of thing to go up with this statement?

H.M.Jr: Yes, and I'll explain it to you in a minute how I think he wants it. He wants us to state reasons against the change and as we put down - chances for evasion - and he doesn't want the recommendations. And in this thing, I think this is the one where he pointed out, "In one place you say two years, another place you say three years."

Blough: Two or three. I think we....

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H.M.Jr: Well, under the thing - I think you have to write it without recommendations.

White: Either that or you - did he indicate any desire to have any estimates of the amount of revenue reduction which each of these might lead to?

H.M.Jr: Yes.

White: Well, in that case you can say, "At two years, this is the estimate, at three years, this is the estimate," to avoid making it specific.

H.M.Jr: Now here, he said, you've given two years.

Blough: It's there, I'm pretty sure.

Duffield: It's two in one case.

Blough: Just didn't quite read it right on the recommendations.

H.M.Jr: I'm trying to give it to you, anyway. But you've got to give both sides of the argument. He wrote "Reasons against change - chances of evasion."

Now, the way this thing would start on 11 - instead of "Allowance could be made...." - he'd have number 1 "I have been asked to give the pros and cons on allowances to be made for business losses...." And that's the formula, see? "I have been asked to give the pros and cons on allowances to be made for business losses to be carried forward."

Now, that's number 1. He wrote number 1.

Blough: Then we'd take as much of this material and put it over into the statement as....

H.M.Jr: You'll have to work out that technique yourself. I don't know. But I mean that's the big job, see?

Now, again, on this next one repeat it - "I have been asked to...." - you see, that's the formula. You see? And take out "Recommendation."

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And he said under "Examples" he's written "Cons."

White: Written what?

H.M.Jr: I'm looking opposite page 12 - the same thing. You say where you use examples....

Duffield: The cons.

H.M.Jr: "You've given the pros," he said, "give the cons."

White: In each case.

H.M.Jr: In each case. On 13 the same thing.

On 14 - now I've got to make a little speech here. He's written here - this is the President: "Continue deterrent against family corporations leaving profits to pile up." End of quote.

So I said, "Mr. President, I think we take care of that through the incorporated pocketbook."

He said, "Oh no, I mean where a family and their friends control the Gulf Oil or the Aluminum and through not declaring the dividends and permitting the money to go into circulation, that's a deterrent." Page the American Chamber of Commerce and the Manufacturers' Association. It's all right. Now, we'll work that in. I mean he doesn't have to tell me when the Gulf Oil Company refuses to pay a dividend over its life and piles that thing up and doesn't let that money into circulation; it is a deterrent.

White: In other words, the failure to have an undistributed profits tax would be a deterrent to business.

H.M.Jr: That's his approach.

Blough: I agree that that's a deterrent. I think there are some things on the other side. Of course you do, too.

H.M.Jr: Pros and cons. Now, this is the only thing he put in on all these things, and if anybody is fair and

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wants to sit back and say that the Gulf and Aluminum who are piling up those surpluses and not declaring the money - isn't that a deterrent?

Blough: That sort of a case is, I think, clearly a deterrent.

H.M.Jr: I'm enjoying today much more than I did yesterday. Believe me, I took a twenty minute start-off which - I'm glad we were alone.

Now again he writes here - oh, this is very - on page 15 - he wants the income tax returns of the thousand richest people in the United States. When he read that statement that people were paying - how much did he say - the maximum?

Gaston: 79.

H.M.Jr: He said, "That's a lie." He said, "That's a lie."

Blough: We have one.

White: There are one or two.

H.M.Jr: He said, "The reason it's a lie is this." He said that a man came in to see him who had a million dollars worth of income and he paid 750 thousand dollars worth of taxes. No, the example he gave was 900 thousand dollars of income and he paid 750 thousand dollars taxes, and he had only 150 thousand dollars left. But you could see that he was at least spending a quarter of a million dollars a year. So the President said, "How come? Come clean."

He said, "Oh, I have another million dollars worth of income from Government tax-exempts."

"So," he said, "this fellow was paying about 45 percent."

Duffield: I wanted to say: do this if only to eliminate tax-exempts.

H.M.Jr: Now he says - I mean this is - I mean he doesn't - I don't know just what he wants on the income

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and thousand richest. But he says, "Do they report income from their State and municipals and the income from their gifts?"

Blough: The answer is they are supposed to but they under-report it very seriously. Of that we're sure.

H.M.Jr: Then he said what he'd like to see is what he called the Carter*Glass Amendment, having a sliding scale from 60 to 75 depending on the income that the people have from tax-exempts. Now, he says that's what he'd like to see.

White: That's an interesting way of making unnecessary retroactive taxes on the outstanding bonds.

H.M.Jr: Now, again, the pros and cons.

White: There is one point - another point - they pay their maximum only on the amount of income above....

Duffield: Well, if the income gets way up there the rate very fast approaches the maximum.

White: That's true, but up to there they pay a graduated scale.

H.M.Jr: Well now, do you get what he's after?

Blough: Yes. He might have thrown capital gains in while he was at it - another way in which they pay very low taxes.

White: That would be the pros and cons - included in the cons.

H.M.Jr: Well, opposite this sentence on 16 - "Also I recognize other features of tax laws considered by some to be deterrents" - he puts a question mark. He says, "Who says so?" He didn't say it here, but he said it to me. He said, "Who says so?"

Blough: Brookings, National Manufacturers Association.

H.M.Jr: Well, in view of this approach, I question whether I'd say that.

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Blough: Yes, I would certainly not now in view of this approach, because you would be in duty bound to give them the answer if you had the question.

H.M.Jr: Now, after 16 he wanted me to say, where you have these recommendations, you see, about 19 and 22 percent and all that - he wants me to say something like this: "...will have to bring in as much revenue, and this is a very difficult problem for Congress to face." You see? And he says, "Just as soon as they see our suggestion that the small fellows pay 19 percent, they'll all be up in arms; and when the big fellows see they're going to have to pay 22 percent - what's there in it?" But, carrying out his suggestion, we wouldn't include those recommendations.

Blough: Leave out the....

H.M.Jr: Leave out the percentages.

On 19 - well now, this is the thing that he wants to add. He said he thought it was a mistake to put this table in opposite page 19.

Blough: You mean for him?

H.M.Jr: Well, we're now talking at the stage - we're getting ready for me to go on the Hill.

Blough: Oh, granted. I agree.

H.M.Jr: Now, he said something like this - oh, I think this is - I guess what he means is that....

Klotz: "There is merit...."

H.M.Jr: "There is merit...." Wonderful.

Klotz: Thank you.

H.M.Jr: You ought to know after all these years.

"There is merit to the suggestion that between the income of 15 thousand dollars and 250 thousand dollars which are relatively low compared with

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income of less than 15 thousand dollars and more than 250 thousand dollars, and additional income could be gotten in." Paragraph.

"Furthermore, good citizenship it is felt that every individual with income of more than 800 dollars a year and up to 1500 dollars and families up to 2500 dollars could pay and would be willing to pay a small flat tax."

"Now," he says, "I don't whether flat tax is the word, but," he says, "I'm thinking in terms of five or ten dollars."

Blough: Wonderful. That means we go down.

White: You didn't reconsider that fifteen is a little high?

H.M.Jr: Pardon?

White: Fifteen thousand is a little high limit. But it's not subject to consideration?

H.M.Jr: None of these things are fixed.

White: If we wanted to try a lower figure.....

Gaston: He does try a lower figure. He first talked of fifteen up, and then says, "Furthermore, in the lower ranges...."

White: But a flat tax on an income of 800 and 1500 goes pretty low.

Gaston: Doesn't have to be flat.

White: How about that oil business? Is that in?

H.M.Jr: Oh, sure.

Duffield: Well, that's really a renewal of an old recommendation.

White: Will that go up under the renewals of the old?

H.M.Jr: If we made it before.

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- Blough: Not at this session. We made it before.
- White: Is he willing to leave that statement in about the opposition to it?
- H.M.Jr: When he got to that he was going a little bit quickly. I don't know. We couldn't philosophize on any of the other recommendations among the new ones. I'd just put it up with the renewals, that's all.
- What do you people think? We've got five minutes. What do you think, Blough?
- Blough: Excellent, except that the budget-balancing thing has been pretty well watered down now. Yet the fundamental recommendation is still there.
- H.M.Jr: No, he's making me say twice that we mustn't lose any revenue.
- Blough: That's on the present taxes, but as far as looking forward to decreased expenditures or anything like that....
- H.M.Jr: Well, that was watered out anyway.
- Blough: Pretty well washed out of the previous. I think most of the changes are excellent. I'm surprised he didn't make more.
- H.M.Jr: You see, after all, when I go up and make these recommendations, these new four or five things, that opens the door and that gives....
- Blough: I think that's every bit as good as going up and saying, "We want you to do them."
- H.M.Jr: Much better. And he's got very deep-seated feelings on this. But then, after all, he's still smarting from the lashing that Pat Harrison gave him last year, and this avoids all that.
- Blough: He didn't say anything about higher capital gains tax rates?
- H.M.Jr: No. And, you see, the beauty of going over there - he didn't have to jump on this intercorporate

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dividend and on this - all the rest of this stuff which I knew he wouldn't take.

Harry?

White: Oh, I think this is much better and I think it fulfills the function of the Treasury, to give the pros and cons and select the taxes about which discussion might be held; and it leaves the rest up to Congress, where it would be anyhow, and doesn't put you on a limb of recommending to Congress taxes which may be either turned down or accepted. It places the responsibility where it belongs, without raising any inter-administration problems. I think it's all to the good.

H.M.Jr: Herbert?

Gaston: Yes, I think this provides a way by which everybody can be pleased and work out what you want to work out.

H.M.Jr: And I don't give up anything.

Gaston: No, no, you don't give up anything.

H.M.Jr: Huh?

Gaston: No, I think this is fine.

H.M.Jr: Gene?

Duffield: I was trying to think. It seems to me that if all we're doing is giving pros and cons, there are a lot of things on which we could give pros and cons. This list was weeded over with the idea that we more or less put our approval on this thing.

White: Therein lies the implication of giving pros and cons: that you selected these particular taxes to give pros and cons on. That fact is very important.

Duffield: It seems to me, since there is no recommendation and since perhaps, unhappily, we have been maneuvered into the position where we are expected to bring some recommendations - we don't bring recommendations

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and we don't bring even a discussion of all these things which have been so prominently mentioned - that this thing might be very disappointing.

White: Bring in local taxes and the coordination?

H.M.Jr: Look, as recently - the last time I talked to Doughton I said something about the President. He said, "Oh, you don't think there's any chance of the President approving your coming up, is there?"

So I said, "Yes."

"Oh," he said, "that would be wonderful." Now - just his approval of letting me walk up there, you see.

White: Of course, one can't overlook the fact that it isn't as strong as a recommendation would be. If they were able to say, "The Treasury recommends the following..." - but that pleases me the more.

H.M.Jr: Harry, it isn't for me to analyze the state of the President's mind. The President didn't say he is opposed to the various specific - let's call them in the room here recommendations. He's willing that I mention every one of them. What I'm going up and doing is - I'm opening the door to this whole tax thing. It gives everybody a chance to have his say. And I'm laying down the principle that whatever we do, we've got to get as much money. "And here are four or five things which Congressmen tell me they are bothered about; here are the pros and cons. That's the Treasury position."

White: Isn't that the essence of the matter?

H.M.Jr: Yes, and it's all right. Now, after all, this man - the President has come a great deal further to meet me than I went to meet him on this thing.

Duffield: I agree with that.

H.M.Jr: What?

Duffield: I agree with that.

- 24 -

- H.M.Jr: I think he came 75 percent of the way. Now, instead of going up - I think he's come much further, don't you? What do you think, Mrs. Klotz?
- Klotz: I think so. I'm amazed.
- H.M.Jr: What?
- Klotz: I didn't think he'd really go as far as he did - not 75 percent of the way.
- H.M.Jr: Well, this thing of being a hero for a day I don't take much stock in; but this thing makes a nice flow of Administration policy, leaves the President happy, which is most important, and gives these people that want to come up and make noble speeches - they can.
- White: And it gives no room for the opposition to indicate or imply or suggest or have any basis for the assumption that there is an internal fight going on; that is, this is the Administration.
- Gaston: There are two big things that you gain there. First, there was this announcement that there wasn't going to be any general tax revision, wasn't going to be considered at all; this just opens the door wide open for consideration of a general tax bill. And the other thing is, it permits you to talk about general fiscal policy and a joint committee of Congress - very big thing.
- H.M.Jr: Which is all I ever say. All I have said is that I sincerely hope that Congress will reexamine the tax bill to see if there are any deterrents. That's all I've said. I haven't said another thing.
- Gaston: You didn't say you were going to recommend new taxes; no indeed you didn't.
- H.M.Jr: I'm consistent in that.
- There is one thing where he said - oh yes, on page 3, in the middle of the page, where it says, "A fundamental objective of sound finance is clearly a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures each

- 25 -

year any more than each month, each week or each day." The President, to protect me, said, "Look up your '37 speech and see whether that is consistent with what you said in '37."

Gaston: I know that it is.

H.M.Jr: What?

Gaston: I know that it is.

H.M.Jr: Well, he says, "Is it?" He said, "Be sure that you're not turning a somersault."

Don't you (Mrs. Klotz) feel it's good?

Klotz: Yes.

H.M.Jr: Now, will you people - as I say the people go to work, and then when you're ready Herbert and I will take a look at it. And if Herbert's got anything he wants to contribute, I expect him to do it. But I mean I expect these fellows to do the muscle work.

Gaston: That's Roy Blough and Duffield and Harry White, yes.

Blough: Expect to see something else today?

H.M.Jr: No, I think that's pushing you too hard. Harry, could I have something at 9:30 tomorrow morning?

White: On what?

H.M.Jr: This.

White: Oh yes, as far as I am concerned, yes.

Duffield: I think our work is easier than Roy's.

White: I think the big difficulty is possibly on agreeing on the pros and cons, but that would be - that's partly his job.

H.M.Jr: Well, I'm going to ask you to turn on the steam and then give you another couple days to recover.

- 26 -

Blough: We'll have it.

H.M.Jr: Thank you.

REB

GRAY

Paris

Dated May 4, 1939

Rec'd 1:40 p. m.

Page 4 92

Secretary of State,
Washington.

881, May 4, 5 p. m. (SECTION ONE)
FROM COCHRAN.

JOURNAL OFFICIAL May 4 published decree authorizing Minister of Finance up to December 31 to consolidate the principal maturing indebtedness of the Treasury and the short term debt of the autonomous National Defense Board.

Second decree sets forth conditions of this operation and at the same time, under the authorization given in articles 56 and 168 of the finance law for 1939 (see pages 11 and 13, Embassy's despatch No. 3631, January 10, 1939), provides for the issue at 98 of a 5% loan redeemable in 40 years.

(END SECTION ONE)

BULLITT

KLP

CSB

RECEIVED

MAY 4 1939

THE ARMY DEPARTMENT
OFFICE OF THE SECRETARY
ATTACHED TO THE SECRETARY

JR

GRAY

Paris

Dated May 4, 1939

Rec'd 2:40 p.m.

Secretary of State,
Washington.

881, May 4, 5 p.m. (SECTION TWO).

Subscriptions to this loan under the above authorizations will be received (one) in cash up to a maximum total of 6,000,000 francs and (two) in the form of six months and one year Treasury bonds issued under the decree of May 2, 1938; bonds of the autonomous national board issued under the decree of July 12, 1938; two year national defense bonds issued by the amortization fund; and 3-1/2% Treasury bonds (category a) issued under the decree of December 16, 1938 and redeemable December 16, 1939.

Subscriptions open May 15. They close ten days later to conversions. Closing date for cash subscriptions will be fixed later.

BULLITT

WWC:PEG

REB

GRAY

Paris

Dated May 4, 1939

Rec'd 2:44 p. m.

Secretary of State,
Washington.

881, May 4, 5 p. m. (SECTION THREE)

Principal and interest of this issue are exempt from all taxation except that levied in accordance with the general income tax law. Issue will also enjoy exemption from all special taxes applicable to securities.

Paris exchange market dull. Continental currencies a little weaker. French rentes adversely affected by the above loan announcement. While the new three year bonds have gone well, the market thinks forty year maturity is quite long in present circumstances. Observers look for cash subscriptions to achieve 6,000,000,000 total but are uncertain as to how much short term paper which is now held importantly by professionals will be converted. Bank of France statement as of April 27, showed further important increase in note circulation with coverage 63.34 versus 63.73.

BULLITT

DDM

WWC

PARAPHRASE OF SECTIONS FOUR AND FIVE OF TELEGRAM No. 881 of May 4, 1939, from the American Embassy, Paris

At noon today I visited the Bank of France. Nothing had been done by the French stabilization fund by that hour. There are now seventeen and a half billion francs of gold and foreign exchange in the fund, after the transfer of the five billion francs gold to the Bank of France; in reality this operation required more than five billion francs because of the difference in the valuation rate of gold and the current rate of the franc. Small gains in exchange continue to be made by the fund, on the average, twenty million francs daily recently. It has also been taking in six to twelve million francs of gold each day over the counter, and since the March 15 crisis broke it has not had a deficit balance for a single day. Foreign exchange for repayment of a fifteen million dollar loan has been provided by the fund, as well as part of the florins for meeting the maturing fifteen million florin credit this week. Out of daily takings it has also provided exchange for certain armament contracts.

Today a report came to the Bank of Italy representative that NEUEROTTERDAMSCHER COURANT - the issue is not yet available here - has in it a story from its correspondent in Paris to the effect that deposits of the French Government in the BIS may be withdrawn on the grounds that the bank does not/^{now}respond to the purpose for which it was created.

French

- 2 -

French officials, I understand confidentially, have recently been worried about the long term deposits they have with the BIS, particularly in view of the BIS's important investments in Germany. They may try to get the Bank to arrange some "cover". However, should they withdraw their deposits, the Germans would interpret this as formal recognition of collapse of the whole reparations system and Young plan, and I feel the French would still prefer to avoid this.

END MESSAGE.

BULLITT.

RECEIVED

MAY 2 1946

TREASURY DEPARTMENT
Office of the Secretary
Foreign Affairs of the Treasury

EA:LWW

JR

PLAIN

London

Dated May 4, 1939

Rec'd 2:16 p.m.

Secretary of State,
Washington.

614, May 4, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer was asked several questions in the House of Commons this afternoon, replies to which are of some interest.

1. Asked whether he would make a further statement as regards the official monetary policy which it is the intention of the Government to pursue and whether it was the intention of the Government to pursue a policy not only of active but progressive deflation, Sir John Simon said the "Government are not pursuing and do not intend to pursue a policy of deflation active, progressive or otherwise". Asked further if he was aware that during the last two months there had been a policy which borders on deflation and was it not true that the Bank of England, the Treasury and the Midland Bank took a different view (see paragraph numbered three my 595, May 2, 6 p.m.), Simon replied: "I find deflation, inflation and the rest of

it

-2- #614, May 4, 6 p.m., from London.

it very difficult words and I believe the policy we are pursuing to be quite right".

Answering a further question, Simon said he agreed that the policy of cheap money rates on the whole was a great advantage.

2. The Chancellor replied to a question regarding transactions in foreign securities by referring to the statement he made yesterday quoted in paragraph numbered 2 of my 595, May 2, 6 p.m. But when asked whether he intended to seek compulsory powers or did he think a voluntary appeal to the financial interests concerned would be sufficient, Simon replied: "There are so many considerations involved, considerations connected with finance, that it is a grave matter indeed to suggest that the appeal I have made will not be fairly responded to. I have every reason to think that it is".

In this connection it seems pertinent to quote the remarks of the city editor in today's TIMES which are doubtless inspired: "It is obvious that attempts to make the Chancellor elaborate his appeal further cannot elicit anything except what is virtually a repetition of the statement with added emphasis. It is clear that the more the
Chancellor

-3- #614, May 4, 6 p.m., from London.

Chancellor is asked whether he really meant it the more definite he must and will become. Likewise, attempts to elicit a detailed elaboration can only serve to emphasize the quasi-ambiguities which are inherent in any general appeal. The original appeal was essentially a general one designed for the whole body of investors and as such it was clear and effective. But it is of the essence of any general appeal that the individual should respond to the spirit of it in accordance with his individual circumstances. It does not lend itself to official elaboration in detail. It is surprising to find that there has been a certain amount of criticism on the general ground that voluntary restrictions of any kind are unfair and undesirable. That has certainly not been the city's experience in the past. The capacity to respond voluntarily to general official requests--which are as often as not to be observed in the spirit rather than in the letter--has normally been a strong and valuable element in city organization and it would be a pity if totalitarian modes of thought were to spread so far as to bring the idea of voluntary action as such into dispute.

In actual fact there is every indication that the appeal has been having the full effect which was intended. It has not killed business in dollar stocks, as any formal
restriction

-4- #614, May 4, 6 p.m., from London.

restriction whether statutorily enforced or not, would be bound to have done. But each day's developments show that the response of most individuals is both sincere and practical. It is of interest, for example, to find a stock exchange firm encouraging clients to consider switches from existing dollar investments into stocks which would be most likely to maintain their value and to be readily marketable in the event of war. Such a policy would, of course, be a more than adequate response to the Chancellor's requirements. In some quarters it has been argued that there should be no objection to the purchase of dollar securities in time of peace on the ground that in time of war it would be just as convenient--and possibly more so--for the Treasury to have mobilizable securities in New York as the equivalent amount of gold in the bank vaults. The weakness of this argument lies in the fact that the money which goes out for the purchase of securities may not always be recoverable in full. For various reasons there is a certain amount of wastage, leakage and disappearance in the process--maladies from which gold in the bank vaults is immune. Investors will no doubt realize, however, that their dollar holdings are much more to be valued in the national interest if they are in such a form and are held in such a manner that they

-5- #614, May 4, 6 p.m., from London.

they are readily marketable and could be quickly put at the disposal of the Government in case of emergency".

Neff of the S.E.C. would appreciate it if a copy of the above section numbered 2 could be supplied to Purcell.

3. Ironically enough the resignation of communist Litvinoff had a depressing influence on the city today and the London Stock Exchange was weak. Likewise, the foreign exchange market was somewhat more active today than yesterday with the British authorities again supplying spot and particularly forward dollars. Of the 155 bars sold at gold fixing 21 were married and the British fund supplied about one-third of the total. Small ^{full} purchasers obtained/allotments but Samuel Montagu which was the one big buyer received only 60 per cent.

KENNEDY

KLP

RECEIVED

MAY 4 1950

THE TREASURY DEPARTMENT
Office of the Secretary
Foreign Relations of the Secretary

JR

PLAIN

London

Dated May 5, 1939

Rec'd 2:10 p.m.

Secretary of State,
Washington.

624, May 5, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. Referring to section numbered 3, my 595,

May 1, 6 p.m., this week's Bank of England return reflects a decided easing of the tight money conditions which have prevailed since the end of March. A reduction of pounds 16.5 million in public deposits (due to heavy expenditure by government departments together with dividend disbursements of pounds 11 million) was balanced by a rise of pounds 16.8 million in bankers deposits which now stand at pounds 108.2 million. A more than usual month-end rise in the note circulation amounting to pounds 6.3 million (due probably to continued accumulation of branch bank till money, some increased trade activity and perhaps some note hoarding) was neutralized by an increase of pounds 4.7 million in government securities and pounds 1.6 million in other securities held in the banking department.

The

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RECEIVED
MAY 2 1946
TREASURY DEPARTMENT
Division of International Finance
Foreign Affairs Building

-2- #624, May 5, 7 p.m., from London.

The increase in bankers deposits to the highest level since February has resulted in lower discount rates today's Treasury bill tender rate having dropped to just under 16S per cent as compared with pounds 1 4S 3-1/2D a week ago. Thus the recently expressed fears that the British monetary authorities might be following a deflationary policy should be somewhat allayed.

Incidentally the rise of pounds 4.7 million in the Bank of England's holdings of government securities suggests that the week's purchases by "the special buyer" of Treasury bills were largely absorbed by the Bank of England rather than the exchange equalization account so that the latter was called upon to support sterling to a lesser extent than in recent weeks.

2. The city immediately reacted favorably to Beck's speech and the London Stock Exchange closed stronger, war loan, for example, at 92.

The noteworthy feature of the foreign exchange market was the forceful manner in which the British authorities pushed the forward dollar rates to 9/16 and 1-11/16 respectively. 131 bars were sold at gold fixing of which 6 were married. The British fund supplied some 50 bars. Montagu was again the big buyer.

KENNEDY

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 5, 6 p.m. 1939

NO.: 890

FROM COCHRAN.

The favorable reception of Beck's speech by their markets caused improvement today in continental currencies. Some sterling was gained by French control. There was a weakening of French rentes as a result of market criticism of government for issuing the new loan (see my No. 881 of May 4, 5 p.m.) at a more expensive cost to the state than was necessary or wise considering the great desirability of lowering the carrying charge on the French debt and the condition of the market.

I went to the Ministry of Finance this evening to visit Rueff. Rueff denied one press story that the total of loan is limited to 12,000,000,000 francs, that is six in conversion and six in cash. There is no limit other than that for 6,000,000,000 francs cash increase. Rueff expects the loan to be a success and says that no other loans are now planned.

(See last paragraph of my No. 881) According to Rueff, French officials have not even considered withdrawing the guaranty and other obligatory deposits made with the B.I.S. which constitute the bulk of the French funds with the B.I.S. and which is part of the original plan for the bank. However, there is a move toward removing a

-2-

smaller and voluntary deposit which France in the present circumstances could well utilize.

Today there appeared in the London FINANCIAL NEWS a wildly speculative story by Einzig, whose lack of cordiality for the B.I.S. and central bankers in general is well known, suggesting the possibility of there being a split in the voting at the B.I.S. general meeting, the Axis powers trying to get control of the institution and raid its resources.

B.I.S. directors and shareholders meet this weekend at Basel and I am leaving for Basel this evening.

BULLITT

EA:DJW

RECEIVED

MAY 2 1950

TREASURY DEPARTMENT
Office of the Secretary
Financial Section at the Department

FEDERAL RESERVE BANK
OF NEW YORK

May 5, 1939.

Dear Mr. Secretary:

This week's total of corporate security issues is about \$7,000,000 and is comprised of four issues. Information, so far available, on three of them (Pacific Public Service Company, Atlanta Terminal Company, and Martin-Parry Corporation) is fragmentary; they are bond issues, mostly for refunding, and offered to a limited public or privately. The fourth issue is \$800,000 of common stock of the Brewster Aeronautical Corporation, an addition to the considerable list of airplane companies which have obtained new capital, mostly through sale of common stock, during recent months. The total of the airplane company flotations during the last six months is around \$13,000,000.

A \$35,700,000 issue of New York City bonds helped raise the week's municipal awards to about \$50,000,000. The New York issue was awarded to a National City Bank syndicate at an interest cost of 2.71 per cent, a new low record for the City on an issue of this maturity. Due in 1940-79 and priced to yield from 0.40 to 3.00 per cent, the bonds are now almost all sold, only about \$1,000,000 being still in the syndicate account. Despite the low interest rate, the issue was distributed very quickly.

It has been reported that disposition of the \$52,500,000 of Gatineau Power Company bonds, offered last week and not entirely sold then, was completed during the first part of this week. Dealers' inventories, therefore, of both corporate and municipal securities are again very low indeed. Only three fair-sized corporate issues are now in registration, totaling about \$40,000,000. Their marketing will be spread over at least three weeks. Some large refunding operations are approaching the registration stage, but the first will probably not appear for some 25 days at the earliest. The outlook for the next month or more is that there will be little borrowing for new capital purposes.

Yours faithfully,



Allan Sproul,
First Vice President.

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

pls file to
this as to
5/10/39

Treasury Department
Division of Monetary Research

Date..... May 10, 1939..... 1938

Secretary Morgenthau

The appended suggestion by Mr. Schmidt, I think, worthy of your serious consideration. If it is really possible, it seems to me we could set up an excellent "training school" here. Appropriations are not necessary since the Latin American Governments or the American endowments would probably be happy to pay the cost of the fellowships.

If we could get one or two of the best young men from each of the Latin American Treasuries, we could put them through a course of training here that would not only help promote cultural relationships, but would turn out competent technical men.

If you are interested I shall be glad to submit for your consideration a concrete plan.

MR. WHITE
Branch 2058 - Room 200

TREASURY DEPARTMENT

file 109

INTER OFFICE COMMUNICATION

DATE May 5, 1939

TO Mr. White

FROM Mr. Schmidt

Subject: Proposal That the Treasury Allow Mr. Bulhoes of Brazil to Obtain Some Practical Training and Experience in the Treasury Department

At present Mr. Bulhoes, a young Brazilian on leave from the Research Department of the Brazilian Ministry of Finance, is here in Washington. He has had a fellowship for study at the American University but has completed his formal work at this institution. As matters now stand he is planning to return to Brazil in July.

Dr. Aranha — who was instrumental in arranging his visit to this country — has expressed the hope that Bulhoes would get a first-hand acquaintance with the American Government's methods of doing things before he returns to Brazil. Mr. Bulhoes, too, would like to gain some practical experience in the Treasury. It is my opinion that this situation offers a good opportunity for us to make a friendly gesture that will have beneficial repercussions for the Treasury and the United States Government.

By allowing Mr. Bulhoes to have a desk in the Treasury and to work for several months under the supervision of Treasury men, we would earn the immediate gratitude of Dr. Aranha and other officials of the Brazilian Government. At the same time, we would be helping to train a future Brazilian Governmental official, as well as winning his lasting friendship. If our action will accomplish these results, it will have contributed substantially to strengthening Brazilian-American understanding and the maintenance of friendly relations.

Such practice could profitably be extended to employees of other Latin American Governments.

The various divisions of the Treasury are in a position to give valuable experience in important branches of governmental financial and economic activity to young employees of all Latin American Governments. Any training and experience which we can give to future officials of these Governments will not only make for the adoption on the part of these governments of a more intelligent approach to their internal economic and financial problems, but will also strengthen their feeling of friendship toward us and their willingness to cooperate with our government — and with each other — in matters of common concern.

Return to Room 2009

May 6, 1939.

Dear Mr. Sproul:

For the Secretary I am acknowledging your letter of May 5th, commenting upon the corporate security issues for the past week. Mr. Morgenthau is always most interested in studying your weekly survey.

Sincerely yours,

H. S. Klots,
Private Secretary.

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GHV/dbs

May 5, 1939
9:38 a.m.

HMJr: Hello.

Robert
Doughton: Hello, Mr. Secretary.

HMJr: How are you?

D: Bob Doughton. All right, thank you. How are you feeling, Mr. Secretary?

HMJr: Oh, fine!

D: Anything new since we talked?

HMJr: No, except that -- and this is for you only.....

D: Yes.

HMJr:and nobody else -- I am making progress with the President.

D: How's that?

HMJr: I am making progress with the President.

D: Uh-huh.

HMJr: And I think maybe by, oh, Tuesday I ought to have some word.

D: How's that?

HMJr: By Tuesday I ought to have some word. I ought to be able to have some word for you on Tuesday.

D: Yeah. Well, I'm going down to see him Tuesday and I thought -- I didn't want to mention the matter at all unless you thought it was proper.

HMJr: Oh, yes, I'd -- I'd bring it up.

D: Yeah.

HMJr: Yeah.

D: I've got an appointment in at eleven fifteen, I believe, Tuesday to see him about another matter or two. I -- I

tell you what I'm a little bit worried about.

HMJr: Yeah.

D: Nothing we -- you and I can do about it though and that is that so many parties are laying down a program. A member of my Committee night before last made a speech and layed down his program.

HMJr: Yeah.

D: And then Senator Harrison -- he made a speech in the Chamber of Commerce laying down his program.

HMJr: Yeah.

D: And it's -- it's a little embarrassing to me. We start out, you know, possibly agreed; we ought to -- before we lay down a program, we ought to see if we can't all get together.

HMJr: Well, I agree with you.

D: Yes. If we don't, they start out, you know -- we start out divided right to begin with.

HMJr: Yeah.

D: And I don't know what we can do. I was very much -- I was worried about it.

HMJr: Well, I'm worried about it too, but I'm doing the best I can at this end and.....

D: How's that?

HMJr: I am doing the best I can at this end.

D: Yes, I know that.

HMJr: And -- but I've got nothing that I can say that's new at this time, other than that I can report progress as far as getting together with the President.

D: Well, that's might fine. That's the essential thing of all to start with, you know.

HMJr: It's -- it's absolutely essential.

D: Yeah, absolutely. That's -- we can't roll the wheel until we do that.

HMJr: No.

D: And these parties laying down programs makes it that much more difficult.

HMJr: That's right.

D: And makes it more difficult for us to go along together after we start. If we don't start on the program -- the same program that they are declaring for now -- that they are proposing, why then they are right in with the -- what they say will be quoted against what we are trying to do.

HMJr: That's right.

D: It's very hateful to me, but I don't know what to do to help it.

HMJr: All right. Well, I appreciate your calling me.

D: Well, I just wanted to keep along with you.

HMJr: I see.

D: And I'm glad to know that you're making progress and I -- I'm sure this is going to make some -- require some concessions on all sides.

HMJr: Right.

D: And whatever is required we must just adopt in order to get together.

HMJr: That's right.

D: Well, fine.

HMJr: O. K.

D: Good bye.

May 5, 1939
10:25 a.m.

HMJr: Hello.
Jesse
Jones: Hello, Henry.
HMJr: Jesse, I've got a complaint.
J: Have you?
HMJr: Yeah.
J: What's that?
HMJr: Well, didn't you see the trenches outside of the Treasury where we've been digging?
J: That what?
HMJr: We've got this trench where we're putting a rose garden.
J: I didn't see that.
HMJr: Well, they -- I understand you're spreading a story that that's our first line of defense against Nicaragua.
J: Good! Good!
HMJr: No, that was Archie Lochhead coming in this morning, and that's his morning contribution.
J: Good.
HMJr: You didn't see it. It's right outside.
J: I'll -- I'll look at it -- I'll make a special trip.
HMJr: Well, that's our first line of defense against Nicaragua.
J: Good! I wanted to.....
HMJr: I've got to cheer you up these days, you're too serious.
J: Yeah. Well, you did yesterday.
HMJr: All right.
J: I was so damn tired when I got in to see you -- I had been over there on the Hill and.....

- 2 -

HMJr: Well, I was -- well, I didn't like the way you looked, Jesse.

J: Well, I was awfully tired. I feel tired now, although they kept me up at that Chamber of Commerce meeting last night until eleven o'clock and that's terrible tiresome.

HMJr: Well.....

J: I was between Harry Byrd and Lamont Dupont at the table.

HMJr: Did you check your pocketbook.

J: No, I drank a good deal of liquor.

HMJr: I see.

J: I was going to ask you.....

HMJr: Please.

J: - extend you a cordial and belated invitation to you and Mrs. Morgenthau to go with Mrs. Jones and me to the Derby meeting at six thirty tonight and get back Sunday at ten thirty.

HMJr: Well, that's terribly nice, but unfortunately -- let's see.....

J: Think it over.

HMJr: Well.....

J: Can't you?

HMJr: We're at the White House tonight.

J: Oh, you are?

HMJr: Yeah, and we're at the White House Sunday for lunch.

J: I see.

HMJr: Otherwise we have to feed ourselves.

J: I see. Well, that's.....

HMJr: But.....

J: That's pretty good.

HMJr: If I had a little more time to think about it, but I -- I just can't do it.

J: Well, listen, you've got all the time you want.

HMJr: No, no.

J: Because I've got the tickets and I've got the transportation.

HMJr: Well, that's terribly nice, but.....

J: And.....

HMJr:we've got these two formal things.

J: Well, I -- I can -- I can understand that. I didn't know what the plans were.

HMJr: Yeah.

J: They.....

HMJr: That's awfully nice, Jesse, but -- now listen.....

J: Yeah.

HMJr:I gave Johnny Hanes a commission to place a five dollar bet for me down there.

J: Good! Well don't.....

HMJr: And I -- and I'm going to give you five dollars.

J: Well, don't do that.

HMJr: No?

J: I'm afraid -- how about that, I'll place five for you.

HMJr: You place five for me.

J: All right. Now.....

HMJr: Yeah.

- 4 -

J: You.....

HMJr: You thank Mrs. Jones. That's terribly nice of her. With these two formal dates we can't go.

J: Well, I hadn't known, Henry, until day before yesterday that it was definite that I could go and so I'm going to -- I'm going to unload on the President of the Export-Import Bank, and you're -- that would be Archie, wouldn't it?

HMJr: Yeah.

J: The -- and probably -- I thought I'd ask Sumner who he wanted, if anybody.

HMJr: Yeah.

J: To talk tomorrow with this gentleman.

HMJr: Yeah.

J: And then I told Warren that I'd see him anytime Sunday or Monday or whatever.....

HMJr: O. K.

J: Don't you think that's a good plan?

HMJr: Sure.

J: I don't like having layed my plans to go to this affair to -- to fall out now and disappoint Mrs. Jones.

HMJr: No. Well now, take care of yourself and I'll see you when you get back. Now put five dollars on the nose for me on some horse.

J: I'll do that.

HMJr: O. K.

J: All right, Henry.

HMJr: Good bye.

J: Good bye.

RE HOLC REFUNDING

May 5, 1939.
9:45 A. M.

Present: Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Seltzer
Mr. Hadley

H.M.Jr: Well, Bell, what can you tell us?

Bell: Can't tell you much of anything that you don't already know. Three hundred twenty-five million dollars plus of Home Owners Loan bonds bearing a $1\frac{1}{2}$ percent coupon, due on June 1. And we have had various suggestions for refunding those. One-year note and a two-year note - one-year bond and two-year bond, because we can't issue notes. And that would be to meet their principal repayments coming due in the next two years.

H.M.Jr: Can't offer a note?

Bell: No, their law is peculiar and says "bonds" so we call them bonds; but they have all the earmarks of a note.

They'll get in during the next year something like a hundred fifty million dollars in cash, plus what they carry over. And the next year they'll get in somewhere between a hundred seventy-five and two hundred million in cash. So the way they ought to be refunded is on a forty and a sixty percent basis. Any man that's got a maturing note turns it in and gets in return forty percent of the new issue of the one-year note and sixty percent of the two-year note - 400 dollars and 600 dollars on that basis.

We have had various suggestions for rates. Aubrey Lanston suggests a quarter and a half - quarter for the one year and a half for the two years; that's very thin. Personally, I think three-eighths and five-eighths are pretty good rates. The three-eighths is probably still a little thin, but the five-eighths would be a little risk, so the two working together would just about even it out.

I don't know whether anybody else has any ideas. That leaves out the question of the call of the bonds.

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- H.M.Jr: Well, just now, let's forget that.
- Bell: Just forget that.
- H.M.Jr: We'll go around the room. What do you (Hadley) think?
- Hadley: Well, those rates tie in with the ones that I've been figuring - three-eighths on a one-year and five-eighths on a two-year. And since you're putting the two issues out to exchange for the one that's coming due, your average premium will be about 8 or 9/32nds; and the notes that are coming due are selling on a rights value of about 6/32nds at the present time, so that it fits in with the market.
- H.M.Jr: George?
- Haas: I check with that exactly. Here are the figures we made up on it. The 3/8ths and the 5/8ths I put a circle around.
- Seltzer: Yes, they seem like ample premiums.
- Lochhead: As Dan says on the 3/8ths and 5/8ths, they are a trifle rich, and I can...
- Bell: The 5/8ths, you mean.
- Lochhead: Yes. But after all, I don't think you want to start in cutting these issues on an HOLC issue. I mean I agree with you I'd like to see these premiums cut just slightly, but you're running on a short term here and I don't think it would be wise to trim this particular issue down. You haven't got much choice. This has to be a quarter or 3/8ths. You can't make a split coupon.
- H.M.Jr: How many days do you have to leave it open?
- Bell: Well, I'd leave it open two or three days.
- Seltzer: Three quarters of these things are held in hundred thousand dollar pieces.

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Bell: There are about 46 percent of them held in a few institutions that Dudley Mills could figure out very readily.

H.M.Jr: What's that?

Bell: Dudley Mills can figure out where about 46 percent of them are in ten minutes.

H.M.Jr: What's the fellow's name up in New York?

Bell: Allan Sproul.

H.M.Jr: (On phone) Allan Sproul, please.

What happened to that letter you wrote for me to George Harrison on gold statistics?

Lochhead: There was one written and then yesterday Gaston wrote another - rewrote the letter and that cleared through my office yesterday afternoon. It passed through, but I don't know if it's cleared all the way through yet. They put out their weekly figures this morning and it was rather interesting that those figures they gave out - the 202 million for the week - when I looked at that I remembered seeing the advance copy of the Department of Commerce figures that came to us yesterday, but they don't release their figures until May 8.

Hadley: Incidentally, the market is very strong this morning, with Treasury issues about 1/8th, 4/32nds up the first half hour.

Bell: They claim they're going through the roof if the thing straightens out.

H.M.Jr: Do you want to ask where that gold letter is? We could do that while we're sitting here.

(Lochhead goes out for letter on gold statistics)

I see commodity futures keep going up, don't they?

Haas: Yes.

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H.M.Jr: Are you watching copper?

Haas: Yes. I'm giving you - may have it today or tomorrow - a more confidential memorandum on the whole price situation. If you've got a minute, if you want me to, I could report on the Government-induced employment figures. I called up Stewart Rice. They have not secured at this time the information. I cleared the letter with him. He offered you the services of his staff if you wanted them to help check the estimates when they come in.

H.M.Jr: Fine.

Haas: So the letters will be in for your signature in just a little while. That should be very interesting.

H.M.Jr: The letter reads "By direction"?

Haas: There is a sentence down at the bottom that - I've forgotten just the wording of it, but it says you are securing this information by direction of the President. If you want to take that out....

H.M.Jr: Is that all right? I cleared it with him.

Bell: It's all right if it's a fact, yes, I think.

H.M.Jr: I asked him if he'd like me to get it for him. He said, "Yes." Is that all right, to use the words "by direction"?

Bell: I think so.

H.M.Jr: (On phone) Hello. (Conversation with Allan Sproul follows:)

May 5, 1939
9:55 a.m.

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HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine, how are you?

HMJr: O. K. What's your preliminary pricing on these new notes?

S: Well, there are two possible -- well, I assume that you contend a one and two-year note.

HMJr: Well, that's what Bell tells me you want me to do.

S: That looks like the ticket, and probably forty sixty allotment.

HMJr: That's -- yeah.

S: Forty one-year and sixty two-year.

HMJr: That's right.

S: I think that -- two prices to consider to do it at a quarter and a half and to do it at three-eighths and five-eighths.

HMJr: Yeah. Well, what do you think?

S: Well, I think you could do it at either one.

HMJr: Yeah, but what do you want me -- what do you recommend?

S: Well, if you're doing just the three hundred million.....

HMJr: That's all.

S:I'd do it at a quarter and a half.

HMJr: You would? Well now listen, what I don't understand when you say -- well, I'm just doing that -- I thought from what I said yesterday the press made it clear

that on Monday I was only going to do the three hundred.

S: Well, the press reports up here were that you kept an open mind on the two and three-quarters and while -- I think the market's reaction was, well, that moves it on at least until June first.

HMJr: Yeah.

S: There was some little question as to whether it might not still be open.

HMJr: Oh, I see.

S: But I -- the general reaction was that it moved it on at least until June first.

HMJr: Well, I haven't gotten the feel of the market and I don't know whether three-eighths or a quarter is right or five-eighths or a half.

S: Well, it will go at either one-if you want it to be a little generous with the market it would be three-eighths and five-eighths. If you want it to -- put it right on the market, it would be a quarter and a half, and I think you -- on a one and two year note to -- of this sort and at this time, that a quarter and a half would do.

HMJr: They never sell them on a sixteenth basis, do they?

S: No, I don't think they'd -- well, it could be done, but they'd think it was.....

HMJr: Sharp-shooting.

S: Sharp-shooting, yeah.

HMJr: Well -- let's think about it. Now you see, I -- I'm -- I -- around here the fellows are sitting around here and they don't -- they're leaning towards the three-eighths and five-eighths.

S: Yeah.

HMJr: But supposing we -- there's no use much my talking to you about it again until tomorrow morning and then....

S: No, I think we could see how it goes today and think about it.

HMJr: Yeah.

S: And have another talk tomorrow morning.

HMJr: Yeah. Now, let me read you a letter which I have written to George Harrison, see?

S: Yeah.

HMJr: And if you want a stenographer to take it down afterwards, somebody else can read it to a stenographer, see?

S: All right.

HMJr: But I -- this -- I don't like to do these things unless I sort of warn you first. This is the letter I've written:

"Dear George:

I noticed in the Tuesday morning New York papers the first announcement of your new system of reporting gold receipts, and Archie Lochhead tells me that Knoke talked to him about it over the telephone on Thursday of last week and was advised to discuss it with Gaston. The result was a letter from Roelse.....

S: Yeah.

HMJr: ".....to Gaston, dated Saturday, which was an outline of your decision and the reasons for it. It came to Gaston's attention and to mine after your Monday's announcement had been made.

"It seems to me, frankly, that this is the sort of thing that calls for somewhat fuller consultation with us in advance of decision and action on your part. It is, to say the least, a matter of mutual concern.

"Your objective of eliminating confusion with respect to figures on gold movements is one with which I agree, but I am not sure that your new policy moves in that direction. We now have unreconciled information coming from three or more different sources other than the Treasury.

"I think we need to get together and I should like to talk the matter over with you."

S: Yeah.

HMJr: Now I'm not -- I'm not much on these letter-writers. I'd much rather talk things over than to, you know, sort of -- so -- are you familiar with this?

S: Yeah.

HMJr: Well now, would you -- have you any objection to my writing this letter, or would you rather do it all verbally?

S: I don't see any objection to writing it.

HMJr: Well then, supposing I -- I'll write it and let's get together on this thing because.....

S: In other words, it just leads up to a discussion of it and that's what you want.

HMJr: That's all. I mean, I want to give you the chance to say, well, you'd rather not receive it.

S: Well, I don't see any objection to your writing it.

HMJr: O. K. And then let's get together on it before these figures come out again, huh?

S: All right.

HMJr: Because they've got them now -- I mean, there's so many places that I don't see how a fellow follows them.

S: Well, they have trouble following them. They're all over the lot.

HMJr: Yeah. I think we ought to have a meeting with you people and with the Commerce people and ourselves, and the Fed. here in Washington and -- and establish a policy.

S: I think it would be a good idea.

HMJr: Yeah. Well, will you mention it to George?

S: Yes, I will.

HMJr: And then if you'll talk with Bell during the day, and sometime between eleven and twelve Washington time tomorrow, I'll talk to you again.

S: All right. I'll -- I'll talk to Dan during the day and then talk to you tomorrow morning.

HMJr: And -- if you have a chance -- I hear the bond market is strong.

S: Well, it's up a little. It's not very active.

HMJr: And.....

S: Two to seven high until last night and.....

HMJr: But now the mechanics are all taken care of, I take it.

S: Yeah.

HMJr: Well thanks very much.

S: All right.

HMJr: Good bye.

S: I'll talk to you tomorrow.

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(Lochhead and Gaston came in during conversation with Sproul)

Gaston: That's all for me, huh? I'll get this mailed.

H.M.Jr: Yes.

Bell: Mr. Secretary, on that quarter there is a loss of interest from the figures of about 2/32nds, and that just about takes up the premium that would be on the bonds also.

H.M.Jr: Premiums?

Bell: There is a 2/32nds - he figures that the quarter one would sell at 2/32nds premium. That's about what they'll lose in interest.

H.M.Jr: You think it's pretty close.

Bell: I think it's pretty close.

Hadley: On that premium of about 2 or 3/32nds.

Lochhead: I think it will go. No doubt of it going.

Bell: I'll tell you why they're reaching this decision: because a few banks around New York have bought these for money bonds; in other words, they just want their stuff - money in liquid stuff.

H.M.Jr: 2/32nds - you can't do it on that basis.

Bell: I wouldn't.

H.M.Jr: With the situation the way it is now in the world, you don't know any minute what's going to pop next. What?

Bell: I certainly would feel safer with a 3/8ths.

Lochhead: Of course, I know with only 300 million anything will go, they are just so tightened up. And if this were a Government, if it were a ~~straight~~ Treasury note, I think it would be something to give them; but it's an agency bond. It's fully guaranteed, but still an agency bond can't be quite as close.

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- Haas: I think maybe HOLC would like to have the quarter and the half. Maybe that has something to do with it.
- Bell: No, I don't think so. You see, the Childs letter - and Aubrey Lanston feels the same way: you ought to hit these rights values right now.
- Hadley: This particular issue doesn't have much of a rights value - $6/32$ nds.
- Lochhead: I don't think it's a good issue to start on. I agree in principle about trying to trim these rights. But where are you going to start on it?
- Bell: They agree in New York that they're making a distinction between Treasury bonds and the HOLC bonds, because some of the lawyers in the banks maintain there is still a question of the constitutionality of it, even though it's operated for five years. They have some doubts about it.
- H.M.Jr: Last RFC stuff you sold was one-year, wasn't it?
- Bell: No, two-years, '41.
- H.M.Jr: $7/8$ ths.
- Hadley: $7/8$ ths was all.
- H.M.Jr: I'd draw up the telegrams on $3/8$ ths and $5/8$ ths and see what happens between now and tomorrow. But how much margin does that give us?
- Hadley: Gives an average of about $8/32$ nds.
- Bell: That's cheap money.
- Hadley: That's good for short-time stuff.
- Bell: The November '41s....
- Hadley: On this very short stuff that would give room for quite a drop in the market.
- H.M.Jr: What?

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Hadley: 8/32nds gives leeway to take a substantial drop in the market.

H.M.Jr: That's plenty. I'm not arguing for more, but I question the quarter and half.

Hadley: That's too thin.

Bell: You could put a little premium on it, but it would be very small.

H.M.Jr: You mean sell it at a premium.

Seltzer: I don't think you want to take a chance of getting the market sour on HOLC stuff, HOLC refunding. You've still got some more to do. I'd rather sweeten it a bit.

Bell: I would too.

Lochhead: Of course, as they say, next time with the 900, putting out the longer bond, there's going to be more of a margin, bigger premium, anyway, and you'll have more of a chance to cut in there; but this is such a narrow margin to cut into. Cut between a quarter and 3/8ths - you can't work in between that. It's a small premium anyway, awfully difficult one to cut. You have to go to one extreme or the other.

Bell: O. K.?

H.M.Jr: Yes.

Yields on bid basis at close May 4

RFC	7/8's	7/20/41	.48
RFC	7/8's	11/1/41	.53
RFC	7/8's	1/15/42	.57
USHA	1-3/8's	2/1/44	.90

Estimated prices on 1- and 2-year guaranteed issues

	: Estimated : yield : basis	Coupons			
		: 1/4	: 3/8	: 1/2	: 5/8
	(Percent)	(Decimals are thirty-seconds)			
1-year	.22	100.01	100.05		
2-year	.45			100.03	100.11

May 5, 1939
2:19 p.m.

HMJr: Henry Morgenthau, Jr.

Senator

Miller: Yes, sir, Mr. Secretary.

HMJr: How are you?

M: All right, fine. How are you?

HMJr: I'm fine. Senator, do you suppose it would be convenient, possibly, if you'd drop by the Treasury on your way sometime up on the Hill. I'd like to talk about that Stabilization Fund Bill.

M: Yes, I think I could do that.

HMJr: How about Monday morning?

M: I think that would be all right.

HMJr: Is.....

M: What time do you get down there?

HMJr: Well, I get down pretty early, but -- ten o'clock -- I mean, I like to -- I do my.....

M: About ten o'clock.

HMJr: I mean, I'm down here about a quarter of nine, but I -- I have a regular meeting every morning with the Treasury Board, but I'm through by ten.

M: Well, I tell you what you could do. Let me make this suggestion. You have one of the girls in the office call me then Monday morning about nine thirty.

HMJr: Call you?

M: Yeah.

HMJr: Where -- at your house?

M: No, at the office.

HMJr: At the office?

M: Yeah. I -- I'm like you -- I'm a country man -- I get up.

HMJr: That's me.

M: Yeah.

HMJr: I -- I try to get my work done before I start seeing people.

M: Absolutely.

HMJr: Well then, I'll give you a ring around nine thirty.

M: That'll be all right.

HMJr: Thank you so much.

M: Good bye.

HMJr: Good bye.

May 5, 1939
2:35 p.m.

HMJr: Hello.

Operator: Ambassador Kennedy.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Joseph Kennedy: Hello, Henry.

HMJr: Hello, Joe.

K: How are you?

HMJr: I'm fine.

K: That's good.

HMJr: I see you served Virginia ham and shadroe.

K: Well, well, well.

HMJr: It was in the paper.

K: I did what?

HMJr: That you served Virginia ham and shadroe.

K: That's right, my boy.

HMJr: It sounded very good.

K: Well, we gave them an American dinner.

HMJr: Well, they had a nice picture of you in the paper.

K: Did they? Well, that's fine, Henry.

HMJr: Joe, I've got a refunding on Monday for Home Owners' Loan at three hundred and twenty-five million dollars.

K: Yes.

HMJr: And I wondered if you'd tell me how things look for the next four or five days.

K: Well; I don't see any trouble yet, Henry.

HMJr: You don't?

K: No, I don't. I mean, everybody here has talked about it and everything -- every possibility is here for difficulty.

HMJr: Yeah.

K: But I don't -- I don't see anything yet and the most of it will be withdrawn.

HMJr: Yeah.

K: I don't see anything -- after all, the only thing that could affect your market would be a declaration of war.

HMJr: That's right.

K: And there's no signs of that yet. I don't think this fellow is silly enough, as speeches go -- it was rather an agreeable sort of a thing and I -- unless the fellow wants to cast the die and declare war why there won't be any trouble and I don't think that -- that that is quite ripe yet. There's no indication that that's true.

HMJr: I see.

K: And I would think that for the time -- certainly for a while, and I would think that if we used
Of course, I'm one of these suckers that still believes that there's no hope in either of these methods.

HMJr: You're still what?

K: I'm still one of these suckers that still believes that you can't -- that you're not going to settle this thing for any satisfaction by spending a lot of money or getting into a war. I think you've got to make a deal somewhere.

HMJr: I see.

K: And I -- that's what I think it will eventually come to.

HMJr: Uh-huh.

- K: But in the meantime, I don't think you've got any trouble, Henry.
- HMJr: Well, I -- as I say, it's just that -- well, I'd like to look ahead for one week.
- K: Yeah, well, I -- I would say that you were perfectly safe, Henry. I mean that -- one of those things that would have to come as a -- a clear bolt out of the sky that he was going to march on Danzig tomorrow.
- HMJr: Yeah.
- K: And I don't think he has any intention of that.
- HMJr: Uh-huh. Everybody over here is trying to guess what -- why they removed Litvinoff.
- K: Well, we're still trying to guess it over here. Nobody knows about it. I just talked with a man who flew in from Germany to see me tonight.
- HMJr: Yeah.
- K: And the only thing that there -- that there is the slightest feeling about is that if this fellow can't make any headway that -- that it wouldn't be a terrible thing to try and do some business with Russia with Litvinoff out of the way.
- HMJr: I see.
- K: But, I mean, nobody can give you any opinion that's worth a damn, Henry.
- HMJr: Uh-huh. Well.....
- K: I mean, everybody is at sixes and sevens and they're all gabbing a lot and there's less information around than anything we can shake a stick at. I mean, anytime they think that Ambassadors know anything, they're crazy.
- HMJr: Well, I -- there was no information on this side of the water, so I thought I might get some from you.
- K: No, I think you're all right, Henry, again. I don't think you're going to have it. I think we're -- they're still going to talk about this and then if they can hold it off a little while longer maybe some day they'll get down and fix it up.

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HMJr: All right, Joe. When are you coming over?

K: Oh, I don't know, Henry. I wish to God I could come home any time. This is not the pleasantest place in the world to be all the time.

HMJr: Well, give my regards to your Missus.

K: Thank you, and the same to yours, Henry.

HMJr: O. K.

K: Good luck!

May 5, 1939
2:42 p.m.

HMJr: Hello.

Operator: Mr. Krock. Go ahead.

HMJr: Hello.

Arthur

Krock: Hello, Henry.

HMJr: Yes, I just talked to a friend of yours.

K: I didn't know I had very many.

HMJr: Well, his name is Kennedy.

K: Oh, yes. I thought I wanted to tell you something that I don't think you know much about. Maybe you do, but if you don't you should. Sometime ago Johnny Hanes, on his own, undertook a trip to New York, and I want to say that the results of that have been one hundred per cent successful.

HMJr: Well.....

K: I don't know whether in the meantime he has told you what he did.

HMJr: He did not, no.

K: But he took up -- he took up a matter of getting certain attention to the facts about your record and other things and I just wanted to tell you that they -- they've been a hundred per cent successful, and when the "Times" magazine piece comes out it will be a hundred and fifty per cent.

HMJr: Really! Well, I'm awfully glad he -- no, he told me he was going up, and all he said was, "Will you trust me"? And I said, "Well, yes." And he has never told me what he did.

K: Well, I just -- I heard that he told you that he wouldn't explain what it was but that you were to trust him. I just want to say to you that I happen to know -- one hundred per cent successful.

HMJr: Well, that's -- that's very nice.

- 2 -

K: You -- you may have noticed.

HMJr: Well, I have noticed.

K: Yes. Well, yes, there were -- certainly were a couple of -- there were a couple of.....

HMJr: Editorials.

K: A couple of pieces you should have noticed.

HMJr: Very definitely.

K: And this other thing is the -- this piece of Catledge's is the final result of it.

HMJr: Well, I appreciate your.....

K: All right, I just wanted you to know.

HMJr: Thank you.

K: What does Joe say? -- about the situation over there.

HMJr: He -- he -- well, what I was trying -- you've got me on the spot now.

K: Well, I won't -- I'll withdraw the question then. I just thought he might have said something about.....

HMJr: I.....

K:about war, that's all.

HMJr: Well, do you mind if.....

K: No, I don't mind your not answering.

HMJr: Thank you.

K: All right.

HMJr: Good bye.

May 5, 1939
2:50 p.m.

Operator: Go ahead.

HMJr: Hello.

Bill

Bullitt: Hello, Henry.

HMJr: How are you?

B: Fine!

HMJr: Bill, I have a financing on Monday.

B: Yes.

HMJr: And before making the terms, which I do tomorrow, I want to check with you how you thought the next four or five days looked -- if you wanted to make a guess.

B: Well, Henry, if you mean an outbreak of war.....

HMJr: Yeah.

B:I do not believe there will be one.

HMJr: Yes.

B: But I believe that the next few days will be days of extreme pessimism.

HMJr: Yes.

B: That's my own view.

HMJr: Well, I mean, to affect us it would have to be a declaration of war.

B: Well, I do not expect that.

HMJr: You don't?

B: No, I do not.

HMJr: I see.

B: I do not expect that, but I expect extreme pessimism. When I say 'extreme', I mean it.

- 2 -

HMJr: I see. Well, I just wanted to get what you could give me.

B: Yes.

HMJr: And -- because I have to price it tomorrow, Saturday, and offer it Monday, and it stays open for three days.

B: Yes. Well, on the other hand, I don't know how such pessimism as exists would affect any such thing.

HMJr: No.

B: Manifestations might be a further flight of money into the United States.

HMJr: Well, that wouldn't affect this financing.

B:

HMJr: Hello?

B: Yes -- hello?

HMJr: Well, you've given me what I want. I mean.....

B: Yes.

HMJr: And I'll go ahead and do the best I can.

B: Did you have a conversation with a mutual friend of ours?

HMJr: On this side?

B: Yeah.

HMJr: You mean the fellow that was here before?

B: Yeah.

HMJr: No, I have not. He hasn't asked to see me.

B: O. K.

HMJr: Hello?

B: Oh, fine!

HMJr: Do I -- do I -- I mean.....

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B: No, I just didn't know that. I didn't know whether you had had one or not.

HMJr: You mean -- you mean a man that.....

B: Yes, yes, I mean that. We understand each other perfect.

HMJr: Righto! No, he hasn't been in to see me.

B: Fine.

HMJr: O. K.

B: Good bye, Henry.

HMJr: Good bye.

B: Good luck.

May 5, 1939

Today HM, Jr called in Mr. Gibbons, Mr. McReynolds also being present, and instructed him to turn over the Sokol matter to Ed Foley and to McReynolds to handle, because it is a case which needs a lawyer and he did not want Gibbons to handle it on the Hill or to take any further parti

RE TAX STATEMENT

May 5, 1939.
2:45 P. M.

Present: Mr. Gaston
Mrs. Klotz
Mr. White
Mr. Blough
Mr. Duffield

H.M.Jr: "...makes for a better and not a worse distribution of tax burdens...." Is that what the President said?

White: I don't think that was altered.

Blough: You wanted a "more equitable distribution" put in. I think that's the change he wanted made.

White: That was already done on the bottom of the first page.

H.M.Jr: Where did you get "a better and not a worse"?

Duffield: That was in the first draft.

H.M.Jr: Oh, was it?

White: The change he made was in the last line of the first page.

H.M.Jr: You don't say anything about our taking his suggestion about....

Duffield: It's on the next page.

White: It's on the next page. I think it had better be out, though, because when you get to it, you'll see it isn't so startling.

H.M.Jr: "...expenditures for past wars" - past wars?

White: Just on the debt.

Blough: And veterans.

White: Veterans.

H.M.Jr: What's the matter?

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- White: Danny Bell gave that figure, about 51 percent, but it doesn't seem so very startling. I think there is a more spectacular way of saying that as an alternative, when you get to that. Instead of relating it to deficits, I think this phrase, "In this connection, it is interesting to note that already the expenditures for past wars and national defense are equal to a fourth of our expenditures this year," is better; that relates it to expenditures rather than to deficits. This makes the deficits seem either enormous or the expenditures small. But if you relate it to total expenditures, then it does take a very sizable slice out of it; it amounts to a fourth. That would be a way of meeting the President's desire.
- H.M.Jr: Well, he originally said 25 percent; that was his guess.
- White: I thought he said "of the deficit."
- H.M.Jr: Well, he did use the word "deficit," but he said 25 percent.
- Duffield: Instead of 25 percent, 50 percent.
- White: 50 percent of the deficit. It either makes the deficit look enormous or the expenditures small.
- H.M.Jr: "...it is interesting to note that expenditures for past wars and national defense are equal to 25 percent...."
- White: "...of total expenditures" - "...are already equal to 25 percent of expenditures for this fiscal year."
- H.M.Jr: Well, we're here talking about the - on the other page it's expenditures, not deficits.
- Gaston: I think that's much better, the way Harry suggests.
- H.M.Jr: I do too.

(H.M.Jr. reads silently for brief period)

Bottom of page 4 - "...as one Joint Committee on Fiscal Policy" - is that the way the President put it?

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- Duffield: That's the way it was in the previous draft.
- H.M.Jr: Was it? You didn't change it?
- Duffield: I guess we changed "a" to "one."
- H.M.Jr: That's all right.
- "....each session as one Joint Committee...."
All you did....
- Klotz: "If, for instance,...."
- H.M.Jr: "If, for instance, the Ways and Means and Appropriations Committees...."
- Klotz: "If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure and revenue program,...."
- H.M.Jr: That's all right.
- Duffield: He said "simplification would result." We thought that was sort of anti-climactic.
- White: Very tame - making a lot of it if it merely ends in simplification. We thought something stronger was needed. You can say "simplification and greater effectiveness" if you want to use the same word he did.
- H.M.Jr: I'd use the word "simplification and...."
- White: I didn't notice "one Joint Committee." Should it be "one" instead of "a"?
- Duffield: I thought so; otherwise they would think of a Joint Committee in each House instead of a Joint Committee for the two Houses.
- H.M.Jr: Does it sound all right on page 5?
- Klotz: This is certainly not like the President had it. This one sentence - "by providing for a preliminary legislative consideration...." - yes, I'm wrong.

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- H.M.Jr: Is it all right? I'll read it through once and we can go back over it again.
- Duffield: We had some trouble with that one, but we think it's the way he meant it.
- Klotz: They've changed this a little. You've changed it.
- H.M.Jr: What are all these pencil marks all through here?
- Klotz: I guess they made typographical errors.
- H.M.Jr: On page 7, number 1 - "...and to maintain the current rates of those taxes which would otherwise be reduced in June"?
- Blough: Yes.
- H.M.Jr: Why reduced?
- Blough: Stock transfer tax and one or two others were scheduled for a reduction and not for an abandonment.
- H.M.Jr: Who scheduled them for reduction?
- Duffield: They were increased as an emergency measure and the emergency increase has been discontinued. Isn't that right?
- Blough: Substantially. It dates back in the same category as these others. This language is taken right out of the budget message.
- H.M.Jr: Oh, I see.
- 4 - I've definitely done the oil and gas wells. Have you checked that?
- Blough: 1937 was the last time it was definitely done.
- H.M.Jr: Are there others we have pointed out which are as glaring as this, which they haven't done?
- Blough: Not as glaring as this, but there are others.

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Duffield: Community property.

Blough: I'd have to check.

H.M.Jr: Community property?

Duffield: Community property is one of them.

H.M.Jr: Why wouldn't you put community property in?

Blough: Well, we of course have a number of points that we might pick out and put in.

H.M.Jr: Well, I guess we won't add any.

Blough: Either that or eliminate this one.

H.M.Jr: No.

Blough: Now, I'd like to call attention to the middle of page 8. We've left the President's language because we couldn't figure out what he meant, and we'd like to go back to it, if we can find out what he meant.

H.M.Jr: What are you referring to?

Duffield: The paragraph "It seems...."

Blough: "It seems physically impossible...."

White: He said "fiscally impossible."

H.M.Jr: It must be "physically."

Klotz: That could be very well "physically."

White: I think it's better "fiscally," even though it makes a little better sense as "physically." With "fiscally" they won't be sure what is meant.

H.M.Jr: He meant physically impossible on account of time.

White: Oh well....

Duffield: That's the way it is.

White: That's the way we made it.

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- H.M.Jr: Yes. I mean from what he said.....
- Blough: We thought he meant physically impossible.
- H.M.Jr: Do you think it's a mistake to say so?
- Blough: I don't think it's physically impossible. It is physically impossible if they're going to adjourn the first of July or the first of August; it's not physically impossible if they're going to stay on.
- H.M.Jr: Well, why not say this? This is what he said. "It seems physically impossible at this session of Congress to undertake any comprehensive re-organization of the tax structure unless Congress is willing to stay sufficiently long to do it.
- White: Oh, I see, you've changed this from the last time. I didn't notice that.
- Blough: Oh yes.
- White: Oh.
- Blough: I made a change to make it do what I thought the President wanted to do. Now, if I made a mistake....
- H.M.Jr: What he had in mind - he said to me if they wanted to do this they'd have to stay here until next November.
- White: Well then, your addition to the first sentence would be all right, because we already have taken liberties with what the President said. He joined those two sentences up.
- H.M.Jr: I don't get the point you're arguing, Harry; do you want to leave it out?
- White: No, I think "physically" is the way - it's all right the way it is. I'm awfully sorry - I didn't know they had changed that; that's a last minute change; "physically" is all right as is.
- H.M.Jr: Well, here's what you could put in: "It seems physically impossible at this late date for this session of Congress...."

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White: Uh-huh.

H.M.Jr: That makes sense, doesn't it?

Duffield: Yes.

H.M.Jr: "It seems physically impossible at this late date for this session of Congress to undertake any...." - don't you think that's all right, Herbert?

Gaston: Yes. I would prefer it if it simply read "It seems impracticable to undertake any comprehensive re-examining of the tax laws at this session."

Blough: I would like that better.

H.M.Jr: I think that's better too.

Gaston: Yes, it isn't impossible.

H.M.Jr: No - "impracticable." That's better yet. Much better.

Klotz: That's better.

H.M.Jr: That's better.

Duffield: Yes.

Gaston: I just don't like very well reporting on the pros and cons of certain features of the corporate taxes and the personal income tax.

H.M.Jr: How would you do that? That's the President's own....

Gaston: I know it.

H.M.Jr: I know it.

Gaston: What you're doing is discussing certain suggestions with respect to amendments of the corporate and individual tax structure.

H.M.Jr: What would you say?

Gaston: "...that I discuss certain suggestions for amendments of the...."

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H.M.Jr: Well, he won't do that.

Gaston: You're discussing, not suggesting them or recommending them.

White: Discussion probably involves some recommendation.

H.M.Jr: This is just what he wants. Do you think it makes me ridiculous?

Gaston: Well, I just don't like it.

H.M.Jr: I don't like it either.

Blough: I'm extremely unhappy to think of you going down there, taking these five things, and giving pros and cons in a very sketchy way. I just don't like it.

Gaston: I feel more gloomy about it after looking at this than after discussing it the other day. Probably it was in my mind that we could be a little more elastic.

Blough: Of course, I have a solution, but the solution would probably not please the President. The solution is just to say, "Now, there have been many suggestions made, and if you want us to we'll be glad to discuss the pros and cons and give you information about them," and pass on. Simply jump over that section.

Gaston: Yes.

H.M.Jr: Jump over what section?

Duffield: The details of net loss carryover and all the rest of that.

H.M.Jr: You mean not mention it at all?

Blough: My suggestion - I have it written out here - may be very bad, but at least it's a possibility. It would start after the middle of page 8.

(H.M.Jr. reads draft submitted by Blough)

H.M.Jr: No, you can't - this is all you would do here?

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Blough: That's right. From now on this is all I'd do.

H.M.Jr: What would you skip?

Blough: Well, I'd skip the five points in the discussion of pros and cons. You might mention the five points, although I gather that that might not be desirable if you didn't discuss them.

The reasons are these. If you give us a few more days, we can do a much better job on pros and cons. But in any event you put yourself in a position of a sort of double debating society - "Now, on the one hand, here is this; on the other hand, here is this. Of course, I don't have time to give it to you in enough detail to make any particular sense, but anyway, here are the main arguments." I just don't think it's a very desirable method of approach to Congress. I may be all wrong and I simply make that as a suggestion.

H.M.Jr: It isn't a question of an approach to Congress. Let me see what you've done. Let me see how you have it.

White: I have another alternative as an introduction to that which may avoid some of that difficulty.

Blough: Maybe you'd like to go after the rest of the pros and cons first.

H.M.Jr: No, let's see what you've got.

White: I would certainly be opposed to leaving that stuff out myself.

H.M.Jr: Where was I - on 8, wasn't I?

White: Beginning with 10.

Duffield: He's on 8.

Blough: "However, it has been suggested to me by the Chairman...."

H.M.Jr: I see.

Incidentally, when I talked to the Speaker of the House this morning he said the only thing he's got -

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the only principle he has on taxes, the tax program, is that we mustn't lose any revenue. He says the rest he leaves up to the Chairman of Ways and Means.

How would it sound, instead of "pros and cons," to give the "arguments for and against"?

White: I think it's a little better. But I think it's probably better to say "merely to comment on briefly."

H.M.Jr: Just make a note - "the arguments for and against." Put that down. What I'm afraid of is that they're going to call this the "pros and cons" and call it the "con plan."

Gaston: Yes, I'm afraid of that too, because that's repeated to the point of sticking out like a sore thumb.

White: I think the difficulty is the language one; just a question of phraseology of those points.

H.M.Jr: "Arguments for and against."

Blough: That's better.

H.M.Jr: Just put that down.

Blough: It's down.

H.M.Jr: You (Klotz) don't like the "arguments for and against"?

Klotz: I think I like Harry's better.

H.M.Jr: What's that?

Klotz: "Comment."

White: "Comment briefly."

Duffield: Why not vary them? We've got four or five.

White: Four or five places. Use one in one place, one in another place.

H.M.Jr: I'm not going to say "pros and cons" five times. They're going to say, "Morgenthau has got a con plan."

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- White: It's not very dignified to say.
- H.M.Jr: What?
- White: Besides all that, I say, it's not very dignified.
- Blough: This was a little deliberate, I might say, because we didn't like "pros and cons" and it made it, I think, perfectly clear how bad it could seem if you said it so many times.
- H.M.Jr: Well, I've been bothered about this for some time - I mean since he made it.
- White: You see, to avoid that difficulty on page 8, instead of saying "...report on the pros and cons," which is really rather ridiculous, you could say "... that I comment briefly on certain features." Then when you come to page 9 you can say "Briefly, the arguments for and against." Then we have to use it again later on.
- Klotz: I think that's all right.
- H.M.Jr: Try it that way. Write it in in pencil, then see how it looks over this.
- Gaston: My idea of this, if it could get by, would be to say, "The Treasury has naturally received suggestions...." - might even say that we have had complaints that certain features of our corporate and individual taxes acted as a deterrent on business. "We have selected those which would seem to us best to merit the consideration of these committees, and we propose to discuss these suggestions: One....." - and then start with the abandonment of the three corporate taxes and the concentration on a single tax. And then say, "To be candid, I should set down here the difficulties which we may face in connection with this," and thus give the con without saying "the con." And then the other ones - two, three, four and so on, so as to make it look like a presentation of a program; but still it gives the positive and negative arguments.
- H.M.Jr: Well, I've got another idea. I think this one would get by. And that is to have Congressman Doughton

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write me a letter in which he says, "My dear Mr. Secretary: As Chairman of the Committee of Ways and Means, I am inviting you to appear on such and such a day. Various organizations have mentioned the following taxes as being business deterrents...." - and then list them - "...and I'd appreciate it if you'd come prepared to advise this Committee as to what information the Treasury Department has."

Now, that would get by. What the President's big objection is - he doesn't want me to go up - and I think we could get Doughton to do that; then I'd just go ahead, just the way I did before. You see? Try it. I mean the President has it fixed in his mind that he doesn't want me to go up and take the initiative. If I could get Doughton to write that kind of a letter, that would fit into what was bothering Doughton yesterday, that McCormack's run away with the ball, Pat Harrison's run away with the ball. If he could get the credit for stating what he wants - let him list the things, invite me to come up and discuss them.

- Gaston: He could even say, "We have accepted your invitation to look over the tax laws from the standpoint of deterrents. We have gathered information on the subject. These are the things which are represented to us by business men as being deterrents. What do you think about them?"
- Duffield: Afraid such a list would go beyond the four or five we've got here.
- H.M.Jr: The list doesn't make any difference. It's the form - that's what bothering the President: the form.
- Gaston: Doughton can edit the list. He doesn't have to present all that anybody presented to him.
- H.M.Jr: But as to the form?
- White: Would that mean that after you got through the Committee could ask you questions?
- H.M.Jr: Oh no, I'd have a formal thing. I mean something -

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then I'd simply say, "Then any additional information you want - the Treasury staff is here to take care of it."

Blough: In that case....

White: It would become a hearing.

H.M.Jr: What?

White: It would then become a hearing.

H.M.Jr: It will, sure. That's what they always do. I hope it is a hearing.

White: Well then, you don't need to be other than very brief in your comment, that way.

Blough: I was wondering, would you then take a position on the various features?

H.M.Jr: No, then I can go ahead and just the way - still carry out the President's wishes and say, "I'll give you the arguments for and against."

Gaston: Yes.

H.M.Jr: "I am very glad to come up and give you the arguments for and against these suggestions."

White: And if they ask which you recommend?

H.M.Jr: No, no more than - I'll take the position I've always taken: "I am not here to recommend; I am just here to give you the technical information." That's what the President has been trying to drive for.

White: That's a good way out.

Blough: That would certainly help to make these take on a dignity which they don't now take on.

H.M.Jr: I'm afraid this is just going to make a joke out of me the way it is now.

White: Well, I wouldn't say that at all, but the other would be better. But I still think this would be all right.

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H.M.Jr: Which is all right?

White: I think getting the letter and an answer to the letter is better than this, but I still think this could be made all right as it is.

H.M.Jr: Possibly, but don't you think my suggestion is an improvement?

White: Of course.

Blough: Very much so. I like it very much better.

Gaston: Yes.

H.M.Jr: And then continue - so that again I'm carrying out the President's policy, I'd state the arguments for and against. I wouldn't take a positive position. That's what he doesn't want me to do.

White: And how about your staff? I mean in answer to the question they merely....

H.M.Jr: They'd have to carry out the same policy, the President's policy. The Treasury will furnish them with technical information. As to which one, what should be done, that's what Congress is for.

I think what Herbert Gaston says is an improvement, if he could - following your suggestion - I mean "We have examined and we find discussion, so forth and so on, that these taxes - various organizations and members of the Committee felt these taxes are bothersome and are deterrents. And now, will you please, Mr. Secretary, place at our disposal all information that you have."

Then I'd go up and say, "Mr. Chairman, in regard to Proposal No. 1, the Treasury finds this is the argument for and this is the argument against making a change."

Blough: And then we'll go into each of these and explain it at more length and indicate how important it is, so on.

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- H.M.Jr: Yes.
- White: Then you could say - you could begin as you are, and then the transition phrase which troubles us so much could be "Now, with respect to the questions which you asked me in your letter...."
- H.M.Jr: That could come in the middle, where we didn't have a good transition. We would leave room for it. On the first five or six pages is where I've had the least trouble with the President.
- Gaston: The first paragraph is that you are glad to respond to their invitation to come up and discuss the general tax situation and certain specific suggestions that have been made - "that you have made in your letter."
- H.M.Jr: "Mr. Chairman, I am here in response to your invitation."
- Gaston: Yes.
- H.M.Jr: Then I'd go ahead. Then in the middle part I say, "In your invitation you asked me the following questions."
- Gaston: Yes.
- White: It would be better.
- H.M.Jr: Now, what does this do? It still leaves me where the President wants me, not wanting me to take a position; but it still makes it more sensible. And I think it would make Doughton - what it means is that Doughton is a part of it, he gets part of the credit, takes part of the initiative. I'm doing what the President wants and I think I'm satisfied.
- White: Of course, it gives him the....
- H.M.Jr: Who?
- White: Gives Doughton - instead of your asking to appear before them, come before them, you are coming in response to a definite request.

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H.M.Jr: That's the way it should be.

White: I think so. I think that's better that way.

H.M.Jr: And it will make the President much happier. Now, the President undoubtedly wouldn't do that with Pat Harrison, but he's perfectly willing....

And what does this accomplish? It opens the thing to discussion of these certain taxes which people think are deterrents, and that's my objective.

White: That's your objective.

Klotz: That's right.

Gaston: Bob Doughton will play square with us. That is, he wouldn't run to the White House and say, "The Treasury wants me to write a letter, so and so. Shall I do it?"

H.M.Jr: Oh, you mean am I going to ask him to write the letter without first going to the President?

Gaston: Yes.

H.M.Jr: I wouldn't think of that.

Gaston: Wouldn't think of that.

H.M.Jr: Oh no. I've asked for an appointment to see the President at 3:00 o'clock Monday, and when I go over I'm going to say, "Now, Mr. President, we've had time and I think that we've been able to improve the thing along the lines you made."

Gaston: Yes.

H.M.Jr: "And here's a draft of the letter that I want Doughton to write me. Now, if you approve...." - Doughton is coming in Tuesday morning to see the President; he told me that - "...and if you approve, I'd like to have you take this formula."

Now, it seems to me that that does everything the President wants. What does the President not want me to do? He doesn't want me to go up and volunteer

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recommendations to Congress on particular taxes.

Easton: He wants the record to show that the Hill asked for certain things. Well now, this ought to meet his wishes perfectly.

H.M.Jr: A hundred percent.

Easton: A hundred percent.

H.M.Jr: And then I don't again do what I don't like to do, make definite recommendations. I go ahead and say, "In answer, the information of the Treasury shows that the argument for is this and the argument against is that."

Blough: May I just say in passing that it makes it very much easier for the technical staff not to have to uphold a definite recommendation, because.....

H.M.Jr: Then that's all to the good.

Blough: Very much to the good, because you can then lay the thing out and let the chips fall where they may.

H.M.Jr: Oh yes. Now, instead of saying "in favor of the proposal" - you wouldn't have to change this much; you'd simply say, "In answer to your question number one.....," then go on: "In answer to your question number two...."

Easton: You could introduce a little philosophy there by saying that all tax questions are necessarily compromises and there is always something to be said one one side and on the other. "And, to be candid, I need to set forth what are the difficulties you will meet along this line."

H.M.Jr: I think that would improve the formula greatly. Has anybody got any doubts about it? And I think Doughton would write the letter and I think he'd love to write it, particularly in view of what happened the last week.

Easton: Particularly in view of what he said to Johnny Hanes about his desire to make a record in his last year.

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H.M.Jr: Now, when we get up there and give him this list, there are certain things he may not like, certain things he'll want to add.

Blough: That doesn't tie your hands. I mean suppose he does ask for consolidated returns. You can give him pros and cons on consolidated returns.

H.M.Jr: Sure.

Well, do we - I mean isn't the thing to do to adjourn now and try to write a letter and then change this?

Blough: The changes aren't going to have to be so very serious.

H.M.Jr: Well, let me read what you've got. Let me read through. I think that's a good suggestion.

Klotz: Yes.

H.M.Jr: I'd have to see him anyway and he's got to invite me anyway. And certainly towards the press and the public - I mean look at this diary in the Times today. I don't know whether you saw the editorial. Did you see that?

Klotz: (Nods yes).

H.M.Jr: Now, how does it leave the President? It leaves him all right, unless he - no, he doesn't want to get in on it. He definitely doesn't.

Klotz: Are you sure?

H.M.Jr: What?

Klotz: Are you sure of that?

H.M.Jr: Well, he didn't want to up until the last time I had seen him.

If you fellows could write that letter and get it to me tomorrow morning, I might have a chance during the day to see the President and say, "Now, Mr. President, I'd like to do this, but before seeing you

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Monday I'd like to talk to Doughton about this if you will approve, see, and then bring it in Monday to save time." See, we're there tonight - I wouldn't be able to talk business to him tonight.

Gaston: This will call for a little more detail. For instance, if he puts the proposition to you for a consolidation of the corporate tax structure, then he'll want to have estimates of rates to produce about the same revenue.

White: Be easy enough to put more detail in it.

Blough: That's the easiest thing. The hardest thing is to cut it down.

H.M.Jr: Now, you say from a technical staff standpoint it would be much easier.

Blough: Well, yes, we'd be very much happier about it, because suppose we're put up against the problem of demonstrating that cutting top surtax rates would be a major - would eliminate major business deterrents. Well, it's a hard job to prove. There are psychological elements there. It's pretty hard to prove it. And I've never liked to take the position where I had to prove a case. I'd much prefer to be in a position where I can give all the information, let the other fellow make up his mind.

H.M.Jr: This from your standpoint is perfect.

Blough: I'd be very much happier to have it this way.

H.M.Jr: Well then, you and the President will be happy.

Blough: Well, that will be nice.

H.M.Jr: And I'd be satisfied.

Gaston: That will give you a dignified presentation.

H.M.Jr: Oh yes.

Gaston: You're doing just what you are asked to do.

H.M.Jr: Ever since he'd made this suggestion, it bothered me like the devil.

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Gaston: This can't - you can't do this.

H.M.Jr: Well, I think - I mean I don't even need that - if I get a chance tonight to see the President, I can simply say, "Now, I've thought of a method of doing this since I've had a couple conversations with Doughton, and I'd like to have permission to talk with Doughton before I see you Monday."

Duffield: I don't think you even need the letter to do that.

H.M.Jr: Oh no.

Gaston: No, no. You could say that the request is to come from the Hill. We haven't yet anything on record showing what they want us to do.

H.M.Jr: I think that's the best yet.

White: It avoids a lot that should be avoided.

H.M.Jr: When Mr. Cannon, of Cannon Towels, came to town a couple years ago to see Doughton at the time they were considering the surplus tax, Doughton disappeared for three days, thinking Mr. Cannon was coming up - he's in his district - his factory - to protest. Finally, Cannon was able to locate him and he told him that what he ran all the way up here to tell him was that it was a wonderful thing for his business.

Gaston: He was making full distribution. He wanted it. He wouldn't have to pay any tax.

H.M.Jr: And over night he (Doughton) just changed. Over night he changed. You remember, don't you?

Gaston: Yes, I do. That was the original proposal, that if they made full distribution they wouldn't have to pay a cent of tax. He was just crazy for that - just what he wanted.

H.M.Jr: Well now, what do we do? This is number - just put this afternoon - May 5 - on it.

Duffield: Mr. Secretary, can I raise one general point? The paragraph which begins on the bottom of page 3

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and runs over on the top of page 4 discusses the fundamental objective of fiscal policy, saying it is a balanced budget. Do you realize now that that says nothing about achievement of a balanced budget except through a rising national income?

H.M.Jr: Well....

Duffield: I mean I just - so you know what it says.

H.M.Jr: I realize that - without being personal, that somebody chiseled that out of the thing. I'm not looking at anybody in particular.

White: I'm looking at the parade.

H.M.Jr: Let's talk about it a minute.

Gaston: I think it's all right. You just say that a rising national income is one way, but you don't exclude other ways.

Duffield: I'm inclined to believe that the wording is such that you don't leave much of any other way. You say, "The sequel to deficits in emergencies should be surpluses during years of prosperity." You go on to say, "That was and is one of the broad purposes...." It doesn't say anything about raising revenues any other way or reducing expenditures.

H.M.Jr: Let's go back to how we arrived at this point. I realize this. In trying to write it originally - if you're going to do the other way, to balance the budget you say that either you have to cut expenditures or raise taxes, increase the taxes. Now, do we want to increase the taxes at this time? No. The President said no. Do we want to cut expenditures? Yes. But do I want to say how it is done or where it should be done and have I got any good suggestions? No.

Now, rather than to make a weak suggestion as to how.... I did that in November '37. I showed them roads, this thing, that thing and the other thing, and I made a speech on how to balance the budget and showed them how they should do it. Now, this is not a speech to show them how to balance the budget. Now, I'm glad you brought it

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up. It gives me a chance to clear my own thinking on it again. But I think that White was right on this thing, that either I should go in and say, "You can cut a hundred million here, you can cut five hundred million here, you can do this, that and the other thing" - and show them how they can cut a billion dollars. Now, I don't know where they can cut a billion dollars. And until I have the answer I had better stay where the President was in January of '39 - that the only way to balance it is through an increase in the national income. Now, I don't say that, but that's the implication, isn't it?

Duffield: (Nods yes).

Gaston: And we're pretty well committed to that course for this year, anyway.

H.M.Jr: Well, I mean certainly - and then to bring in a report - if anybody asked me, I'd say, "Well, we're committed to this budget this year. The new budget that we're making in November and December - we've suggested a Fiscal Committee."

White: Which is another good reason why you should - a desirable reason to get the letter from Doughton, because you're answering his letter and he's asking you about specific things.

H.M.Jr: I'm not appearing before a committee on appropriations.

Duffield: But we're discussing the budget and the policies.

H.M.Jr: Yes, and I'm leaving myself where the President was in January of '39. Do you think it's weak?

Duffield: No. If you'd like me to tell you why I've raised this question....

H.M.Jr: Go ahead.

Duffield: You remember the studies for the Fiscal and Monetary Committee and the achievement of an 80 billion dollar national income. It seems to me that what we're saying here, in effect, is, in view of what we know about the possibilities of achieving a national

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income which will approximately even balance the budget, let alone supplying a surplus - since we know what those prospects are, we are in effect saying the budget will not be balanced before 1943 and there is no assurance that it will be balanced in 1943.

H.M.Jr: '43?

Duffield: That's the earliest year in which these studies gave any chance of achieving an \$0 billion dollar national income, and it takes an \$0 billion dollar national income, with this tax structure, to raise enough revenue to meet these expenditures.

H.M.Jr: Where is that study?

Duffield: You've got it.

H.M.Jr: Did it ever come to me?

Duffield: We summarized it only at the end of that little summary statement.

H.M.Jr: You mean we won't get an \$0 billion dollar national income before '43.

White: If nothing is done.

Duffield: If anything is done, that means your expenditures increase, so you've got a bigger gap to close up.

H.M.Jr: Well, if we had a balanced budget in '43, I think it would be wonderful.

Duffield: This doesn't say we're going to have a balanced budget in '43. This says it won't be balanced before '43, and you don't know....

H.M.Jr: It doesn't use the year '43.

Duffield: I don't mean that. I mean this is why I got disturbed about this general line. That's all.

H.M.Jr: Well, I'd have to put myself in the position and on record that I don't agree with what the President said in January.

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Gaston: I think this is desirable for another reason. You've talked about recovery as being the most important thing and you've talked about removing deterrents to recovery. So the only thing you say is the desirability over the long range of a balanced budget, which argues that we must produce recovery, and it argues in favor of any changes in the tax structure which tend toward recovery.

H.M.Jr: Well....

Duffield: The only thing I would suggest perhaps would be another sentence saying, "We must scrupulously watch our expenditures and preserve our revenue as much as possible" - something like that. I would just like it not to be left solely on the basis of "We hope the national income will come up so we can balance the budget." I'm not going to press the point, having raised it. That's all right.

H.M.Jr: No, I'm listening, definitely. Well, I tell you what you do. Write a sentence and put it on a slip of loose paper and just pin it on.

Duffield: Yes.

H.M.Jr: See what I mean? Pin it on. Let me take a look at it. Huh?

Duffield: Sure.

Blough: I'd feel a good deal better if there were some place in here where at least the necessity for extreme care in scrutinizing expenditures was mentioned. I think that that would be a desirable thing.

White: Just why? Do you think it would have any effect on Congress, or is it that you want the Secretary's record to be clear? What is the purpose of it?

Blough: Both.

White: Well, you know the first - it's completely ineffective. You know it's not going to make them reduce expenditures just because the Secretary asked them to scrutinize every expenditure. You might wish it different, but you know that that's the fact, that it's not going to make them reduce expenditures.

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With regard to the Secretary's record, he's got a lot of other things to stand on. Why raise a rumpus at this time?

Blough: There would be no rumpus.

White: Then it would be ineffective. If it's ineffective, it won't call attention to anybody. If it's effective, it's going to cause trouble, because it introduces a point when it isn't called for. Well, we're covering old ground.

Duffield: It will be new ground until it's....

H.M.Jr: Well, look, write a sentence on a slip of paper; we can just put it loose where you think it would go.

What else does anybody want to raise at this time?

Well now, you boys are going to draft a letter for Doughton to write to me.

Blough: When will you want that?

White: Tomorrow morning.

H.M.Jr: Oh, if I have it by noon tomorrow.

Blough: Noon tomorrow.

H.M.Jr: Noon tomorrow.

Blough: And you want a redraft of this by when?

H.M.Jr: Noon Monday.

Blough: Noon Monday, O. K.

Gaston: Wouldn't it be a good idea to let that request of Doughton's include some things that we don't like at all in the way of suggestions made by the N.A.M. and the Chamber of Commerce of the United States, and discuss them?

Blough: Like elimination of capital gains taxation entirely?

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Gaston: Yes, yes.

H.M.Jr: Community property?

Gaston: Yes, community property.

H.M.Jr: Well, he'll have his own ideas too.

All right, gentlemen, thank you.

Draft rewritten with
FDR suggestions

May 5, 1939

Chairman Doughton and Senator Harrison, Chairman of the Senate Finance Committee, have expressed a desire to receive the Treasury's views on certain tax suggestions made by members of Congress and others in time for possible action on these suggestions at this session of Congress.

Tax proposals cannot be discussed comprehensively except in relationship to our broad national and fiscal position. We are now in the midst of a world situation which imposes on this Government a special responsibility. We must demonstrate that a democratic government has the power and the flexibility to survive prolonged crisis and chaotic world conditions and yet emerge with the strength of its free institutions unimpaired. Preservation of our democratic form of government over a long period of years requires, in my opinion, a fiscal program which has a fourfold objective: (1) promotion of free enterprise and private investment; (2) attainment of full business recovery; (3) maintenance of our public finances in a sound and unassailable position, and (4) an equitable distribution of tax burdens and a more equitable distribution of national income.

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Successful operation of democracy demands that all four objectives be solidly linked together. When we consider any specific change in our fiscal program we must satisfy ourselves that the change makes for a better and not a worse distribution of tax burdens and of national income, that the change promotes and does not retard business recovery, and that the change makes it easier and not more difficult to establish a balanced relationship between revenues and expenditures.

Full attainment of these objectives is made more difficult by a new and ominous development in world affairs -- the armament race now gripping the important nations of the world. Great Britain in the coming fiscal year is spending \$3 billion on armaments, or almost 50 percent of its national budget; France is devoting over 40 percent of its national governmental expenditures to the same purpose; Italy, 50 percent; Germany, probably 60 percent; Japan over 70 percent. These huge expenditures are being financed largely by borrowing. The race is becoming more intense and there is no end in sight.

For us the danger is that these developments may mean a necessarily increased cost for national defense here, together with monetary instability abroad,

disruption of our foreign commerce, and perhaps other unsettlements, the consequences of which we cannot anticipate. In this connection, it is interesting to note that the expenditures for past wars and national defense are equal to over 50 percent of the deficit for this fiscal year.

No major problem facing this government today can be properly solved without full consideration of the position of this country in relation to the present international crisis. The unmistakable implication of the international situation is that we should look ahead to our future fiscal position and redouble our efforts to attain full recovery. High national income and a sound fiscal position are essential to adequate national defense. It is against this background that we reexamine our fiscal program.

A fundamental objective of sound finance clearly is a balanced budget. There is, of course, no good reason why taxes must exactly balance expenditures each year any more than each month, each week or each day. There are periods during which sound fiscal policy calls for an excess of outgo over income. In a depression it is inevitable that there will be deficits. Revenues decline at the same time that the Federal Government is called upon to undertake inescapable social and economic

burdens. If, however, deficits are too long continued, the depressive effects of uncertainty tend to make recovery more difficult. The sequel to deficits in emergencies should be surpluses during years of prosperity. That was and is one of the broad purposes of seeking to raise the national income to a high level, thus assuring revenue great enough not only to end the deficits which began in 1931, but also to reduce the public debt.

In carrying out our fiscal policy it would be helpful to have machinery which would more fully coordinate our efforts. It is not the prerogative of any administrative Department to make suggestions to the legislative branch of the Government for the conduct of its work, but I am sure that you would wish me to be frank in suggesting ways of surmounting difficulties which I believe attend the joint efforts of the Ways and Means and Finance Committees and the Treasury Department.

If, for instance, the Ways and Means and Appropriations Committees of this House and the Finance and Appropriations Committees of the Senate could meet each session as one Joint Committee on Fiscal Policy, to consider the over-all aspects of the expenditure

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and revenue programs, greater effectiveness would result. The Budget Act of 1921 set up a procedure for the orderly formulation by the executive of fiscal proposals and for their submission to the Congress as a unified budget. No comparable procedure has been set up in Congress for considering revenues and expenditures together as two inter-related aspects of a single problem. I hope this committee will agree with me that some such innovation would improve the efficiency of the government. By providing for a preliminary legislative consideration of the over-all of appropriation and revenue measures it would give Congress a broad picture of the management of the government's finances and permit a better ordered coordination between the executive and the legislative branches in this field.

This Joint Committee would in effect be a lens through which all appropriation and revenue measures could be viewed in relationship to both what the nation needs and what the nation can afford. This Committee could have continuous life and could be actively studying fiscal problems between sessions of Congress as well as during the sessions. The Treasury Department would, of course, cooperate fully in this work to the extent that the committee desired.

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Thus far I have dealt with the financial problems of the Federal Government alone. We must remember, however, that even if we had in operation the best conceivable Federal fiscal plan, we still would have touched only half of the tax problem which confronts the nation. More than 50 percent of the total tax revenues of the country are collected by State and local governments.

We have talked about removing injurious Federal-State tax conflicts for the past five years, and our predecessors talked about the same problem. I recommend that Congress create a small temporary national commission to report as soon as feasible to Congress on the most desirable intergovernmental fiscal policy. Such a commission should be made up of men of ability who enjoy the highest possible public confidence, who are familiar with the fiscal problems of Federal, State and local governments, but who will represent the public at large rather than any governmental unit.

Overlapping taxes have grown in number and size as both Federal and State governments have sought new revenue. Grants-in-aid are being demanded of the Federal Government in increasing amounts. The results

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of our fiscal situation are increasingly unsatisfactory to both the State governments and the Federal Government, and are becoming burdensome to many taxpayers. As the result of this Commission's work, we should be able to achieve more orderly relationship between the Federal fiscal system and the State and local fiscal systems.

Thus far I have talked about two broad fiscal matters of great importance to the Treasury. Let me turn now to questions of taxation.

I desire first to renew a number of recommendations for tax changes which have previously been presented to you.

1. In his Budget Message of January 3, 1939, the President recommended that Congress extend the miscellaneous internal revenue taxes which under existing law will expire next June and July, and to maintain the current rates of those taxes which would otherwise be reduced in June.

2. In his message of January 19, 1939, the President recommended legislation making all government salaries hereafter earned and all interest on government securities hereafter issued subject to Federal and State income tax laws. The recommendation with respect to government salaries has, I am pleased to note, already been incorporated into law.

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3. In my statement of March 24, 1939, I presented for your consideration four alternative rate plans for old-age insurance contributions during the next three years.

4. The Treasury Department has pointed out from time to time that the present law allows excessive deductions for depletion of oil and gas wells and certain mines. Removing this inequitable special privilege would produce a substantial amount of revenue.

It seems physically impossible at this session of Congress to undertake any comprehensive reexamination of the tax laws. Moreover, before undertaking a revision it would be desirable to have the report of the proposed special committee on the fiscal relations of the Federal and State governments.

However, it has been suggested to me by the Chairman and members of the Committee that I report on the pros and cons of certain features of the corporate taxes and the personal income tax. Before I discuss them, I want to emphasize that any changes adopted should not reduce total revenues. We must not forget that one of the important objectives of our fiscal program is to approach

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a balance between revenues and expenditures. For this reason it is necessary to offset any tax reductions with tax increases elsewhere. I wish to emphasize that it is my opinion that under no circumstances should we weaken the revenue-producing capacity of our tax structure. I regard this as the keystone of any program of tax revision that may be undertaken at this session. If tax revision were to take the form only of tax reductions, the resulting uncertainty over our fiscal policy would injure and not help business. We must take no step which the public may interpret as moving away from the objective of a balanced budget.

I turn now to various tax suggestions on which I have been requested to give the pros and cons. I shall discuss them briefly, giving only the more significant points.

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1. I have been asked to give the pros and cons on the suggestion to allow net losses of business, both individual and corporate, incurred in one year to be offset against the income of subsequent years. At present, individuals and corporations are taxed on their annual incomes without regard to losses incurred in other years.

In favor of the proposal the following arguments are advanced:

(a) Allowing the carry-forward of business losses would make the income tax more equitable. Businesses with irregular incomes now pay higher taxes over a period of several years than those with stable incomes. Many pay income taxes in single years of net income even though over a period of years they have had no net income or have suffered a net loss. For example, a corporation with a \$5,000 loss in each of three years and a \$15,000 profit in the fourth year would, under the present law, pay an income tax of \$2,025, although it obviously had no income for the four-year

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period taken as a whole. If a three-year loss carry-over were permitted, this particular corporation would have no tax liability in the fourth year because the losses of the prior years would completely offset its current income.

(b) Allowing the carry-forward of business losses would reduce deterrents to new enterprises and the capital goods industries, which are subject to wide fluctuations in earnings.

(c) Allowing a loss carry-forward would reduce the administrative difficulties caused by the effort made by taxpayers to shift items of income into loss years.

Against the proposal, the following arguments are advanced:

(a) Such change would result in a substantial loss in revenue.

(b) It would complicate the mechanics of administering the income tax.

(c) Many businesses would get the benefit while relatively few might be stimulated to expand.

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Opinions differ as to the most desirable period in which to permit loss carry-over. The longer the period, the greater the equity, but the greater likewise the loss of revenue. Three years is perhaps the minimum period to meet the income fluctuations of the average business.

2. I have been asked to give the pros and cons on the suggestion to allow corporations to deduct their capital losses in full from their ordinary incomes. Under the present law an excess of corporate capital losses over capital gains can be deducted from ordinary income only to the extent of \$2,000.

In favor of the proposal, the following arguments are advanced:

(a) Allowing corporate net capital losses to be deducted in full from ordinary income would make taxable income coincide more nearly with the income from the total operations of the corporation. At present net capital gains are taxed while net capital losses often cannot be taken as deductions, with the result that a corporation may be obliged to pay an income

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tax in a year when its income from other sources was wiped out by capital losses. For example, under present law a corporation with ordinary income of \$25,000 and net capital losses of \$40,000 is required to pay a tax of \$3,205 despite the fact that it actually had a deficit of \$15,000.

(b) Allowing the deduction of corporate net capital losses from other income would tend to stimulate investment since corporations would have greater incentive to invest in the securities of other corporations or to launch new ventures of their own.

Against the proposal, the following arguments are advanced:

(a) The allowance of the full deduction of corporate net capital losses from other income would result in a serious revenue shrinkage in years of declining prices for securities and other property. Normally, these are the years when the requirements for revenue are most acute.

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(b) Corporations that hold securities could reduce their taxable income and thus avoid taxation by selling those securities which had declined in value.

3. I have been asked to give the pros and cons on the suggestion to liberalize the deductions for capital losses of individuals.

In favor of the proposal, the following arguments are advanced:

(a) The allowance of increased capital loss deductions would put the income tax more nearly on the basis of actual income over a period of years.

(b) Liberalization of deductions for capital losses of individuals would tend to stimulate the assumption of business risks.

Against the proposal, the following arguments are advanced:

(a) The revenue would be reduced.

(b) The liberalization would result in some evasion of tax through deliberate manipulation of sales of assets with accrued losses.

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(c) The administration of the income tax would be further complicated.

4. I have been asked to give the pros and cons on the suggestion that the capital stock and excess profits taxes be repealed. Under the present law the capital stock tax is based upon a declared capital stock value which the taxpayer may revise every three years. The declared value may be any figure that the taxpayer desires to submit, regardless of the actual value of the stock. The excess profits tax applies to profits in excess of 10 percent of such a declared value.

In favor of the proposal, the following arguments are advanced:

(a) In practice these taxes operate very erratically. The taxes depend on the taxpayer's ability to forecast profits for the next three years, as well as upon the amount of profits actually realized during each year of the period. The closer the declared value is to ten times average earnings, the lower are the combined

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capital stock and excess profits taxes. Departures from such a declared value result in higher taxes.

(b) The uncertainty of the capital stock and excess profits taxes is very irritating and may be a business deterrent. Forecasts of earnings are particularly difficult to make in the case of new businesses and businesses with unstable incomes, such as the capital goods industries, with the result that taxes imposed on them are often inordinately high.

Against the proposal, the following arguments are advanced:

(a) Repeal of the taxes would result in a substantial loss of revenue.

(b) If the taxes were repealed, corporations without profits would be altogether free from corporation taxes whereas under the present arrangement even the deficit corporations declare a

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capital stock value, and are thus required to pay some tax -- although in many cases the tax is of insignificant size.

5. I have been asked to give the pros and cons on the suggestion that the upper surtax rates be reduced. At present the normal tax is 4 percent and the maximum surtax rate, applicable to the amount of surtax net incomes in excess of \$5,000,000, is 75 percent.

In favor of the proposal, the following arguments are advanced:

(a) The present top surtax rates may deter persons with large incomes from investment in private enterprise. Under the present law the taxpayer with more than \$500,000 surtaxable net income is left with only 26 cents out of his highest dollar of income, 74 cents being taken in Federal income taxes. State taxes may further reduce his share. Higher dollars of income bear even higher rates. There is good reason to believe that such high rates tend to discourage the assumption of business risks

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and to bring about a hoarding of savings instead of investment. However, it must be borne in mind that very few persons are affected by the higher surtax rates, although the psychological effects on other investors cannot be ignored.

(b) The rate may be so high as to have passed the point of maximum returns.

Against the proposal, the following arguments are advanced:

(a) When the aggregate tax burden is great, the upper strata of income can rightfully be expected to make extraordinary sacrifices. A more equitable distribution of income may also be promoted.

(b) The existence of a large volume of tax-exempt securities now provides individuals in the higher income groups with a tax-free haven to which they can resort if they choose so that the tax on income from all sources is much lower than the surtax rates would indicate. It has been suggested

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by some, notably Senator Glass, that this might be met in part by including tax-exempt income at the bottom of the rate brackets instead of at the top, as is now the case, and thus increasing the rates applicable to other income.

The lowering of the top surtax rates would not result in a serious loss in revenue and might indeed result in an increase in revenue if taxpayers were induced thereby to invest in taxable securities.

I have previously stressed the point that whatever revisions may be made in the tax system, it will have to bring in as much revenue as the present system. This is a very difficult problem for Congress to face. The taxes resorted to for replacing any lost revenue should have the least harmful effects on business and should contribute to greater equity. I suggest the following three possibilities:

1. The corporation income tax rate could be increased. The corporation income tax in any event will have to be acted on at this session since it expires at the end of 1939. In renewing the tax it is important that deterrents be included against the possibility of

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closely-held corporations piling up profits and not paying them out in taxable dividends to stockholders.

2. Individual income taxes could be increased.

There is merit to the suggestion that the rates on income brackets between \$15,000 and \$250,000 are relatively low compared with incomes of less than \$15,000 and more than \$250,000, and could be increased. Furthermore, to promote good citizenship, it is felt that every individual and family with income of more than \$800 could pay and would be willing to pay a small tax.

3. Estate and gift taxes could be increased.

I shall not discuss in detail any of these tax measures or those for which pros and cons were previously indicated. If you are interested in further information, my staff and I are prepared to furnish it and will be happy to work with you to the extent that you may desire.

May 6, 1939

Chairman Doughton came in to see the Secretary at 11:30. The Secretary visited with Mr. Doughton for a little while and then sent for Mr. Blough.

HM, Jr said to Mr. Blough, "I have just read the first part of Draft #1 of the tax statement to Mr. Doughton and he said he would not change anything."

The Secretary then read the five suggestions for changes and tore out of the tax statement pages 11, 12, 13, 14 and 15, listing the changes, and gave them to Mr. Doughton. He then said to Mr. Doughton, "I also want to give you those which will give us increased revenue, because I want you to put them in the letter." He then tore out pages 18, 19 and 20 from Draft #1 and gave them to Mr. Doughton.

"Would it be all right if we brought up community property?", he asked Mr. Doughton, whose reply was, "Yes; you can bring it, but I do not think we will get anywhere on it."

The Secretary then said to the Congressman, "I do not like to crowd you, but do you suppose that I could have a draft of a letter to show to the President when I see him on Monday at 12 o'clock?" Mr. Doughton answered, "Yes, I can send it by messenger." "Would you like someone from the Treasury to help you?" inquired Mr. Morgenthau, and Mr. Doughton said, "Yes, that would be fine."

"Blough would be very happy to come up," Mr. Morgenthau said. "What time would be most convenient to you?" Mr. Doughton replied, "8:30 tomorrow morning." HM, Jr then said, "Blough will be there at 8 o'clock awaiting your pleasure. Blough has been at this thing now for a month and he knows all the answers."

Congressman Doughton then said, "I would like to have a copy of draft #2 of your tax statement to take with me."

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HM, Jr: (To Mr. Blough) I saw the President last night and I made a suggestion to him that we ask Mr. Doughton to cooperate by writing this letter. Now, I take it that Mr. Doughton is glad to do it. In the letter, so it does not leave Doughton or me out on a limb, I only want to put those things in, if Mr. Doughton, is willing, that I can answer. The Chairman says that he is going to write me a letter in which he is going to ask my views on the following matters -- not my opinion or recommendations, but my views.

Mr. Blough: Does that involve your giving an opinion?

HM, Jr: No.

I think the President has been perfectly grand with me. Certain people have gotten his goat on this undistributed profits tax. I have explained it carefully and the President said that we will not mention the thing at all. Everybody knows it is going to die and he is not going to ask me to start a debate on it. You are not going to take the position that we will have to change it this year?

Mr. Doughton: No. I do not want to discuss anything with him on taxes. No man could have been grander or more reasonable or more anxious to cooperate.

HM, Jr: I have been able to work with you. There are some people who have fixed ideas. I think if you, the President and I could come to an agreement, he will not worry about anybody else.

Mr. Doughton: You know, there is a big difference between what you would like to have and what you will accept. I feel hopeful that we can get a program. I want to talk to my Committee. We might be able to get you up there this week.

HM, Jr: The sooner, the better. You are the leader on taxes. You write me this letter. The letter is made public before I come up. Then you assume the leadership,

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not Mr. MacGormack, or anybody else. The President and I O. K. the letter. Then you give me a few days. Then Bob Doughton gets the credit and takes the leadership and that is who should have it.

Mr. Doughton: I will do my best.

HM, Jr: You have treated me beautifully.

Mr. Doughton: Thank you. I am glad that you feel like that.

RE TAX STATEMENT

May 6, 1939.

12:00 Noon

Present: Mr. Gaston
Mr. White
Mrs Klotz
Mr. Blough
Mr. Duffield

H.M.Jr: Bob Doughton First place, I saw the President last night at quarter of eight and asked him whether I could take this matter up with Doughton and he said, "Fine." I had Doughton here. I read him the first half of the part - the new suggestions, and he was most enthusiastic about it, said he wouldn't change a single word. He said, "That's fine. We never get together. That's just what we need and I'm all for it." Very enthusiastic.

Then, I couldn't use what you people gave me, because you bring in things which the President has not approved, and if you think I'm going to go over there again and start all over again, you're all mistaken.

Duffield: It was our idea, in drafting this proposal - or my idea - to make the list inclusive so we could strike out rather than to try to fumble around and see what we wanted to add.

H.M.Jr: The point I make is, I'm only going to have in the things that the President has approved.

Now, I gave him - tore it out of the book - the five suggestions for changes and the three for the increased revenue, and he's consented to write the letter and likes the idea. I gave him a lot of stuff - he's to be the leader, he gives it out. He thinks

Klotz: He gets the credit.

H.M.Jr: He gets all the credit. That puts Mr. McCormack in his place, and so forth. So Roy's going up there at 8:30 Monday morning to help him write the letter to be sent to me.

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Now, one thing I didn't say, Roy, which I think would please the President - if you'd put in - I'm just thinking if we had a sentence in that the place we start from on this thing is that we must, whatever we do - this is what the President keeps saying - maintain the same revenue structure, you see?

Blough: Put that in at the

H.M.Jr: At the first.

Blough: Your suggestion was of increasing in case of decreases.

H.M.Jr: It should be in the letter that no matter what we do, see, we must keep the revenue structure the same, you see?

Klotz: Did he say anything about undistributed profits?

H.M.Jr: Then he said, "Is the President..... " He put it this way. Doughton said, "Are you going to do away with the undistributed profits tax?"

And I said, "No," and I explained to him.

And he said, "Well, isn't the President going to ask for a renewal of it?"

I said, "No, I'm quite sure he isn't."

That pleased him very much. He's agreed to our formula. He'll let it die.

Blough: Of course, there's one thing in that statement you'll have to find another way to do, and that is to prevent closely-held corporations from piling up their profits. That doesn't call for a general undistributed profits tax, and I think you can get around it.

H.M.Jr: Well, we'll - after all, if we stick to the five things, I'm going to - when I go over to the President, I'm going to take over the book with

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the things that he wrote in it, so that he has it before him, so that he knows; then, the letter. And then, will you have a new statement - I've asked for an appointment for three o'clock for the President to see me Monday - will you have a new statement for me three o'clock Monday? Will you?

Blough: (Nods yes)

H.M.Jr: I mean when I say, "Will you?" I'm looking at all four of you.

Now, Doughton said that what he's going to do is to ask me - how did he put it - my wishes, or ...

Blough: Your views.

Klotz: Views - that's what he said.

Blough: That's what I'm afraid is a little dangerous suggestion - that "views" usually connotes "opinions." Am I right?

White: That's why this first sentence or two, if he can possibly get it in with the last sentence, would be something to be very carefully skirted.

H.M.Jr: Well now, gentlemen, look, we have a chance - you have a chance with Blough between now and 3:30 Monday to write this letter.

Klotz: He's not going to ask you for an opinion or your recommendations. All he's going to ask for is your views.

Blough: We can put the views in so it won't interfere with it.

H.M.Jr: Certainly, having lived with this a month, you know what I want and the President wants.

And further, Doughton says, "I thought you fellows had a program."

I said, "That's what the President doesn't want. He wants you to take the leadership. I simply come

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up, give the pros and cons on certain taxes which you ask me about, which you know in advance are acceptable to the President." He was very happy on this.

Klotz: Oh, very; and he said he was going to try to get you up this week.

H.M.Jr: He's stalled up to now. Now he's ready to go places.

I certainly don't have to blow this into you again.

Blough: I hope not.

H.M.Jr: What?

Blough: I hope not.

H.M.Jr: If so, either I'm a bum blower or you people are pretty tough.

Klotz: Need a lot of blowing.

H.M.Jr: I'm very happy about this.

Klotz: There's no sense of writing this up, because they've incorporated everything

H.M.Jr: I'd like to.

Klotz: Would you?

White: I think it would be a good idea to come up to him with a prepared draft. Some of these words make a lot of difference.

H.M.Jr: I'm asking - after you get that done, you fellows can take off another day or so in the middle of the week. That's fair.

White: Don't have to be rewarded that way.

H.M.Jr: Well, I feel cruel. But I do think it's important that when you go up there at 8:30 you have a draft, and if you could get it to me to take a look at it

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before you take it up - because I just couldn't show him this thing.

Duffield: Do you see anything wrong with that besides the list?

H.M.Jr: Well, the list just got me off.

"Your letter of March 5th, which was a reply to an earlier letter addressed to you by Senator Harrison and myself on the subject of tax revision..." - and so forth. Do you have to bring in Harrison? Can't you just say

Duffield: It was a joint letter. They signed it together. They didn't send it

H.M.Jr: "In your letter, which was a reply ..." - do you have to - I mean that's so clumsy, if you don't mind my saying.

Duffield: Well, you ...

H.M.Jr: Why bring in that whole thing at all?

Duffield: Because otherwise it says, "In your letter of March 5th you expressed a willingness...." It looks as if you initiated it. We wanted to make it clear.

H.M.Jr: Why say anything? Just start new with "The Ways and Means Committee of the House" Leave out that first paragraph. Just start a new deal on this thing. He's inviting me up. Why go back to that history, bring in Harrison and all the rest? The President won't like that.

Duffield: I wanted to make it clear the initiative was up there.

H.M.Jr: He's taking the initiative when he writes me.

White: You could do that by beginning with the second paragraph.

H.M.Jr: Then the President will say, "What did I say to Harrison I agreed?" Then immediately he gets down

to those two things, three things. Let's wipe out Harrison on this thing. Bob Doughton, Chairman of the Committee, is inviting me up to discuss four or five questions. And then, in order that, if any of these changes are made, they won't lose any revenue, he'd also like to have my views on the following three questions as methods of increasing the revenue. And then we give him the middle brackets, inheritance and gift taxes, and

Blough: ... corporation.

H.M.Jr: And corporation. He said all right on oil wells, didn't he? Well, that's in the renewing; we don't bring that in the letter. That's in this statement; we restate something.

Blough: Yes, that's right.

H.M.Jr: Now, I'll listen a minute or two or three. Herbert?

Gaston: I think it's fine. I would agree with you about making this simply a new thing and not bringing in the old history.

H.M.Jr: No, just

Gaston: But I hope that this program is broad enough to take in what we want.

H.M.Jr: Well, it's got everything that we wrote in. And he may want to bring in other things, but let him initiate them.

And then I'll say - and I've been certainly a thousand percent sincere with the President - "Now, Mr. President, Bob Doughton wants to raise these." And don't put any ideas in his head either. See what I mean?

Blough: That is, don't put into your statement that "if you have some other ideas..." - uh-huh.

H.M.Jr: No. And don't suggest normal tax on individual incomes and consolidated returns, et cetera, et cetera.

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- Blough: I don't mean in this letter, but I mean in the draft of the statement you give; do you want to put a paragraph saying, "If there are some other questions you are interested in," and so on.
- H.M.Jr: You mean for him to say to me?
- Blough: No, when you go down before him and reply on these, do you want to sort of open the door to them for any others?
- H.M.Jr: That's my statement.
- Blough: Yes, that's your statement.
- H.M.Jr: Well, what I - I get the letter, then I say, "Mr. Chairman, I am here in response to your invitation to discuss the following matters; and my Treasury experts have prepared for me the analysis of various taxes, and I'll give you - put at your disposal now the information of the Treasury." And then I go ahead and give them the information.
- Blough: When do you want to say - in addition to your disposal of these questions, do you want to open the door to ask questions on other subjects?
- H.M.Jr: Well, I think, as I remember, the President crossed that out.
- Blough: It's out now, I know.
- H.M.Jr: Yes, I think he did. No, I don't - I can say when I get through, "Now, gentlemen, what I always do, if you'll look up previous statements - the Treasury staff is at your disposal to cooperate with you in your work."
- White: Some of the members are bound to raise other questions, and at that point you can answer and say, if you like, that
- H.M.Jr: No, I'd say, "The Treasury staff is here and at your disposal."

Gaston: After all, there are only two things we want here: first, that you should make a dignified, presentable statement; second, that we open the door, and it doesn't take much to open the door.

H.M.Jr: That's all.

Now, I was amazed that the President unhesitatingly last night said, "Sure, talk to Bob Doughton." Now, when I told him the time before I wanted to show him my statement, he said, "Well, if you do, in twelve hours everybody will know it." I don't believe everybody will know it. When you present it to him - he's asked for a copy - I'd let him have a copy.

Blough: I'll take a copy down Monday morning.

H.M.Jr: A copy of last night's statement, as it was written last night.

Now, do you gentlemen want to see me at five o'clock tomorrow with a new draft that I'm going to show the President? First I've got to see the draft of the letter that you're going to take up to Doughton at 8:30.

Blough: That's easily done. The new draft, though - I'd be much happier if we could show it to you along towards 11 o'clock on Monday. There would still be time to retype it by three, and we'd have a little more time to work on it.

Klotz: That's today?

H.M.Jr: He said tomorrow.

Klotz: Monday.

H.M.Jr: We put Gray and Willard - I'll tell you what we'll do, Mrs. Klotz; let's get hold of Gray and Willard and see if we can't put them over until Tuesday, see? I mean they've changed it. I mean the crowd's ...

Klotz: Tuesday morning.

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H.M.Jr: Yes, any time - at 10:30. Is Spangler on?

Klotz: Yes. McReynolds did it. You must ask Mac.

H.M.Jr: He isn't here today. He's out to play golf.

Klotz: Oh, he is?

Gaston: He was in, but he's gone, I think.

H.M.Jr: Did you see him?

Klotz: I saw him this morning.

Gaston: He was in this morning, but I think he's gone. I'm not certain he's gone.

H.M.Jr: I'll call his office.

(On phone) Miss Spangler. - Mr. Carl Gray and Mr. Daniel Willard were to be in my office at 11 o'clock on Monday. The appointment was made through Mr. McReynolds' office. Now, is Miss Calloway there? Well, between you and Miss Calloway, see if you can get them over until 11 o'clock Tuesday.

Klotz: It's Union Pacific.

H.M.Jr: Yes. Carl Gray, the Union Pacific, and Daniel Willard, the B & O. See - between you and Miss Calloway. (On phone)

Well now, when will I see this draft?

Blough: We can get you a draft by five o'clock tomorrow.

H.M.Jr: No, no, I mean just the draft of his letter to me.

Blough: Oh well, within the next ...

White: Couple of hours. Send it up to your house this afternoon.

H.M.Jr: Send it up to the house and if I want any changes I can give you pencil changes and get it to Roy Blough. And the other thing - you fellows will come in 11 o'clock Monday.

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Blough: Yes.

H.M.Jr: All right. Aren't you fellows very happy at the turn this has taken? Harry?

White: Very much better.

Gaston: Oh, this is fine.

H.M.Jr: What?

White: The thought troubles me - I wonder whether you got the President right on that undistributed profits, because as you repeated it to us what he said was that the failure to renew it would be a deterrent. Now, it may not - the issue may not arise again, but I wonder whether you ought to tell Doughton that he may not ask for a continuance. I don't know whether I understood you.

H.M.Jr: Well, the question - in my frame of mind - is that I think the President is going to let it die, and that's what Doughton wants.

White: He may do that, but I wasn't sure he told you anything that justified that belief. Merely in what you say to Doughton - I wasn't thinking of any change in policy.

H.M.Jr: Well, Doughton was just waiting to hear what way the President was going to jump on this. Now he's ready to go.

White: I just thought you might have told him the President wasn't going to renew it.

Klotz: You did.

H.M.Jr: I said I didn't think the President would renew it.

Klotz: You said you thought the President would let it die out.

H.M.Jr: Yes, that's right. That's my impression.

Duffield: He's to see the President on Tuesday, is he?

H.M.Jr: Yes.

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Don't you people - I think I seem a little more enthusiastic than you people. Don't you think we're coming?

Gaston: Yes, yes.

Klotz: They felt that way last night.

Gaston: I think it's fine.

May 6, 1939

FOR THE SECRETARY:

Attached is a suggested letter from Representative Doughton to you. It has been cleared with Mr. Gaston, Mr. White, and Mr. Blough.

ESD

#1 draft not used

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My dear Mr. Secretary:

In your letter of March 5, which was in reply to an earlier letter addressed to you by Senator Harrison and myself on the subject of tax revision, you expressed a willingness to prepare information which the appropriate Committees of Congress might desire on specific tax problems.

The Ways and Means Committee of the House of Representatives will be ready on May to receive any such information and respectfully requests your appearance before the Committee on that day.

Since our last exchange of letters several business organizations and private individuals have advanced a variety of suggestions for tax changes. Among the suggestions which have been most frequently made are the following:

Repeal the capital stock and excess profits taxes.

Allow business net losses in one year to be carried forward and offset against income in subsequent years.

Permit corporations to deduct net capital losses from ordinary taxable income.

Liberalize the deductions allowed for net capital losses sustained by individuals.

Reduce the individual surtax rates in the upper brackets.

Exempt dividends from the normal tax on individual incomes.

Permit affiliated corporations to file consolidated returns and remove the intercorporate dividend tax.

Grant small corporations a flat exemption.

It would be helpful to the Committee if you would present the arguments for and against as many of these suggestions as you have had time to study.

Very truly yours,

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

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Prepared by Lawrence H. Seltzer,
Assisted by Marion L. Wadleigh

House

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 6, 1939

TO Secretary Morgenthau
FROM Mr. Haas *BA*
Subject: Review of "How to Make Money in Government Bonds,"
by S. F. Porter

The main contention of this book is that extensive profit and income opportunities, of which the public generally is unaware, exist in the Government bond market. There is a foreword by Morris S. Tremaine, Comptroller of the State of New York, which gives a more highly colored picture of the significance of this book than is stated by the author herself. Mr. Tremaine sees in the fact that Government bond issues are not subject to certain restrictions placed on private offerings the following broad issue:

"Sooner or later, we will be forced to choose between a dictatorship and the capitalistic system. If we are to choose the capitalistic system, we must encourage the profit motive, just in the same manner as the government uses the profit system to finance its necessities by presenting the possibility of gain to the buyer of government bonds."

The book describes the enormous growth and the change in character of the Government bond market in recent years. The growth in the market is accounted for by the huge increase in the public debt, particularly since 1933. Changes in character fall mainly under two heads: The commanding position which the banks have come to occupy as purchasers of Government securities, and the control of the market now exercised by the Federal Government.

The reasons cited why the Government bond market is so profitable are:

(1) The Treasury's practice in pricing new issues at levels somewhat under those indicated by the prevailing market allows a great deal of money to be made by "free riding." Mrs. Porter says that it may be argued that free

riders do more good than harm to the market because they create "an atmosphere of success around the financing." Mrs. Porter also says: "It is certain, . . ., that free riding has grown to extraordinary proportions in the last few years, and it amounts to hundreds of thousands of dollars every time the Treasury sells a new bond or note to raise additional funds." She points out that in spite of various attempts on the part of the Government to eliminate this practice, free riding still remains an important feature of every Treasury financing, and she concludes that:

"The difficulties of determining who is a free rider and who is not; of defining the term itself when so many different forms of it exist; of eliminating speculation without hurting the market more than the whole matter is worth -- these are points that indicate that free riding probably will exist as long as successful cash financings are negotiated and there is money to be made on them."

(2) Unlike the situation in regard to the private security markets, "There are no regulations on trading in government securities; no margin requirements; no restrictions conceived and administered by a government-sponsored agency, such as the Securities and Exchange Commission." Furthermore, "There are no Federal or State taxes to slice the profits or boost the cost . . ."

(3) The Government bond market is more predictable than other security markets because the number of factors determining price trends is few. In fact, the attention of the investor can be concentrated largely on one thing, the excess reserves of member banks. Holding 40 percent of the total Federal direct and guaranteed obligations outstanding (June 1938), which represented nearly 25 percent of their total assets, the banks of the country are, as a group, the most important single buyers of Government securities. The changes in their surplus funds, represented by excess reserves, have dominated the market and the prospect is that they will continue to do so.

(4) The outlook for bond prices is good, according to Mrs. Porter, and the simple reason is that the Federal Government has effective control of the market and must use this control to support the market as long as its requirements

Secretary Morgenthau - 3

for new money and refinancing are large. The Treasury and Federal Reserve Board by purchases of Government securities can influence the market directly, and by measures affecting excess reserves can bring pressure on it indirectly. By these means the Government has been principally responsible for the decline in interest rates in recent years, according to Mrs. Porter.

The conclusion is reached that even if the Treasury does not raise large amounts of new money over the next decade, the fact that it will be forced to refund billions of dollars of maturing obligations suggests that the Government will continue to use its efforts to maintain high bond prices.

In discussing the Treasury's pricing policy, Mrs. Porter's general treatment, though very readable, is somewhat superficial. She gives no indication of understanding that in pricing new issues the Treasury is establishing what is essentially a wholesale price rather than a retail price. The immediate purchasers of new Treasury issues assume an unofficial underwriting and distributing function for which they are entitled to remuneration. In the case of private corporation issues, the prices charged to the underwriters, distributors, and even large institutional purchasers, are notoriously lower than the prices at which retail distribution takes place.

In discussing the Government's influence on the market, Mrs. Porter shares the views of a great many others to the effect that this influence is well-nigh paramount. Little attention is given to the fortuitous factor of European political unsettlement, which, by stimulating huge gold exports to the United States, has been one of the principal causes of the great increase in the excess reserves of our banking system, and of the accompanying lowering of American interest rates.

RE HOLC REFUNDING

May 6, 1939.
10:45 A. M.

Present: Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Seltzer
Mr. Hadley
Mr. Kilby

H.M.Jr: Now, have you talked to the fellow in New York?

Bell: Sproul? No, I haven't. The market is about the same as it was last night, I understand.

H.M.Jr: (On phone) Allan Sproul, please.

Lochhead: Good morning. The foreign situation is very quiet this morning. Everything is very quiet.

Kilby: Can I have just an initial on this please? (Hands H.M.Jr. papers to initial).

H.M.Jr: Has anyone changed today? Larry?

Seltzer: No, this looks all right.

H.M.Jr: George?

Haas: Same.

Hadley: Same.

H.M.Jr: Same as yesterday? Are you voting?

Kilby: I'm for it.

H.M.Jr: (On phone) Hello. (Conversation with Allan Sproul follows:)

May 6, 1939
10:46 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Allan
Sproul: Hello, Mr. Secretary..

HMJr: How are you?

S: All right.

HMJr: How does it look to you today?

S: Well, it looks the same way to me today, and I had a session with my associates up here.

HMJr: Yeah.

S: And they now feel that a quarter and a half is on the market and probably allows as much to the -- on the exchange as is necessary and desirable.

HMJr: A quarter and a half?

S: Yeah.

HMJr: You're still standing there, huh?

S: Yeah.

HMJr: Well, I'll be darned.

S: They figure that.....

HMJr: Dan thought he -- he'd got you around -- how much do you figure there is in that -- how much gravy?

S: Well, we figure on the average with a forty-sixty package there's about four thirty-seconds.

HMJr: Four thirty-seconds?

S: Yeah.

HMJr: In -- in -- in both?

S: Well now, that's the average on the two, taking off forty per cent allotment on the one-years and a sixty per cent allotment on the two years.

HMJr: (Aside: What -- what do you boys figure? -- talks to group aside.)

Hello?

S: Yeah.

HMJr: Our boys say on a year's note there isn't more than two thirty-seconds.

S: That's right.

HMJr: Well, hell.....

S: On a two-year note about six thirty-seconds.

HMJr: Well, you fellows in New York are so darn bullish I can't keep up with you.

S: (Laughter) Well, the market, you know, has been.....

HMJr: I know.

S: The whole market is strong and on these very short obligations and the present state of the money market, there's -- I don't think there's much justification for very much premium. And the market itself has -- the present quotation on those obligations -- on the one -- one and a half's shows a rights' value of about six thirty-seconds now, so they're not -- haven't got their very high.

HMJr: Well, let me talk to the boys.

(Talks aside to group)

Well, we're all against you, Sproul, so I guess we'll -- we -- I can't -- I can't afford to take the risk, so I guess we'll have to make it three-eighths and five-eighths.

S: Three-eighths and five-eighths?

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HMJr: Yeah.

S: Well, there's no question about that. It'll be a well-received issue.

HMJr: All right. Well, the boys will get busy. Thank you very much.

S: All right.

HMJr: I'm glad that New York is so much more bullish than we are.

S: Well, you know, in New York State their last issue, they're selling one-year notes at a fifteen to twenty now, and two-years at thirty-five.

HMJr: Well, our boys say we can't take the risk.

S: Yeah.

HMJr: O. K.

S: Well, I think it will go over very well.

HMJr: Thank you.

S: All right.

HMJr: Good bye.

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Bell: Interesting sidelight from Childs there on the interest (showing H.M.Jr. letter from C. F. Childs).

H.M.Jr: Now, do I sign here?

Bell: Yes. You can just initial these two. That's the letter approving it. That's the circular approving it, sending it out.

Now, the only change we've made here is that we reserve the right to sell some for cash.

H.M.Jr: O. K. Is that all?

Bell: That's the press statement.

H.M.Jr: Initial?

Bell: Just initial it.

What do you want Herbert to say about the non-calling.

H.M.Jr: Open mind.

Bell: Well, at this time, just say (words not understood).

H.M.Jr: No, I wouldn't explain it. No, my mind - I've got between now and the first of June.

Bell: Well, he can say that.

H.M.Jr: What?

Bell: He can say that. They're going to ask him.

H.M.Jr: Well, we do it in two bites. We do it in two bites.

Bell: That's all.

H.M.Jr: Thanks. Very much obliged, gentlemen. Sold.

RE TALK WITH SENATOR PITTMAN ON SILVER May 6, 1939.
12:30 p.m.

Present: Mr. Gaston
 Mr. White
 Mrs Klotz
 Mr. Blough
 Mr. Duffield

H.M.Jr: Harry, just so that you don't get stale over the week-end: Key Pittman came in to see me, and the reason he came in - said I wanted him to get Adams' vote on this sub-committee, so he said he had to see me first, and that since we have reduced the price of silver from 77 cents to 64 cents, why, I think he said there's two hundred thousand people that have been laid off due to this.

Gaston: Oh!

(Hearty laughter)

H.M.Jr: Wait, you haven't heard the half of it. And - well, I won't go through the long agony -- if we would increase the price of silver to 77 cents through to '41, why, that would remove everybody's worry and he could promise me that fifteen Senators would go to work on Mr. Adams and they didn't think we'd have much trouble getting him to vote.

So I said, "Well, Key, you're a pretty good friend of mine, and do you think Adams' vote is worth two million dollars?"

He said, "You so-and-so, you old cynic."

So I said, "As a matter of employment?"

He said, "Sure it is." He said, "Well, also - well," he said, "I can see both sides of the question."

(Hearty laughter)

Gaston: Pros and cons.

H.M.Jr: I ask you ...

White: I hope that conversation is in the record.

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Blough: That's wonderful.

Klotz: It's in the record.

H.M.Jr: He said, "I can see both sides of the question."

White: How many times he has heard - we've told that fellow that two hundred thousand people are more than fifteen times the people employed in all the mines in the United States.

H.M.Jr: I said, "How do you feel about foreign silver?"
He said, "Well, I think we better continue it to help out the Chinese."

White: Chinese aren't selling us any.

H.M.Jr: I know.

Gaston: Aren't there some Chinese working up in those Canadian mines?

White: What's this for?

H.M.Jr: That's what he left me. It's all the correspondence he's had why we should raise the price of silver to 77 cents.

White: I see.

H.M.Jr: Put it in the safe and look at it Monday.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

217

DATE May 6, 1939

TO Secretary Morgenthau
FROM Mr. Haas *JA*

There is attached herewith a tabular comparison of the actual receipts for April 1939 and for the first ten months of the fiscal year 1939, as contrasted with comparable estimates made in the January 1939 Budget Message.

For the month of April the actual receipts were \$268.3 millions as compared with an estimate of \$278.6 millions. This represents a decrease of \$10.3 millions, or 3.7 percent, below the estimate. For the fiscal year to date total receipts to general and special accounts amounted to \$4,658.5 millions, as contrasted with an estimate of \$4,578.4 millions, which represent \$80.1 millions, or 1.7 percent, more than the estimate.

Attachment.

218 Comparison of estimated ^{1/} and actual receipts for April 1959 and for the first ten months of fiscal year 1959

Summary table — daily Treasury statement basis

(money figures in millions of dollars)

	April 1959				July 1958 - April 1959			
	Estimated receipts	Actual receipts	Increase + or decrease - over estimate	Amount	Estimated receipts	Actual receipts	Increase + or decrease - over estimate	Amount
General and special accounts								
Internal revenue:								
Income taxes	40.9	39.7	- 1.2	- 2.9	1,719.3	1,784.2	+ 64.9	+ 3.8
Tax on unjust enrichment	.5	.6	+ .1	+ 20.0	5.4	5.0	- .4	- 7.4
Miscellaneous internal revenue	160.8	155.5	- 5.5	- 3.4	1,816.7	1,852.6	+ 35.9	+ 2.0
Payroll taxes:								
Social Security Act:								
Taxes with respect to employment (title VIII)	29.9	27.1	- 2.8	- 9.4	417.1	418.0	+ .9	+ .2
Tax on employers of eight or more (title IX)	5.5	2.8	- .7	- 20.0	82.3	91.0	+ 8.7	+ 10.6
Total, Social Security Act	35.4	29.9	- 5.5	- 10.5	499.4	509.0	+ 9.6	+ 1.9
Carriers Taxing Act of 1937	.6	.4	- .2	- 55.5	82.4	82.1	- .5	- .4
Total payroll taxes	34.0	30.5	- 3.7	- 10.9	581.8	591.1	+ 9.5	+ 1.6
Total internal revenue	236.2	225.9	- 10.5	- 4.4	4,123.2	4,252.9	+109.7	+ 2.7
Customs	28.6	29.4	+ .8	+ 2.8	281.7	269.0	- 12.7	- 4.5
Miscellaneous revenues and receipts	15.8	15.0	- .8	- 5.8	173.5	156.6	- 16.9	- 9.7
Total receipts, general and special accounts	278.6	268.5	- 10.5	- 3.7	4,578.4	4,658.5	+ 80.1	+ 1.7

Treasury Department, Division of Research and Statistics.

May 3, 1959.

^{1/} Monthly distribution of estimates for fiscal year 1959 appearing in January 1959 Budget Message.

TREASURY DEPARTMENT

219 *File*

INTER OFFICE COMMUNICATION

DATE **MAY 8 - 1939**

TO **Secretary Morgenthau**
 FROM **E. H. Foley, Jr.**

Mr. Ernst, in a letter addressed to you under date of May 1, 1939, suggests that, in any new revenue measure that the Treasury may have for enactment, provision should be made for extending the time when the reduction of postage rates on books will expire.

By Public Resolution No. 48, 75th Congress, the authority to proclaim modifications of postal rates was extended to June 30, 1939. Previous extensions are to be found in the Act of June 16, 1933 (48 Stat. 254) entitled "An Act to Extend the Gasoline Tax for One Year, to Modify Postal Rates on Mail Matter, and for Other Purposes", Section 515 of the Revenue Act of 1934 and Public Resolution No. 36, 74th Congress.

Internal Revenue is now preparing a draft of a joint resolution to extend from 1939 to 1941 the time of expiration of certain miscellaneous taxes. It is the purpose to submit for the consideration of Mr. Tarleau two separate drafts, one relating solely to the miscellaneous taxes imposed by various sections of the Internal Revenue Code, and the other draft to include also an extension of the expiration date from 1939 to 1941 of the provisions of Section 1001(a), as amended, of the Revenue Act of 1932, and also the provisions of Section 2 of the Act of June 2, 1933, with respect to the power of the President to proclaim a modification of postage rates. This latter draft is to be submitted on the supposition that the Post Office Department will wish the date of expiration to be extended for two more years.

Mr. Tarleau states that his office has no objection to incorporating in any legislation which may be enacted for extension of excise taxes suitable provisions for the extension of provisions relating to postal rates.

In a letter dated February 7, 1939, you advised the President that the matter of extending through fiscal 1941 the present temporary three-percent postage rate for non-local postal mail "has been noted for incorporation in the draft of any revenue bill which this Department may prepare for submission to the Congress during the present Session."

E.H.F.

MAY 6 - 1939

Secretary Morgenthau

E. H. Foley, Jr.

Mr. Ernst, in a letter addressed to you under date of May 1, 1939, suggests that, in any new revenue measure that the Treasury may have for enactment, provision should be made for extending the time when the reduction of postage rates on books will expire.

By Public Resolution No. 48, 75th Congress, the authority to proclaim modifications of postal rates was extended to June 30, 1939. Previous extensions are to be found in the Act of June 16, 1933 (48 Stat. 254) entitled "An Act to Extend the Gasoline Tax for One Year, to Modify Postal Rates on Mail Matter, and for Other Purposes", Section 515 of the Revenue Act of 1934 and Public Resolution No. 36, 74th Congress.

Internal Revenue is now preparing a draft of a joint resolution to extend from 1939 to 1941 the time of expiration of certain miscellaneous taxes. It is the purpose to submit for the consideration of Mr. Tarleau two separate drafts, one relating solely to the miscellaneous taxes imposed by various sections of the Internal Revenue Code, and the other draft to include also an extension of the expiration date from 1939 to 1941 of the provisions of Section 1001(a) as amended, of the Revenue Act of 1932, and also the provisions of Section 2 of the Act of June 2, 1933, with respect to the power of the President to proclaim a modification of postage rates. This latter draft is to be submitted on the supposition that the Post Office Department will wish the date of expiration to be extended for two more years.

Mr. Tarleau states that his office has no objection to incorporating in any legislation which may be enacted for extension of excise taxes suitable provisions for the extension of provisions relating to postal rates.

In a letter dated February 7, 1939, you advised the President that the matter of extending through fiscal 1941 the present temporary three-cent postage rate for non-local postal mail "has been noted for incorporation in the draft of any revenue bill which this Department may prepare for submission to the Congress during the present Session."

(Initialed) E. H. F., Jr.

GREENBAUM, WOLFF & ERNST
285 MADISON AVENUE
NEW YORK

TELEPHONE CALEDONIA 5-1882

Washington Liaison

LAWRENCE S. GREENBAUM
EDWARD S. GREENBAUM
HERBERT A. WOLFF
MORRIS L. ERNST
JONAS J. SHARRO
WALLACE D. JENNINGS
SAMUEL J. SCHUR
ALEXANDER URDEY

May 1, 1939.

Hon. Henry Morgenthau, Jr.
Treasury Department
Washington, D.C.

Dear Henry:

On November 1, 1938, the President issued a proclamation reducing the postage rates on books. His power to do so was originally conferred by a statute, first passed on June 16, 1933 (H.R. 5040, Public Act. No. 73, 48 Stat. 254), entitled "An Act to Extend the Gift Tax for one year and modify postage rates on mail matter and for other purposes." The operation of this statute, and thus the Presidential power to proclaim modifications of postal rates, has been twice extended, once to July 1, 1937 by a Joint Resolution to Provide Revenue and for other purposes (June 28, 1936, H.J. Res. 324, Public Res. No. 36, 49 Stat. 431) and again to July 1, 1939, by a Joint Resolution similarly entitled (June 29, 1937, H.J. Res. 375, Public Res. 48, 50 Stat. 358). Unless renewed, the presidential power with respect to flexible postal rates expires on June 30, 1939.

I had hoped that before that date the Post Office Department would have collated sufficient data to warrant the incorporation of the rates provided by the President into postal legislation. It is my impression that the Post Office Department will not be able to make a satisfactory report on the matter in time for the enactment into postal legislation prior to June 30, 1939.

It is therefore important that the provisions above referred to, now incorporated in the revenue legislation should be re-enacted in some form in ample time to permit the President to extend his November 1, 1938 proclamation for another year, should he see fit to do so.

I assume that in the ordinary course a similar provision would be included in any new revenue measure of the Treasury for enactment for the coming year. It occurs to me, however, that such revenue bills may not be introduced and certainly are not likely to be passed prior to June 30. It is important that the presidential power with respect to postal rates be continued promptly so as to leave ample time for the President to act in regard to these book rates and other matters.

GREENBAUM, WOLFF & ERNST

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-2-

I would like to drop in to see you in Washington sometime during the week of May 8; you set the day and the time. In the meanwhile I thought you might have someone in your office look into the situation.

At the time that the President signed the bookrate proclamation, he asked Jim Mead and Dr. John Studebaker to keep an eye on the matter. This they have done and through a committee, as indicated on the enclosed letterhead, I have taken some of the load off their shoulders. I am sending a copy of this letter to Jim and John and if you desire, we could arrange to have them present at such time as you set during the week of May 8.

If I might make a suggestion, I have in mind that the extension of the President's power be separately enacted by a special piece of legislation, or it might be attached to some other pending legislation. In any event, it ought to be enacted into law before June first so as to prevent any hiatus in these rates.

Best to you,

Yours,

Wm. J. E.

Enc (1)

Copies sent to
Hon. James M. Mead
Dr. John Studebaker

NATIONAL COMMITTEE TO ABOLISH POSTAL DISCRIMINATION AGAINST BOOKS

285 MADISON AVENUE
NEW YORK CITY
CALedonia 5-1582

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Counsel to the Committee

[PUBLIC RESOLUTION—No. 36—74TH CONGRESS]

[H. J. Res. 324]

JOINT RESOLUTION

To provide revenue, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That title IV, as amended, and parts I, II, III, and IV of title V, as amended, of the Revenue Act of 1932, are further amended by striking out "1935" wherever appearing therein, and inserting in lieu thereof "1937". Section 1001(a), as amended, of the Revenue Act of 1932, and section 2, as amended, of the Act entitled "An Act to extend the gasoline tax for one year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1933, are further amended by striking out "1935" wherever appearing therein, and inserting in lieu thereof "1937".

Approved, June 28, 1935.

Introduced June 14, 1935

Reported out same day

Calendar No. 967

74TH CONGRESS }
1st Session }

SENATE

REPORT
No. 920EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE
RATES

MAY 13 (calendar day, JUNE 20), 1935.—Ordered to be printed

Mr. HARRISON, from the Committee on Finance, submitted the
following

REPORT

[To accompany H. J. Res. 324]

The Committee on Finance, to whom was referred the joint resolution (H. J. Res. 324) to provide revenue, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the joint resolution as amended do pass.

Under existing law certain excise taxes become inoperative after June 30, 1935, certain others become inoperative after July 31, 1935, and certain others will continue to operate only at reduced rates or with increased exemptions after June 30, 1935. In addition, the rate on nonlocal, first-class mail matter will be subject to reduction from 3 cents to 2 cents after June 30, 1935.

If the temporary taxes, and the temporary increased rates or decreased exemptions, and the temporary increased rate on nonlocal, first-class mail matter are permitted to lapse at this time, the Treasury faces a total annual loss of revenue estimated at nearly 502 million dollars, as will be shown hereafter in this report.

While the present financial condition of the Treasury is encouraging and while the present revenues are somewhat greater than the original estimates, it is the opinion of your committee that the revenues provided by the temporary provisions above referred to cannot be spared at this time. This view was expressed by the President in his message transmitting the Budget for 1936, in which he said:

While I do not consider it advisable at this time to propose any new or additional taxes for the fiscal year 1936, I do recommend that the Congress take steps by suitable legislation to extend the miscellaneous internal-revenue taxes which under existing law will expire next June of July, and also to maintain the current rates of these taxes which will be reduced next June. I consider that such taxes are necessary to the financing of the Budget for 1936.

In this connection, may I say, too, that the postal revenues, as estimated in detail in the annexed budget of the Post Office Department, are based on the continuation of the 3-cent postage rate for nonlocal first-class mail. Unless this rate is continued, the postal expenses for 1936, which include steamship and aircraft subsidies and free carriage of Government mail, will be increased by about \$75,000,000, all of which will become an added burden on the general revenues of the Treasury. I, therefore, recommend the extension of the 3-cent rate.

At the close of the first 10 months of this fiscal year, on May 31, 1935, the total receipts of the Federal Government amounted to \$3,336,733,841. These receipts were \$612,186,571 in excess of the receipts for the corresponding 10 months of the previous fiscal year. In other words, receipts this year show an increase of more than 22 percent over last year. The total expenditures for the first 10 months of this fiscal year amount to \$6,470,205,136, which is \$98,422,410, or 1 1/2 percent, in excess of the expenditures for the first 10 months of the previous fiscal year. The total receipts exceed the regular general expenditures of the Government by nearly \$100,000,000 for the first 10 months of this year, but it must be borne in mind that the emergency expenditures, under the relief and recovery program in the same period amount to over \$3,229,000,000. It is obvious that expenditures will exceed receipts in both the current fiscal year and the next fiscal year to an extent which would make extremely unwise a decrease in the Federal revenues.

The joint resolution as passed by the House extends for a period of 2 years all these temporary provisions of the revenue laws which bring in additional revenues and which without legislation will automatically expire within the next 2 months. Your committee has amended the resolution so that these provisions will be extended for only 1 year instead of 2 years. It is recognized that some of these excise taxes are objectionable or contain objectionable features, but obviously, we cannot afford to lose the revenue provided for by these excise taxes at this time. In conformity with the 1-year extension above noted, the joint resolution as reported by your committee extends to June 30, 1936, the power granted to the President under existing law to reduce the rates on nonlocal first-class mail matter. Thus if the President finds, after a survey, that conditions so warrant he can reduce the 3-cent postage rate at any time.

In order to show the taxes affected by this joint resolution, the actual revenues derived therefrom in the fiscal year 1934, the estimated revenues to be derived therefrom in 1935 and 1936, and the estimated annual loss in revenues to be expected from a failure to extend the present temporary provisions of the existing revenue laws, the following three tables are submitted:

TABLE I.—Excise taxes subject to repeal under existing law

Tax on—	Section Revenue Act of 1932	Actual revenue fiscal year 1934	Estimated revenue fiscal year 1935	Estimated revenue fiscal year 1936
Lubricating oil.....	801(c)(1)	\$25,255,000	\$26,545,000	\$28,000,000
Brewer wort, etc.....	801(c)(2)	3,940,000	1,322,000	800,000
Grape concentrate.....	801(c)(3)	27,000	2,100	1,000
Imported petroleum, etc.....	801(c)(4)	8,243,000	8,000,000	8,000,000
Imported coal.....	801(c)(5)	1,155,000	1,100,000	1,100,000
Imported lumber.....	801(c)(6)	915,000	900,000	900,000
Tires and tubes.....	801(c)(7)	800,000	800,000	800,000
Toilet preparations.....	802	27,431,000	28,141,000	27,000,000
Furs.....	803	10,813,000	12,554,000	12,000,000
Jewelry.....	804	7,602,000	7,725,000	7,500,000
Auto trucks.....	805	4,060,000	1,942,000	1,500,000
Other autos.....	806	5,048,000	6,191,000	6,200,000
Auto accessories.....	806	32,527,000	34,225,000	35,000,000
Radios and phonographs.....	807	5,094,000	5,128,000	5,200,000
Mechanical refrigerators.....	808	5,157,000	5,358,000	5,700,000
Sporting goods.....	809	3,773,000	4,513,000	5,300,000
Flowers, etc.....	810	2,511,000	2,233,000	2,300,000
Cameras, etc.....	811	264,000	345,000	340,000
Matches.....	812	6,371,000	4,284,000	6,200,000
Chewing gum.....	813	651,000	650,000	650,000
Electrical energy.....	814	33,134,000	33,452,000	33,000,000
Gasoline.....	817	202,678,000	162,253,000	170,000,000
Telephone and telegraph messages, etc.....	701	19,251,000	19,689,000	20,000,000
Transfers of bonds.....	724	13,200,000	14,300,000	14,300,000
Conveyances.....	725	10,379,000	9,585,000	9,500,000
Oil by pipe line.....	731	433,073,000	391,274,000	402,000,000
Total.....				

NOTE.—Expiration dates of above taxes all June 30, 1935, except taxes on tires and tubes, auto trucks, other autos, and auto accessories, which will be on July 31, 1935.

TABLE II.—Excise taxes subject to reduction under existing law

Tax on—	Section Revenue Act 1932	Actual revenue fiscal year 1934	Estimated revenue fiscal year 1935	Estimated revenue (if rate increases are extended) fiscal year 1936	Estimated annual loss of revenue (if rate increases are not extended)
Transfers of bonds.....	721	\$2,950,000	\$3,162,000	\$3,200,000	\$1,600,000
Transfers of stock.....	722				
Stock transfers.....	723				
Produce futures.....	726				
Admissions.....	711	14,613,000	15,389,000	16,000,000	14,000,000
Total.....		\$5,463,000	\$7,551,000	\$9,200,000	\$24,000,000

NOTE.—The expiration date of the temporary rate increase of the above taxes is June 30, 1935, under existing law.

TABLE III.—Summary

Actual revenue from temporary taxes and taxes temporarily increased for fiscal year 1934.....	\$498,559,000
Estimated revenue from above for fiscal year 1935.....	428,781,000
Estimated revenue from above for fiscal year 1936 (if taxes are continued on existing basis).....	438,991,000
Estimated annual loss of revenue on 1936 basis (if temporary taxes and rates are not continued) ¹	426,991,000
Estimated annual loss of revenue (if existing temporary law in respect to postal rates is not continued).....	75,000,000
Grand total estimated annual loss of revenue (if existing temporary laws are not continued).....	501,991,000

¹ Loss for fiscal year 1936 would be about \$45,000,000 less than the annual figure given, since collections would be made in the first 2 months of the fiscal year 1936 on account of sales made in the last 2 months of the fiscal year 1935. (Postal rates decrease after June 30, 1935, under existing law.)

74TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 1227

EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE
RATES

JUNE 14, 1935.—Committed to the Committee of the Whole House on the state
of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted
the following

REPORT

[To accompany H. J. Res. 324]

The Committee on Ways and Means, to whom was referred the joint resolution (H. J. Res. 324) to provide revenue, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the joint resolution do pass.

Under existing law, certain excise taxes become inoperative after June 30, 1935, certain others become inoperative after July 31, 1935, and certain others will continue to operate only at reduced rates or with increased exemptions after June 30, 1935. In addition, the rate on nonlocal, first-class mail matter will be subject to reduction from 3 cent to 2 cents after June 30, 1935.

If the temporary taxes, and the temporary increased rates or decreased exemptions, and the temporary increased rate on nonlocal, first-class mail matter are permitted to lapse at this time, the Treasury faces a total annual loss of revenue estimated at nearly 502 million dollars, as will be shown hereafter in this report.

While the present financial condition of the Treasury is encouraging and while the present revenues are somewhat greater than the original estimates, it is the opinion of your committee that the revenues provided by the temporary provisions above referred to cannot be spared at this time. This view was expressed by the President in his message transmitting the Budget for 1936, in which he said:

While I do not consider it advisable at this time to propose any new or additional taxes for the fiscal year 1936, I do recommend that the Congress take steps by suitable legislation to extend the miscellaneous internal-revenue taxes which under existing law will expire next June or July, and also to maintain the current

rates of these taxes which will be reduced next June. I consider that such taxes are necessary to the financing of the Budget for 1936.

In this connection, may I say, too, that the postal revenues, as estimated in detail in the annexed budget of the Post Office Department, are based on the continuation of the 3-cent postage rate for nonlocal first-class mail. Unless this rate is continued, the postal expenses for 1936, which include steamship and aircraft subsidies and free carriage of Government mail, will be increased by about \$75,000,000, all of which will become an added burden on the general revenues of the Treasury. I, therefore, recommend the extension of the 3-cent rate.

At the close of the first 10 months of this fiscal year, on May 31, 1935, the total receipts of the Federal Government amounted to \$3,336,733,841. These receipts were \$612,186,571 in excess of the receipts for the corresponding 10 months of the previous fiscal year. In other words, receipts this year show an increase of more than 22 percent over last year. The total expenditures for the first 10 months of this fiscal year amount to \$6,470,205,136, which is \$98,422,410, or 1½ percent, in excess of the expenditures for the first 10 months of the previous fiscal year. The total receipts exceed the regular general expenditures of the Government by nearly \$100,000,000 for the first 10 months of this year, but it must be borne in mind that the emergency expenditures, under the relief and recovery program in the same period amount to over \$3,229,000,000. It is obvious that expenditures will exceed receipts in both the current fiscal year and the next fiscal year to an extent which would make extremely unwise a decrease in the Federal revenues.

In view of the above, your committee recommends that all these temporary provisions of the revenue laws which bring in additional revenues and which without legislation will automatically expire within the next 2 months, be extended for a period of 2 years. In spite of this recommendation, your committee believes that these taxes and the higher postage rate should be removed as soon as the condition of the Treasury permits. That time has obviously not arrived as yet. The 2-year extension period is selected merely because it is not yet apparent that these additional revenues can be spared before the expiration of such a period. However, if conditions permit, the Congress can, of course, remove these taxes in whole or in part before the expiration of such period. In addition, the joint resolution extends to June 30, 1937, the power granted to the President under existing law to reduce the rates on nonlocal first-class mail matter. Thus, if the President finds, after a survey, that conditions so warrant, he can reduce the 3-cent postage rate at any time.

In order to show the taxes affected by this joint resolution, the actual revenues derived therefrom in the fiscal year 1934, the estimated revenues to be derived therefrom in 1935 and 1936, and the estimated annual loss in revenues to be expected from a failure to extend the present temporary provisions of the existing revenue laws, the following three tables are submitted:

TABLE I.—Excise taxes subject to repeal under existing law

Tax on—	Section Revenue Act of 1932	Actual revenue fiscal year 1934	Estimated revenue fiscal year 1935	Estimated revenue fiscal year 1936
Lubricating oil.....	501(a)(1)	\$25,255,890	\$25,848,000	\$26,000,000
Brewers wort, etc.....	501(a)(2)	3,946,000	1,322,000	800,000
Grape concentrate.....	501(a)(3)	27,000	2,000	1,000
Imported petroleum, etc.....	501(a)(4)	8,243,000	8,000,000	8,000,000
Imported coal.....	501(a)(5)	1,158,000	1,100,000	1,100,000
Imported lumber.....	501(a)(6)	918,000	900,000	900,000
Imported sugar.....	501(a)(7)	27,600,000	26,000,000	26,000,000
Tires and tubes.....	502	27,630,000	26,141,000	27,000,000
Tobacco preparations.....	503	10,818,000	12,554,000	12,000,000
Furs.....	504	7,802,000	7,725,000	7,500,000
Jewelry.....	505	4,869,000	1,942,000	2,800,000
Auto trucks.....	506	5,945,000	6,201,000	6,300,000
Other autos.....	506	22,527,000	24,205,000	23,000,000
Auto accessories.....	506	5,098,000	5,128,000	5,200,000
Radio and phonographs.....	507	3,157,000	3,538,000	3,700,000
Mechanical refrigerators.....	508	3,525,000	4,532,000	4,800,000
Sporting goods.....	509	2,778,000	4,518,000	4,800,000
Firearms, etc.....	510	2,511,000	2,545,000	2,500,000
Cameras, etc.....	511	813	345,000	340,000
Matches.....	512	5,977,000	6,284,000	6,300,000
Chewing gum.....	513	631,000	656,000	650,000
Electrical energy.....	514	33,184,000	33,462,000	33,000,000
Gasoline.....	517	202,575,000	182,000,000	170,000,000
Telephone and telegraph messages, etc.....	701	12,381,000	19,980,000	20,300,000
Transfer of bonds.....	724	13,300,000	14,300,000	14,300,000
Caveatances.....	725	10,379,000	9,382,000	9,600,000
Oil by pipe line.....	731			
Total.....		638,073,000	591,274,000	492,091,000

Note.—Expiration dates of above taxes all June 30, 1935, except taxes on tires and tubes, auto trucks, other autos, and auto accessories, which will be on July 31, 1935.

TABLE II.—Excise taxes subject to reduction under existing law

Tax on—	Section Revenue Act 1932	Actual revenue fiscal year 1934	Estimated revenue fiscal year 1935	Estimated revenue (if rate increases are extended) fiscal year 1936	Estimated annual loss of revenue (if rate increases are not extended)
Issues of bonds.....	721	\$2,986,000	\$3,102,000	\$3,200,000	\$1,000,000
Issues of stock.....	722				
Stock transfers.....	723				
Produce futures.....	726				
Admission.....	711				
Total.....		\$2,486,000	\$7,907,000	\$8,901,000	\$4,900,000

(Note: The expiration date of the temporary rate increase of the above taxes is June 30, 1935, under existing law.)

Table III.—Summary

Actual revenue from temporary taxes and taxes temporarily increased for fiscal year 1934.....	\$498,559,000
Estimated revenue from above for fiscal year 1935.....	428,781,000
Estimated revenue from above for fiscal year 1936 (if taxes are continued on existing basis).....	438,091,000
Estimated annual loss of revenue on 1936 basis (if temporary taxes and rates are not continued) ¹	426,991,000
Estimated annual loss of revenue (if existing temporary law in respect to postal rates is not continued).....	75,000,000
Grand total estimated annual loss of revenue (if existing temporary laws are not continued).....	501,991,000

¹ Loss for fiscal year 1936 would be about \$45,000,000 less than the annual figure given, since collections would be made in the first 2 months of the fiscal year 1936 on account of sales made in the last 2 months of the fiscal year 1935. (Postal rates decrease after June 30, 1935, under existing law.)

In conclusion, your committee, while recognizing that many of these taxes are objectionable or contain objectionable features, strongly urges that these taxes be temporarily extended for a period of 2 years without change. Action on the part of the Congress to remove these taxes at an earlier date or to revise same will not be foreclosed by the passage of this joint resolution. Since the majority of these temporary revenue laws will cease to be operative after June 30, 1935, unless this joint resolution becomes law before that date, the prompt consideration of this measure is also urged by your committee.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in the Revenue Act of 1932, as amended, made by the joint resolution are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman:

TITLE IV—MANUFACTURERS' EXCISE TAXES

SECTION 601 (AS AMENDED BY SEC. 4 (B) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 18, 1932, AND SEC. 603 (A) OF THE REVENUE ACT OF 1934, AND AN ACT ENTITLED "AN ACT TO AMEND SECTION 601 (C) (2) OF THE REVENUE ACT OF 1932", APPROVED JUNE 18, 1934) EXCISE TAXES ON CERTAIN ARTICLES

(a) In addition to any other tax or duty imposed by law, there shall be imposed a tax as provided in subsection (c) on every article imported into the United States unless treaty provisions of the United States otherwise provide.

(b) The tax imposed under subsection (a) shall be levied, assessed, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930, and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act, except that—

(1) the value on which such tax shall be based shall be the sum of (A) the dutiable value (under section 503 of such act) of the article, plus (B) the customs duties, if any, imposed thereon under any provision of law;

(2) for the purposes of section 489 of such act (relating to additional duties in certain cases of undervaluation) such tax shall not be considered an ad valorem rate of duty or a duty based upon or regulated in any manner by the value of the article, and for the purposes of section 336 of such act (the so-called flexible tariff provision) such tax shall not be considered a duty;

(3) such tax shall not be imposed upon any article imported prior to the date on which this title takes effect;

(4) no drawback of such tax (except tax paid upon the importation of an article described in subsection (c) (4), (5), (6), or (7) shall be allowed under section 313 (a), (b), or (f) of the Tariff Act of 1930 or any provision of law allowing a drawback of customs duties on articles manufactured or produced with the use of duty-paid materials;

(5) such tax (except tax under subsection (c) (4) to (7), inclusive) shall be imposed in full notwithstanding any provision of law granting exemption from or reduction of duties to products of any possession of the United States; and for the purposes of taxes under subsection (c) (4) to (7), inclusive, the term "United States" includes Puerto Rico.

(c) There is hereby imposed upon the following articles sold in the United States by the manufacturer or producer, or imported into the United States, a tax at the rates hereinafter set forth, to be paid by the manufacturer, producer, or importer:

(1) Lubricating oils, 4 cents a gallon; but the tax on the articles described in this paragraph shall not apply with respect to the importation of such articles. Every person liable for tax under this paragraph shall register and file bond as provided in section 617, as amended. Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax shall be imposed under this section upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him, but for the purposes of this title such vendee shall be considered the manufacturer or producer of such lubricating oils.

(2) Brewer's wort, 15 cents a gallon. Liquid malt, malt syrup, and malt extract, fluid, solid, or condensed, made from malted cereal grains in whole or in part, unless sold to, or for resale to, a baker for use in baking or to, or for resale to, a manufacturer or producer of malted milk, medicinal products, foods, cereal beverages, or textiles, for use in the manufacture or production of such products, 3 cents a pound. For the purposes of this paragraph liquid malt containing less than 15 per centum of solids by weight shall be taxable as brewer's wort.

(3) Grape concentrate, evaporated grape juice, and grape syrup (other than finished or fountain syrup), if containing more than 35 per centum of sugars by weight, 20 cents a gallon. No tax shall be imposed under this paragraph (A) upon any article which contains preservative sufficient to prevent fermentation when diluted, or (B) upon any article sold to a manufacturer or producer of food products or soft drinks for use in the manufacture or production of such products.

(4) Crude petroleum, $\frac{3}{4}$ cent per gallon; fuel oil derived from petroleum, gas oil derived from petroleum, and all liquid derivatives of crude petroleum, except lubricating oil and gasoline or other motor fuel, $\frac{1}{2}$ cent per gallon; gasoline or other motor fuel, $2\frac{3}{4}$ cents per gallon; lubricating oil, 4 cents per gallon; paraffin and other petroleum wax products, 1 cent per pound. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(5) Coal of all sizes, grades, and classifications (except culm and duff), coke manufactured therefrom; and coal or coke briquettes, 10 cents per 100 pounds. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles, and shall not be imposed upon any such article if during the preceding calendar year the exports of the articles described in this paragraph from the United States to the country from which such article is imported have been greater in quantity than the imports into the United States from such country of the articles described in this paragraph.

(6) Lumber, rough, or planed or dressed, on one or more sides, except flooring made of maple (except Japanese maple), birch, and beech, \$3 per thousand feet, board measure; but the tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(7) Copper-bearing ores and concentrates and articles provided for in paragraphs 316, 380, 381, 387, 1620, 1634, 1657, 1658, or 1659 of the Tariff Act of 1930, 4 cents per pound on the copper contained therein: *Provided*, That no tax under this paragraph shall be imposed on copper in any of the foregoing which is lost in metallurgical processes: *Provided further*, That ores or concentrates usable as a flux or sulphur reagent in copper smelting and/or converting and having a copper content of not more than 15 per centum, when imported for fluxing purposes, shall be admitted free of said tax in an aggregate amount of not to exceed in any one year 15,000 tons of copper content. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, in which copper (including copper in alloys) is the component material of chief value, 3 cents per pound. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, containing 4 per centum or more of copper by weight, 2 per centum ad valorem or $\frac{1}{4}$ of 1 cent per pound, whichever is the lower. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles. The Secretary is authorized to prescribe all necessary regulations for the enforcement of the provisions of this paragraph.

SECTION 602. TAX ON TIRES AND INNER TUBES

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer, a tax at the following rates:

(1) Tires wholly or in part of rubber, $2\frac{3}{4}$ cents a pound on total weight (exclusive of metal rims or rim bases), to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

(2) Inner tubes (for tires) wholly or in part of rubber, 4 cents a pound on total weight, to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

SECTION 603. TAX ON TOILET PREPARATIONS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair

oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes (except that the rate shall be 5 per centum), dentifrices (except that the rate shall be 5 per centum), tooth pastes (except that the rate shall be 5 per centum), aromatic soaps (except that the rate shall be 5 per centum), toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

SECTION 604. TAX ON FURS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Articles made of fur on the hide or pelt or of which any such fur is the component material of chief value.

SEC. 605. (REVENUE ACT OF 1930) TAX ON FURS

The tax imposed by section 604 of the Revenue Act of 1932 shall not apply to articles sold by the manufacturer, producer, or importer, after the date of the enactment of this Act, for less than \$75.

SECTION 606. TAX ON JEWELRY, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: All articles commonly or commercially known as jewelry, whether real or imitation; pearls, precious and semiprecious stones, and imitations thereof; articles made of, or ornamented, mounted or fitted with, precious metals or imitations thereof or ivory (not including surgical instruments or silver-plated ware, or frames or mountings for spectacles or eyeglasses); watches; clocks; parts for watches or clocks sold for more than 9 cents each; opera glasses; lorgnettes; marine glasses; field glasses; and binoculars. No tax shall be imposed under this section on any article used for religious purposes, or any article (other than watch parts or clock parts) sold for less than \$3.

SEC. 607. (REVENUE ACT OF 1930) TAX ON JEWELRY, ETC.

The tax imposed by section 606 of the Revenue Act of 1932 shall not apply to articles sold by the manufacturer, producer, or importer, after the date of the enactment of this Act, for less than \$25.

SECTION 608 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT). TAX ON AUTOMOBILES, ETC.

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

(a) Automobile truck chassis and automobile truck bodies (including in both cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 2 per centum. A sale of an automobile truck shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(b) Other automobile chassis and bodies and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 3 per centum. A sale of an automobile shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(c) Parts or accessories (other than tires and inner tubes) for any of the articles enumerated in subsection (a) or (b), 2 per centum. For the purposes of this subsection and subsections (a) and (b), spark plugs, storage batteries, leaf springs, coils, timers, and tire chains, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a) or (b), shall be considered parts of accessories for such articles, whether or not primarily adapted for such use. This subsection shall not apply to chassis or bodies for automobile trucks or other automobiles. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of parts or accessories by the manufacturer, producer, or importer to a manufacturer or producer of any of the articles enumerated in subsection (a) or (b). If any such parts or accessories are

resold by such vendee otherwise than on or in connection with, or with the sale of, an article enumerated in subsection (a) or (b) and manufactured or produced by such vendee, then for the purposes of this section the vendee shall be considered the manufacturer or producer of the parts or accessories so resold.

(d) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under subsection (a) or (b) shall not apply in the case of sales of bodies by the manufacturer, producer, or importer to a manufacturer or producer of automobile trucks or other automobiles to be sold by such vendee. For the purposes of subsection (a) or (b) such vendee shall be considered the manufacturer or producer of such bodies.

(e) If tires or inner tubes on which tax has been imposed under this title are sold on or in connection with, or with the sale of a chassis, body, or motorcycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary (to be credited against the tax under this section an amount equal to, in the case of an automobile truck chassis or body, 2 per centum, and in the case of any other automobile chassis or body or motorcycle, 3 per centum—

(1) Of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 602 (relating to tax on tires and inner tubes); or

(2) If such tires or inner tubes were taxable under section 622 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

(f) (1) Where prior to August 1, [1935] 1937, any article subject to the tax imposed by this section or section 602, relating to tax on tires and inner tubes, has been sold by the manufacturer, producer, or importer, and is on such date held by a dealer and intended for sale, there shall be refunded to the manufacturer, producer, or importer the amount of the tax, or if the tax has not been paid, the tax shall be abated.

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

(3) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the refund provided by this subsection—(A) may be applied as a credit against the tax shown by subsequent returns of the manufacturer, producer, or importer, and (B) may be made to the dealer instead of to the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

(4) When the refund, credit, or abatement provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the refund, credit, or abatement was allowed, so much of that amount of the tax corresponding to the refund, credit, or abatement, as was included in or added to the price paid or agreed to be paid by the dealer. Upon the failure of the manufacturer, producer, or importer to make such remission he shall be liable to the dealer for damages in the amount of three times the amount thereof, and the court shall include in any judgment in favor of the dealer in any suit for the recovery of such damages, costs of the suit and a reasonable attorney's fee to be fixed by the court.

SECTION III. TAX ON RADIO RECEIVING SETS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold: Chassis, cabinets, tubes, reproducing units, power packs, and phonograph mechanisms, suitable for use in connection with or as part of radio receiving sets or combination radio and phonograph sets (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), and records for phonographs. A sale of any two or more of the above articles shall, for the purpose of this section, be considered a sale of each separately.

SECTION 80E. TAX ON MECHANICAL REFRIGERATORS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold:

(a) Household type refrigerators (for single or multiple cabinet installations) operated with electricity, gas, kerosene, or other means (including parts or accessories therefor sold on or in connection therewith or with the sale thereof).

(b) Cabinets, compressors, condensers, expansion units, absorbers, and controls (hereinafter referred to as "refrigerator components") for, or suitable for use as part of or with, any of the articles enumerated in subsection (a) (including in each case parts or accessories for such refrigerator components sold on or in connection therewith or with the sale thereof) except when sold as component parts of complete refrigerators or refrigerating or cooling apparatus. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to a manufacturer or producer of refrigerators or refrigerating or cooling apparatus. If any such refrigerator components are resold by such vendee otherwise than on or in connection with, or with the sale of, complete refrigerators or refrigerating or cooling apparatus, manufactured or produced by such vendee, then for the purposes of this section the vendee shall be considered the manufacturer or producer of the refrigerator components so resold.

SECTION 80F. TAX ON SPORTING GOODS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Tennis rackets, tennis-racket frames and strings, nets, racket covers and presses, skates, snowshoes, skis, toboggans, canoe paddles, polo mallets, baseball bats, gloves, masks, protectors, shoes and uniforms, football helmets, harness and uniforms, basket ball goals and uniforms, golf bags and clubs, lacrosse sticks, balls of all kinds, including baseballs, footballs, tennis, golf, lacrosse, billiard and pool balls, fishing rods and reels, billiard and pool tables, chess and checker boards and pieces, dice, games and parts of games (except playing cards and children's toys and games); and all similar articles commonly or commercially known as sporting goods.

SECTION 80G. TAX ON FIREARMS, SHELLS, AND CARTRIDGES

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

SECTION 80H. TAX ON CAMERAS

There is hereby imposed upon cameras (except aerial cameras), weighing not more than 100 pounds, and lenses for such cameras, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold.

SECTION 80I (AS AMENDED BY SEC. 611 OF THE REVENUE ACT OF 1934). TAX ON MATCHES

There is hereby imposed upon matches, sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of paper matches in books the tax shall be one-half of 1 cent per 1,000 matches, and except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5 cents per 1,000 matches.

SECTION 80J. TAX ON CHEWING GUM

There is hereby imposed upon chewing gum or substitutes therefor, sold by the manufacturer, producer, or importer, a tax equivalent to 2 per centum of the price for which so sold.

EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE RATES

SEC. 615 (AS AMENDED BY SEC. 2 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1935). TAX ON ELECTRICAL ENERGY FOR DOMESTIC OR COMMERCIAL CONSUMPTION

(a) There is hereby imposed upon electrical energy sold for domestic or commercial consumption and not for resale a tax equivalent to 3 per centum of the price for which so sold, to be paid by the vendor under such rules and regulations as the Commissioner, with the approval of the Secretary, shall prescribe. The sale of electrical energy to an owner or lessee of a building, who purchases such electrical energy for resale to the tenants therein, shall for the purposes of this section be considered as a sale for consumption and not for resale, but the resale to the tenant shall not be considered a sale for consumption.

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

(c) No tax shall be imposed under this section upon electrical energy sold to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia. None of the provisions of this section shall apply to publicly owned electric and power plants. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe.

SECTION 617 (AS AMENDED BY SEC. 11 (B) OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND SEC. 96 OF THE REVENUE ACT OF 1930). TAX ON GASOLINE

(a) There is hereby imposed on gasoline sold by the producer or importer thereof, or by any producer of gasoline, a tax of 1 cent a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline.

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this title be considered a sale. Any person to whom gasoline is sold tax-free under this section on or after the effective date of the Revenue Act of 1932 shall be considered the producer of such gasoline.

(c) As used in this section—

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

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

(d) Every person subject to tax under this section or section 601 (c) (1) shall, before the thirtieth day after the date of the enactment of the Revenue Act of 1934 (or in the case of a person commencing business after such day before incurring any liability for tax under such sections) register with the collector for the district in which is located his principal place of business (or, if he has no principal place of business in the United States, with the collector at Baltimore, Maryland) and shall give a bond, to be approved by such collector, conditioned that he shall not engage in any attempt, by himself or by collusion with others, to defraud the United States of any tax under such sections; that he shall render truly and completely all returns, statements, and inventories required by law or regulations in pursuance thereof and shall pay all taxes due under such sections; and that he shall comply with all requirements of law and regulations in pursuance thereof with respect to tax under such sections. Such bond shall be in such sum as the collector may require in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, but not less than \$2,000. The collector may from time to time require new or additional bond in accordance with this subsection. Every person who fails to register or give bond as required by this subsection, or who in connection with any purchase of gasoline or lubricating oil falsely represents himself to be registered and bonded as provided by this subsection, or who willfully makes any false statement in an application for registration under this subsection, shall upon conviction thereof be fined not more than \$5,000 or imprisoned not more than five years, or both, together with the costs of prosecution. If the Commissioner finds that any manufacturer or producer

has at any time evaded any Federal tax on gasoline or lubricating oil, he may revoke the registration of such manufacturer or producer, and no sale to, or for resale by, such manufacturer or producer hereafter shall be tax-free under section 601 (c) (1), this section, or section 620, as amended, but such manufacturer or producer shall not be relieved of the requirement of giving bond under this subsection.

(c) Under regulations prescribed by the Commissioner with the approval of the Secretary, records required to be kept with respect to taxes under section 601 (c) (1), as amended, or this section, and returns, reports, and statements with respect to such taxes filed with the Commissioner or a collector, shall be open to inspection by such officers of any State or Territory or political subdivision thereof in the District of Columbia as shall be charged with the enforcement and collection of any tax on gasoline or lubricating oils. The Commissioner and such collector shall furnish to any of such officers, upon written request, certified copies of any such statements, reports, or returns filed in his office upon the payment of a fee of \$1 for each one hundred words or fraction thereof in the copy or copies requested.

SECTION 618. DEFINITION OF SALE

For the purposes of this title, the lease of an article shall be considered the sale of such article.

SECTION 619. SALE PRICE

(a) In determining, for the purposes of this title, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this title, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations.

(b) If an article is—

- (1) sold at retail;
- (2) sold on consignment; or

(3) sold (otherwise than through an arm's-length transaction) at less than the fair market price; the tax under this title shall (if based on the price for which the article is sold) be computed on the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner.

(c) In the case of (1) a lease, (2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments.

SEC. 620 (AS AMENDED BY SEC. 4 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933). TAX-FREE SALES

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

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

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

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

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

SECTION 621 (AS AMENDED BY SEC. 4 (C) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933). CREDITS AND REFUNDS

(a) A credit against tax under this title, or a refund, may be allowed or made—
(1) to a manufacturer or producer, in the amount of any tax under this title which has been paid with respect to the sale of any article (other than a tire or inner tube) purchased by him and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under this title has been paid, or which has been sold free of tax by virtue of section 620, relating to sales of articles for further manufacture.

(2) to any person who has paid tax under this title with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article or a covering or container, or by a bona fide discount, rebate, or allowance; in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

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

(b) Credit or refund under subsection (a) shall be allowed or made only upon compliance with the regulations prescribed by the Commissioner with the approval of the Secretary.

(c) In no case shall interest be allowed with respect to any amount of tax under this title credited or refunded.

(d) No overpayment of tax under this title shall be credited or refunded (otherwise than under subsection (a)), in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or unless he files with the Commissioner written consent of such ultimate purchaser to the allowance of the credit or refund.

SECTION 622. USE BY MANUFACTURER, PRODUCER, OR IMPORTER

(1) any person manufactures, produces, or imports an article (other than a tire or inner tube) and uses it (otherwise than as material in the manufacture or production of, or as a component part of, another article to be manufactured or produced by him which will be taxable under this title or sold free of tax by virtue of section 620, relating to sale of articles for further manufacture); or

(2) any person manufactures, produces, or imports a tire or inner tube and sells it on or in connection with, or with the sale of, an article taxable under section 606 (a) or (b), relating to the tax on automobiles, or uses it; he shall be liable for tax under this title in the same manner as if such article was sold by him, and the tax (if based on the price for which the article is sold) shall be computed on the price at which such or similar articles are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

SECTION 623. SALES BY OTHERS THAN MANUFACTURER, PRODUCER, OR IMPORTER

In case any person acquires from the manufacturer, producer, or importer of an article, by operation of law or as a result of any transaction not taxable under this title, the right to sell such article, the sale of such article by such person shall be taxable under this title as if made by the manufacturer, producer, or importer, and such person shall be liable for the tax.

SECTION 624. EXEMPTION OF ARTICLES MANUFACTURED OR PRODUCED BY INDIANS

No tax shall be imposed under this title on any article of native Indian handcraft manufactured or produced by Indians on Indian reservations, or in Indian schools, or by Indians under the jurisdiction of the United States Government in Alaska.

SECTION 605. CONTRACTS PRIOR TO MAY 1, 1932

(a) If (1) any person has, prior to May 1, 1932, made a bona fide contract for the sale, after the tax takes effect, of any article in respect of the sale of which a tax is imposed under this title, or in respect of which a tax is imposed under this title is imposed; and (2) such contract does not permit the adding to the amount to be paid under such contract, of the whole of such tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price. If a contract of the character above described was made with the United States, no tax shall be collected under this title. If any article has, under a contract of the character above described, been delivered, prior to June 21, 1932, to any person (other than a dealer or other than a person intending to use the article as material in the manufacture or production of another article, or to sell it on or in connection with, or with the sale of, another article), no tax shall be collected under this title.

(b) The taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected, returned, and paid to the United States by such vendor in the same manner as provided in section 702. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner, who shall cause collection of such taxes to be made from the vendee.

SECTION 606. RETURN AND PAYMENT OF MANUFACTURERS' TAXES

(a) Every person liable for any tax imposed by this title other than taxes on importation (except tax under section 615, relating to tax on soft drinks) shall make monthly returns under oath in duplicate and pay the taxes imposed by this title to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time when the tax became due until paid.

SECTION 607. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 600 of the Revenue Act of 1926, shall, insofar as applicable and not inconsistent with this act, be applicable in respect of the taxes imposed by this title.

SECTION 608. RULES AND REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes on articles sold by the manufacturer, producer, or importer. The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes which under the provisions of section 601 (b) are to be levied, assessed, collected, and paid in the same manner as duties imposed by the Tariff Act of 1930.

SECTION 609 (AS AMENDED BY SEC. 1 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1932, AND SECTION 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT), EFFECTIVE DATE

This title shall take effect on the fifteenth day after the date of the enactment of this act, except that section 628, relating to rules and regulations, and this section, shall take effect on the date of the enactment of this act. No sale or importation after June 30, [1935] 1937 (or after July 31, [1935] 1937, in the case of articles taxable under section 606, relating to the tax on automobiles, etc., or sec. 602, relating to the tax on tires and inner tubes), shall be taxable under this title.

SEC. 50 (ADDED BY SEC. 5 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1932). EXEMPTION FROM TAX OF CERTAIN SUPPLIES FOR VESSELS

Under regulations prescribed by the Commissioner, with the approval of the Secretary, no tax under this title shall be imposed upon any article used for use as fuel supplies, ships' stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions. Articles manufactured or produced with the use of articles upon the importation of which tax has been paid under this title, if laden for use as supplies on such vessels, shall be held to be exported for the purposes of section 601 (b).

TITLE V—MISCELLANEOUS TAXES

PART I—TAX ON TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES

SECTION 701 (AS AMENDED BY SEC. 215 OF THE NATIONAL INDUSTRIAL RECOVERY ACT) IMPOSITION

(a) On and after the fifteenth day after the date of the enactment of this act, there shall be imposed—

(1) in the case of each telegraph, telephone, cable, or radio dispatch, message, or conversation, which originates on or after such date and before July 1, [1935] 1937, within the United States, a tax at the following rates:

(A) Telephone conversations for which the charge is 50 cents or more and less than \$1, 10 cents; for which the charge is \$1 or more and less than \$2, 15 cents; for which the charge is \$2 or more, 20 cents;

(B) telegraph dispatches and messages, 5 per centum of the amount charged therefor; and

(C) cable and radio dispatches and messages, 10 cents; but only one payment of such tax shall be required, notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

(2) a tax equivalent to 5 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act to any telegraph or telephone company for any leased wire or talking circuit special service furnished on or after such date and before July 1, [1935] 1937. This paragraph shall not apply to the amount paid for so much of such service as is utilized in the conduct, by a common carrier or telephones or telegraph company or radio broadcasting station or net work, of its business as such.

(b) No tax shall be imposed under this section upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia, nor upon any payment received from any person for services or facilities utilized in the collection of news for the public press or in the dissemination of news through the public press, if the charge for such services or facilities is billed in writing to such person. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe.

SECTION 702. RETURNS AND PAYMENT OF TAX

(a) The taxes imposed by section 701 shall be paid by the person paying for the services or facilities.

(b) Each person receiving any payments specified in section 701 shall collect the amount of the tax imposed by such section from the person making such payments, and shall on or before the last day of each month make a return, under oath, for the preceding month, and pay the taxes so collected, to the collector of the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe. The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than 90 days.

PART II—ADMISSIONS TAX

SECTION 711 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT), ADMISSIONS TAX

(a) Paragraph (1) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(1) A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription to be paid by the person paying for such admission; except that in case the amount paid for admission is less than 41 cents, no tax shall be imposed. In the case of persons (except bona fide employees, municipal officers on official business, and children under 12 years of age) admitted free or at reduced rates to any place at a time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscribed for a single admission is less than 41 cents";

(b) Paragraph (2) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(2) Upon tickets or cards of admission to theaters, operas, and other places of amusement, sold at news stands, hotels, and places other than the ticket offices of such theaters, operas, or other places of amusement, at a price in excess of the sum of the established price therefor at such ticket offices plus the amount of any tax imposed under paragraph (1), a tax equivalent to 10 per centum of the amount of such excess; such tax to be returned and paid, in the manner and subject to the interest provided in section 502, by the person selling such tickets";

(c) Section 500 of the Revenue Act of 1926, as amended, is amended by adding at the end thereof the following subdivision:

"(e) The exemption from tax provided by subdivision (b) (1) (A) shall not be allowed in the case of admissions to wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions. The exemption from tax provided by subdivision (b) (1) shall not be allowed in the case of admissions to any athletic game or exhibition the proceeds of which inure wholly or partly to the benefit of any college or university (including any academy of the military or naval forces of the United States)."

(d) Subsections (a) and (c) shall take effect on the fifteenth day after the date of the enactment of this act.

(e) Effective July 1, [1935] 1937, section 500 (a) (1) of the Revenue Act of 1926, as amended by subsection (a) of this section, is amended by striking out "less than 41 cents" wherever appearing in such paragraph, and inserting in lieu thereof "83 or less".

PART III—STAMP TAXES

SECTION 721 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT), STAMP TAX ON ISSUES OF BONDS, ETC.

(a) Subdivision 1 of schedule A of title VIII of the Revenue Act of 1926 is amended by striking out "5 cents" and inserting in lieu thereof "10 cents", and by inserting at the end thereof a new sentence to read as follows: "The tax under this subdivision shall not apply to any instrument under the terms of which the obligee is required to make payment therefor in installments and is not permitted to make in any year a payment of more than 20 per centum of the cash amount to which entitled upon maturity of the instrument."

(b) Subsection (a) shall take effect on the 15th day after the date of the enactment of this act.

(c) Effective July 1, [1935] 1937, such subdivision 1, as amended by subsection (a) of this section, is amended by striking out "10 cents" and inserting in lieu thereof "5 cents".

SECTION 722 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT), STAMP TAX ON ISSUES OF STOCK, ETC.

(a) Subdivision 2 of schedule A of title VIII of the Revenue Act of 1926 is amended to read as follows:

"2. Capital stock (and similar interests), issue: On each original issue, whether on organization or reorganization, of shares or certificates of stock, or of profits or of interest in property or accumulations, by any corporation, or by any invest-

ment trust or similar organization (or by any person on behalf of such investment trust or similar organization) holding or dealing in any of the instruments mentioned or described in this subdivision or subdivision 1 (whether or not such investment trust or similar organization constitutes a corporation within the meaning of this act), on each \$100 of par or face value or fraction thereof of the certificates issued by such corporation or by such investment trust or similar organization (or of the shares where no certificates were issued), 10 cents: *Provided*, That where such shares or certificates are issued without par or face value, the tax shall be 10 cents per share (corporate share, or investment trust or other organization share, as the case may be), unless the actual value is in excess of \$100 per share, in which case the tax shall be 10 cents on each \$100 of actual value or fraction thereof of such certificates (or of the shares where no certificates were issued), or unless the actual value is less than \$100 per share, in which case the tax shall be 2 cents on each \$20 of actual value, or fraction thereof, of such certificates (or of the shares where no certificates were issued).

"The stamps representing the tax imposed by this subdivision shall be attached to the stock books or corresponding records of the organization and not to the certificates issued."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1935] 1957, such subdivision 2, as amended by subsection (a) of this section, is amended by striking out "10 cents" wherever appearing in such subdivision and inserting in lieu thereof "5 cents", and by striking out "2 cents" and inserting in lieu thereof "1 cent".

SECTION 731. STAMP TAX ON TRANSFER OF STOCKS, ETC. (AS AMENDED BY SEC. 512 OF THE NATIONAL INDUSTRIAL RECOVERY ACT)

(a) Subdivision 3 of Schedule A of Title VIII of the Revenue Act of 1926 is amended to read as follows:

"3. Capital stock (and similar interests), sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the shares or certificates mentioned or described in subdivision 2, or to rights to subscribe for or to receive such shares or certificates, whether made upon or shown by the books of the corporation or other organization, or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such share, certificate, interest, or rights, or not), on each \$100 of par or face value or fraction thereof of the certificates of such corporation or other organization (or of the shares where no certificates were issued), 4 cents, and where such shares or certificates are without par or face value, the tax shall be 4 cents on the transfer or sale or agreement to sell on each share (corporate share, or investment trust or other organization share, as the case may be): *Provided*, That in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further*, That it is not intended by this title to impose a tax upon an agreement evidencing a deposit of certificates as collateral security for money loaned thereon, which certificates are not actually sold, nor upon the delivery or transfer for such purpose of certificates so deposited nor upon the return of stock loaned: *Provided further*, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such shares or certificates continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That in case of sale where the evidence of transfer is shown only by the books of the corporation or other organization the stamp shall be placed upon such books; and where the change of ownership is by transfer of the certificate the stamp shall be placed upon the certificate; and in cases of an agreement to sell or where the transfer is by delivery of the certificate assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or

thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any stock, share, interest or right, or bill or memorandum thereof, as herein required, without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1935] 1937, such subdivision 3, as amended by subsection (a) of this section, is amended by striking out "4 cents" wherever appearing in such subdivision and inserting in lieu thereof "2 cents", and by striking out the following: "In case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further, That*."

SECTION 74 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT). STAMP TAX ON TRANSFER OF BONDS, ETC.

(a) Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"9. Bonds, etc., sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the instruments mentioned or described in subdivision 1 and of a kind the issue of which is taxable thereunder, whether made by any assignment in blank or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such instrument or not), on each \$100 of face value or fraction thereof, 4 cents: *Provided, That* it is not intended by this title to impose a tax upon an agreement evidencing a deposit of instruments as collateral security for money loaned thereon, which instruments are not actually sold, nor upon the delivery or transfer for such purpose of instruments so deposited: *Provided further, That* the tax shall not be imposed on deliveries or transfers of bonds in connection with a reorganization (as defined in section 112 of the Revenue Act of 1932) if any of the gain or loss from the exchange or distribution involved in the delivery or transfer is not recognized under the income tax law applicable to the year in which the delivery or transfer is made: *Provided further, That* the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further, That* the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such instruments continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further, That* where the change of ownership is by transfer of the instrument the stamp shall be placed upon the instrument; and in cases of an agreement to sell or where the transfer is by delivery of the instrument assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any such instrument, or bill or memorandum thereof, as herein required without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Subdivision 9 of schedule A of title VIII of the Revenue Act of 1926, added to such schedule by subsection (a) of this section, is repealed effective July 1, [1935] 1937.

SECTION 725 (AS AMENDED BY SEC. 213 OF THE NATIONAL INDUSTRIAL RECOVERY ACT).
STAMP TAX ON CONVEYANCES

Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"8. Conveyances: Deed, instrument, or writing, delivered on or after the 15th day after the date of the enactment of the Revenue Act of 1932 and before July 1, [1935] 1937 (unless deposited in escrow before April 1, 1932), whereby any lands, tenements, or other realty sold shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by his, her, or their direction, when the consideration or value of the interest or property conveyed, exclusive of the value of any lien or encumbrance remaining thereon at the time of sale, exceeds \$100 and does not exceed \$500, 50 cents; and for each additional \$500 or fractional part thereof, 50 cents. This subdivision shall not apply to any instrument or writing given to secure a debt."

SECTION 726 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND SEC. 512 OF THE REVENUE ACT OF 1934). STAMP TAX ON SALES OF PRODUCE FOR FUTURE DELIVERY

(a) Subdivision 4 of schedule A of title VIII of the Revenue Act of 1926 is amended by striking out "1 cent" wherever appearing in such subdivision, and inserting in lieu thereof "3 cents".

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1935] 1937, such subdivision 4, as amended by subsection (a) of this section, is amended by striking out "3 cents" wherever appearing in such subdivision and inserting in lieu thereof "1 cent".

PART IV—TAX ON TRANSPORTATION OF OIL BY PIPE LINE

SECTION 731 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT). TAX ON TRANSPORTATION OF OIL BY PIPE LINE

(a) There is hereby imposed upon all transportation of crude petroleum and liquid products thereof by pipe line originating on or after the fifteenth day after the date of the enactment of this act and before July 1, [1935] 1937—

(1) A tax equivalent to 4 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act for such transportation, to be paid by the person furnishing such transportation.

(2) In case no charge for transportation is made, either by reason of ownership of the commodity transported or for any other reason, a tax equivalent to 4 per centum of the fair charge for such transportation, to be paid by the person furnishing such transportation.

(3) If (other than in the case of an arm's length transaction) the payment for transportation is less than the fair charge therefor, a tax equivalent to 4 per centum of such fair charge, to be paid by the person furnishing such transportation.

(b) For the purposes of this section, the fair charge for transportation shall be computed—

(1) from actual bona fide rates or tariffs, or

(2) if no such rates or tariffs exist, then on the basis of the actual bona fide rates or tariffs of other pipe lines for like services, as determined by the Commissioner, or

(3) if no such rates or tariffs exist, then on the basis of a reasonable charge for such transportation, as determined by the Commissioner.

(c) Every person liable for the tax imposed under subsection (a) shall make monthly returns under oath in duplicate and pay such taxes to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

PART VIII—ADMINISTRATIVE PROVISIONS

SECTION 771. PAYMENT OF TAXES

The taxes imposed by parts I, IV, V, and VI of this title shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time the tax become due until paid.

SECTION 772. REFUNDS AND CREDITS

(a) Credit or refund of any overpayment of tax imposed by part I, V, or VI of this title may be allowed to the person who collected the tax and paid it to the United States if such person establishes, to the satisfaction of the Commissioner, under such regulations as the Commissioner with the approval of the Secretary may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or obtained the consent of such person to the allowance of such credit or refund.

(b) Any person entitled to refund of tax under part I, IV, V, or VI of this title paid, or collected and paid, to the United States by him may take credit therefor against taxes due upon any monthly return.

(c) Any person making a refund of any payment on which tax under part I or V has been collected, may repay therewith the amount of tax collected on such payment, and the amount of tax so repaid may be credited against the tax under any subsequent return.

SECTION 773. REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of parts I, IV, V, and VI, of this title.

SECTION 774. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 500 of the Revenue Act of 1926, shall, insofar as applicable and not inconsistent with this Act, be applicable in respect of the taxes imposed by parts I, IV, V, and VI of this title.

TITLE VIII—POSTAL RATES

SEC. 501 (AS AMENDED BY SEC. 3 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933, AND SEC. 515 OF THE REVENUE ACT OF 1934).
POSTAL RATES

(a) On and after the thirtieth day after the date of the enactment of this Act and until July 1, [1935] 1937, the rate of postage on all mail matter of the first class (except postal cards and private mailing or post cards, and except other first-class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) shall be 1 cent for each ounce or fraction thereof in addition to the rate provided by existing law: *Provided*, That such additional rate shall not apply on or after July 1, 1933, to first-class matter mailed for local delivery.

Also, in compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in section 2 of the act entitled "An act to extend the gasoline tax for 1 year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1933, as amended by section 515 of the Revenue Act of 1934, are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman:

Sec. 2. The President is authorized during the period ending June 30, [1935] 1937, to proclaim such modifications of postage rates on mail matter (except

EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE RATES 19

that in the case of first-class matter the rate shall not be reduced to less than 2 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interest of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, [1935] 1937. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentages of gross postal receipts specified in section 1001 (c) of the Revenue Act of 1932 as amended by this Act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.



that in the case of that class... (The text is mirrored and largely illegible due to bleed-through from the reverse side of the page.)

Section 2013. (b) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2014. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2015. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2016. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Part VIII - Estate Taxes

Section 2017. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2018. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2019. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

Section 2020. (a) The provisions of this section shall apply to the estate of a decedent who dies on or after January 1, 1981, and before January 1, 1982.

[PUBLIC RESOLUTION—No. 48—75TH CONGRESS]

[CHAPTER 402—1ST SESSION]

[H. J. Res. 375]

JOINT RESOLUTION

To provide revenue, and for other purposes.

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That title IV, as amended, and parts I, II, III, and IV, of title V, as amended, of the Revenue Act of 1932, are further amended by striking out "1937" wherever appearing therein and inserting in lieu thereof "1939". Section 1001 (a), as amended, of the Revenue Act of 1932, and section 2, as amended, of the Act entitled "An Act to extend the gasoline tax for one year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1933, are further amended by striking out "1937" wherever appearing therein and inserting in lieu thereof "1939".

Approved, June 29, 1937, 10 p. m.

Introduced May 20, 1937

EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE
RATES

JUNE 15, 1937.—Ordered to be printed

Mr. HARRISON, from the Committee on Finance, submitted the following

REPORT

[To accompany H. J. Res. 375]

The Committee on Finance, to whom was referred the joint resolution (H. J. Res. 375) to provide revenue, and for other purposes, having had the same under consideration, report favorably thereon with amendments and, as so amended, recommend that the joint resolution do pass.

House Joint Resolution 375, as it passed the House of Representatives, extended certain excise taxes and postage rates for a period of 2 years. The Committee on Finance amended the joint resolution so that such taxes and postage rates will be extended for only 1 year. The purposes of the joint resolution are set out in full in a report from the Committee on Ways and Means of the House of Representatives which is incorporated herein and made a part of this report.

[S. Rept. No. 933, 75th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the joint resolution (H. J. Res. 375) to provide revenue, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the joint resolution do pass.

Under existing law certain excise taxes become inoperative after June 30, 1937, certain others become inoperative after July 31, 1937, and certain others will continue to operate only at reduced rates or with increased exemptions after June 30, 1937. In addition, the rate on nonlocal, first-class mail matter will be subject to reduction from 3 cents to 2 cents after June 30, 1937.

If the temporary taxes, and the temporary increased rates or decreased exemptions, and the temporary increased rate on nonlocal, first-class mail matter are permitted to lapse at this time, the Treasury faces a total annual loss of revenue estimated at nearly \$650,000,000, as will be shown hereafter in this report.

It is the opinion of your committee that the revenues provided by the temporary provisions above referred to cannot be spared at this time. In this connection, there are submitted the following letters, one from the Secretary of the Treasury and one from the Acting Postmaster General, pointing out the necessity for continuing these temporary provisions at this time:

TREASURY DEPARTMENT,
Washington.

HON. ROBERT L. DORTCHTON,
Chairman, Ways and Means Committee, House of Representatives.

MY DEAR MR. DORTCHTON: The annual Budget message of the President to the Congress, which appears in the Congressional Record under date of January 8, 1937, at page 125, contained the following recommendation:

"Temporary miscellaneous internal-revenue taxes: I recommend that the Congress take steps by suitable legislation to extend the miscellaneous internal-revenue taxes which under existing law will expire next June and July, and also to maintain the current rates of those taxes which would otherwise be reduced next June. I consider that the revenue from such taxes or its equivalent is necessary for the financing of the Budget for 1938."

It was also recommended that the 3-cent postage rate for first-class mail other than for local delivery be continued.

In his supplemental Budget message, which appears in the Congressional Record under date of April 20, 1937, at page 4670, the President pointed out that his expectation of bringing actual income and outgo for the fiscal year 1938 into balance was predicated on two highly important conditions, one of which is the extension of existing taxes which expire this year.

In the light of these recommendations and in view of the Treasury's urgent need of the substantial revenues which these temporary taxes are producing and the fact that they will soon terminate by limitation unless extended, the Department recommends that appropriate action be taken to extend those taxes, which are about to expire, at the existing rates for a period of 2 years. It may be noted that a similar extension was accomplished 2 years ago by the enactment of House Joint Resolution 324, which for purposes of convenience was drafted in such manner as to cover the continuation both of the temporary taxes and the 3-cent postage rate.

Sincerely,

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

POST OFFICE DEPARTMENT,
OFFICE OF THE POSTMASTER GENERAL,
Washington, D. C., March 9, 1937.

HON. WILLIAM B. BANKHEAD,
Speaker, House of Representatives, Washington, D. C.

MY DEAR MR. BANKHEAD: I wish at this time to bring to the attention of Congress the desirability of continuing the 3-cent rate of postage now applicable to certain first-class matter.

It is estimated that if the 2-cent rate should be in effect during the fiscal year 1938 the Department's revenues would be between \$80,000,000 and \$90,000,000 less than at the 3-cent rate and that, consequently, there would be a net deficiency in the postal revenues of more than \$100,000,000. This would, of course, have to be made up by funds raised by general taxation.

In view of this situation and the fact that the cost of operating the Postal Service has been greatly increased through the establishment of the 40-hour work-week and other increases in the expenditures of the Department, it is deemed most essential that the present 3-cent rate for first-class matter be continued at least 2 years longer.

It has been ascertained from the Bureau of the Budget that this report is in accord with the program of the President.

Very truly yours,

W. W. HOWES,
Acting Postmaster General

These temporary taxes and increased rates were provided for in the Revenue Act of 1932, many of the new taxes and rate increases being suggested by Secretary Mills.

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Your committee recommends that these temporary provisions be extended for a period of 2 years. The 2-year extension period is selected merely because it is not yet apparent that these additional revenues can be spared before the expiration of such a period. However, your committee recognized that many of these taxes are objectionable or contain objectionable features. But the extension of these taxes for a period of 2 years will not foreclose action on the part of Congress to remove them at an earlier date or to revise the same. In addition, the joint resolution extends to June 30, 1939, the power granted to the President under existing law to reduce the rates on nonlocal first-class mail matter. Thus, if the President finds, after a survey, that conditions so warrant, he can reduce the 3-cent postage rate at any time.

In order to show the taxes affected by this joint resolution, the actual revenues derived therefrom in the fiscal year 1936, the estimated revenues to be derived therefrom in 1937 and in 1938, and the estimated annual loss in revenues to be expected from a failure to extend the present temporary provisions of the existing revenue laws, the following table, prepared by the Treasury, is submitted:

EXPIRING MISCELLANEOUS TAXES AND TAXES SUBJECT TO CHANGE IN RATE AND BASE

Taxes which expire on June 30, or July 31, 1937, or are subject to change in rate and/or base after June 30, 1937, together with their yields for the fiscal year 1936 and estimates of their yields for the fiscal years 1937 and 1938

Tax	Yields during fiscal years—		
	1936	1937 (estimated)	1938 (estimated)
TAXES EXPIRING JUNE 30, 1937			
Gasoline.....	\$177,345,000	\$195,000,000	\$204,000,000
Electrical energy.....	33,575,000	35,500,000	36,400,000
Lubricating oil.....	27,103,000	31,500,000	33,300,000
Telegraph, telephone, cable, radio facilities, leased wires.....	21,058,000	24,000,000	25,400,000
Toilet preparations.....	13,302,000	15,000,000	15,000,000
Transportation of oil by pipe line.....	9,794,000	10,700,000	11,000,000
Mechanical refrigerators.....	7,930,000	9,800,000	11,100,000
Matches.....	6,886,000	7,000,000	7,200,000
Sperming goods.....	5,531,000	7,620,000	8,000,000
Riches acts, etc.....	5,075,000	7,000,000	7,800,000
Articles made of fur.....	3,321,000	6,000,000	7,000,000
Firearms, shells, etc.....	2,495,000	8,000,000	8,300,000
Brewers' wort and malt steep.....	1,028,000	900,000	900,000
Cheering gum.....	507,000	000,000	000,000
Cannons and lenses.....	575,000	(?)	(?)
Subtotal.....	\$18,852,000	\$53,900,000	\$72,810,000
Taxes on imports of—			
Cruise petroleum, etc.....	7,168,000	(?)	(?)
Coal, coke, etc.....	2,437,000	(?)	(?)
Copper and copper concentrates, etc.....	2,105,000	(?)	(?)
Lumber.....	1,142,000	(?)	(?)
Paraffin and other petroleum wax products.....	113,000	(?)	(?)
Gasoline; lubricating oil.....	(?)	(?)	(?)
Subtotal.....	13,068,000	(?)	17,800,000
Stamp taxes:			
Transfer of bonds.....	(?)	(?)	(?)
Deeds of conveyance.....	(?)	(?)	(?)
Subtotal.....	(?)	(?)	(?)
Total yield of taxes expiring June 30, 1937 (exclusive of taxes on transfers of bonds and deeds of conveyance).....	\$28,817,000	\$53,920,000	\$90,610,000

Footnotes at end of table.

4 EXTEND CERTAIN EXCISE TAXES AND POSTAGE RATES

Taxes which expire on June 30, or July 31, 1937, or are subject to change in rate and/or base after June 30, 1937, together with their yields for the fiscal year 1936 and estimates of their yields for the fiscal years 1937 and 1938—Continued

Tax	Yields during fiscal years—		
	1936	1937 (est.)	1938 (est.)
TAXES EXPIRING JULY 31, 1937			
Automobiles and motorcycles.....	46,301,000	55,000,000	56,200,000
Tires and tubes.....	22,208,000	30,520,000	27,300,000
Automobile accessories.....	7,110,000	8,500,000	8,300,000
Automobile trucks.....	7,000,000	8,100,000	8,100,000
Total yield, taxes expiring July 31, 1937.....	87,619,000	102,120,000	112,000,000
Total yield, taxes expiring June 30 and July 31, 1937.....	423,326,000	463,120,000	462,718,000
TAXES SUBJECT TO CHANGE IN RATE AND/OR BASE AFTER JUNE 30, 1937			
Issue of bonds.....	(1)	(1)	(1)
Issue of capital stock.....	(1)	(1)	(1)
Transfer of capital stock.....	31,035,000	34,000,000	34,000,000
Sales of produce for future delivery.....	2,944,000	4,000,000	2,000,000
Admission.....	15,561,000	(1)	(1)
Total.....	57,540,000	38,000,000	41,000,000

1 Include cigars and wines.
 2 Yields included along with sporting goods.
 3 Not available.
 4 Yield for transfer of bonds, deeds of conveyance, and issues of securities are: 1936, \$28,162,650.00; 1937 (estimate), \$34,000,000.00; 1938 (estimate), \$37,000,000.00.
 5 Estimated reduction in revenue for fiscal year 1938 for stamp taxes on transfers of bonds and deeds of conveyance is \$17,500,000.
 6 Estimated reduction in revenue, 1938, for those taxes subject to change in rate or base:
 Issue of securities..... \$3,000,000
 Stock transfers..... 17,000,000
 Sales of produce for future delivery..... 1,000,000
 Admissions..... 15,561,000
 Total..... \$47,561,000
 7 Excluding amounts not available.

Source: Budget, 1939; Annual Report of the Commissioner of Internal Revenue, 1936.

Since the majority of these temporary taxes will cease to be operative after June 30, 1937, unless this joint resolution becomes law before that date, the prompt consideration of this measure is urged by your committee.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in the Revenue Act of 1932, as amended, made by the joint resolution are shown as follows: Existing

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now proposed to be omitted is enclosed in black brackets; new matter printed in italics; existing law in which no change is proposed is shown in roman:

TITLE IV—MANUFACTURERS' EXCISE TAXES

SECTION 601 (AS AMENDED BY SEC. 4 (B) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1935, AND SEC. 601 (A) OF THE REVENUE ACT OF 1934, THE ACT ENTITLED "AN ACT TO AMEND SECTION 601 (C) (2) OF THE REVENUE ACT OF 1932", APPROVED JUNE 15, 1934, AND SEC. 328 OF THE LIQUOR TAX ADMINISTRATION ACT). EXCISE TAXES ON CERTAIN ARTICLES

(a) In addition to any other tax or duty imposed by law, there shall be imposed a tax as provided in subsection (c) on every article imported into the United States unless treaty provisions of the United States otherwise provide.

(b) The tax imposed under subsection (a) shall be levied, assessed, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930, and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act, except that—

(1) the value on which such tax shall be based shall be the sum of (A) the dutiable value (under section 503 of such act) of the article, plus (B) the customs duties, if any, imposed thereon under any provision of law;

(2) for the purposes of section 489 of such act (relating to additional duties on certain cases of undervaluation) such tax shall not be considered an ad valorem rate of duty or a duty based upon or regulated in any manner by the value of the article, and for the purposes of section 336 of such act (the so-called flexible tariff provision) such tax shall not be considered a duty;

(3) such tax shall not be imposed upon any article imported prior to the date on which this title takes effect;

(4) no drawback of such tax (except tax paid upon the importation of an article described in subsection (c) (4), (5), (6), or (7) shall be allowed under section 413 (a), (b), or (f) of the Tariff Act of 1930 or any provision of law allowing a drawback of customs duties on articles manufactured or produced with the use of duty-paid materials;

(5) such tax (except tax under subsection (c) (4) to (7), inclusive) shall be imposed to full notwithstanding any provision of law granting exemption from or reduction of duties to products of any possession of the United States; and for the purposes of taxes under subsection (c) (4) to (7), inclusive, the term "United States" includes Puerto Rico.

(c) There is hereby imposed upon the following articles sold in the United States by the manufacturer or producer, or imported into the United States, a tax at the rates hereinafter set forth, to be paid by the manufacturer, producer, or importer:

(1) Lubricating oils, 4 cents a gallon; but the tax on the articles described in this paragraph shall not apply with respect to the importation of such articles. Every person liable for tax under this paragraph shall register and file bond as provided in section 617, as amended. Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax shall be imposed under this section upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him, but for the purposes of this title such vendor shall be considered the manufacturer or producer of such lubricating oils.

(2) Brewer's wort, 15 cents a gallon. Liquid malt, malt syrup, and malt extract, fluid, solid, or condensed, made from malted cereal grains in whole or in part, unless sold to, or for resale to, a baker for use in baking or to, or for resale to, a manufacturer or producer of malted milk, medicinal products, foods, cereal beverages, or textiles, for use in the manufacture or production of such products, 3 cents a pound. For the purposes of this paragraph liquid malt containing less than 15 per centum of solids by weight shall be taxable as brewer's wort.

(4) Crude petroleum, ½ cent per gallon; fuel oil derived from petroleum, gas oil derived from petroleum, and all liquid derivatives of crude petroleum, except lubricating oil and gasoline or other motor fuel, ½ cent per gallon; gasoline or other motor fuel, 2½ cents per gallon; lubricating oil, 4 cents per gallon; paraffin and other petroleum wax products, 1 cent per pound. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(5) Coal of all sizes, grades, and classifications (except culm and duff), coke manufactured therefrom, and coal or coke briquettes, 10 cents per hundred pounds. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles, and shall not be imposed upon any such article if during the preceding calendar year the exports of the articles described in this paragraph from the United States to the country from which such article is imported have been greater in quantity than the imports into the United States from such country of the articles described in this paragraph.

(6) Lumber, rough, or planed or dressed, on one or more sides, except flooring made of maple (except Japanese maple), birch, and beech, \$3 per thousand feet, board measure; but the tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(7) Copper-bearing ores and concentrates and articles provided for in paragraphs 310, 380, 381, 387, 1020, 1634, 1657, 1658, or 1659 of the Tariff Act of 1930, 4 cents per pound on the copper contained therein: *Provided*, That no tax under this paragraph shall be imposed on copper in any of the foregoing which is lost in metallurgical processes: *Provided further*, That ores or concentrates usable as a flux or sulphur reagent in copper smelting and/or converting and having a copper content of not more than 15 per centum, when imported for fluxing purposes, shall be admitted free of said tax in an aggregate amount not to exceed in any one year 15,000 tons of copper content. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, in which copper (including copper in alloys) is the component material of chief value, 3 cents per pound. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, containing 4 per centum or more of copper by weight, 3 per centum ad valorem or $\frac{1}{4}$ of 1 cent per pound, whichever is the lower. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles. The Secretary is authorized to prescribe all necessary regulations for the enforcement of the provisions of this paragraph.

SECTION 60. TAX ON TIRES AND INNER TUBES

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer, a tax at the following rates:

(1) Tires wholly or in part of rubber, 2½ cents a pound on total weight (inclusive of metal rims or rim bases), to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

(2) Inner tubes (for tires) wholly or in part of rubber, 4 cents a pound on total weight, to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

SECTION 61. TAX ON TOILET PREPARATIONS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes (except that the rate shall be 5 per centum), dentifrices (except that the rate shall be 5 per centum), tooth pastes (except that the rate shall be 5 per centum), aseptic caustics, toilet soaps (except that the rate shall be 5 per centum), toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

SECTION 62. TAX ON FURS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 3 per centum of the price for which sold: Articles made of fur on the hide or pelt or of which any such fur is the component material of chief value.

SECTION 63 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935, TAX ON AUTOMOBILES, ETC.)

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

(a) Automobile truck chassis and automobile truck bodies (including in both cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 2 per centum. A sale of an automobile truck shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(b) Other automobile chassis and bodies and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 3 per centum. A sale of an automobile shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(c) Parts or accessories (other than tires and inner tubes) for any of the articles enumerated in subsection (a) or (b), 2 per centum. For the purposes of this subsection and subsections (a) and (b), spark plugs, storage batteries, leaf springs, coils, timers, and tire chains, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a) or (b), shall be considered parts or accessories for such articles, whether or not primarily adapted for such use. This subsection shall not apply to chassis or bodies for automobile trucks or other automobiles. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of parts or accessories by the manufacturer, producer, or importer to a manufacturer or producer of any of the articles enumerated in subsection (a) or (b). If any such parts or accessories are resold by such vendee otherwise than on or in connection with, or with the sale of, an article enumerated in subsection (a) or (b) and manufactured or produced by the manufacturer or producer of the parts or accessories, the vendee shall be considered the manufacturer or producer of such parts or accessories so resold.

(d) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under subsection (a) or (b) shall not apply in the case of sales of bodies by the manufacturer, producer, or importer to a manufacturer or producer of automobile trucks or other automobiles to be sold by such vendee. For the purposes of subsection (a) or (b) such vendee shall be considered the manufacturer or producer of such bodies.

(e) If tires or inner tubes on which tax has been imposed under this title are sold on or in connection with, or with the sale of a chassis, body, or motorcycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an automobile truck chassis or body, 2 per centum, and in the case of any other automobile chassis or body or motorcycle, 3 per centum—

(1) Of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 602 (relating to tax on tires and inner tubes); or

(2) If such tires or inner tubes were taxable under section 622 (relating to tax by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

(1) Where prior to August 1, [1937] 1939, any article subject to the tax imposed by this section or section 602, relating to tax on tires and inner tubes, has been sold by the manufacturer, producer, or importer, and is in such date held by a dealer and intended for sale, there shall be refunded to the manufacturer, producer, or importer the amount of the tax, or if the tax has not been paid, the tax shall be abated.

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

(3) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the refund provided by this subsection—(A) may be applied as a credit against the tax shown by subsequent returns of the manufacturer, producer, or importer, and (B) may be made to the dealer instead of to the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

(4) When the refund, credit, or abatement provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the refund, credit, or abate-

ment was allowed, so much of that amount of the tax corresponding to the refund, credit, or abatement, as was included in or added to the price paid or agreed to be paid by the dealer. Upon the failure of the manufacturer, producer, or importer to make such remission he shall be liable to the dealer for damages in the amount of three times the amount thereof, and the court shall include in any judgment in favor of the dealer in any suit for the recovery of such damages, costs of the suit and a reasonable attorney's fee to be fixed by the court.

SECTION 57. TAX ON RADIO RECEIVING SETS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold: Chassis, cabinets, tubes, reproducing units, power packs, and phonograph mechanisms, suitable for use in connection with or as part of radio receiving sets or combination radio and phonograph sets (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), and records for phonographs. A sale of any two or more of the above articles shall, for the purpose of this section, be considered a sale of each separately.

SECTION 58. TAX ON MECHANICAL REFRIGERATORS

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold:

(a) Household type refrigerators (for single or multiple cabinet installation) operated with electricity, gas, kerosene, or other means (including parts or accessories therefor sold on or in connection therewith or with the sale thereof).

(b) Cabinets, compressors, condensers, expansion units, absorbers, and controls (hereinafter referred to as "refrigerator components") for, or suitable for use as part of or with, any of the articles enumerated in subsection (a) (including in each case parts or accessories for such refrigerator components sold on or in connection therewith or with the sale thereof) except when sold as component parts of complete refrigerators or refrigerating or cooling apparatus. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to a manufacturer or producer of refrigerators or refrigerating or cooling apparatus. If any such refrigerator components are resold by such vendor otherwise than on or in connection with or with the sale of, complete refrigerators or refrigerating or cooling apparatus manufactured or produced by such vendor, then for the purposes of this section the vendor shall be considered the manufacturer or producer of the refrigerator components so resold.

SECTION 59. TAX ON SPORTING GOODS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Tennis rackets, tennis-racket frames and strings, nets, racket covers and presses, skates, snowshoes, skis, toboggans, canoe paddles, polo mallets, baseball bats, gloves, masks, protectors, shoes and uniforms, football helmets, harness and uniforms, basketball goals and uniforms, golf bags and clubs, lacrosse sticks, balls of all kinds, including baseballs, footballs, tennis, golf, lacrosse, billiard and pool balls, fishing rods and reels, billiard and pool tables, chess and checker boards and pieces, dice, games and parts of games (except playing cards and children's toys and games); and all similar articles commonly or commercially known as sporting goods.

SECTION 60. TAX ON FIREARMS, SHELLS, AND CARTRIDGES

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

SECTION 61. TAX ON CAMERAS

There is hereby imposed upon cameras (except aerial cameras), weighing not more than 100 pounds, and lenses for such cameras, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold.

SECTION 62 (AS AMENDED BY SEC. 611 OF THE REVENUE ACT OF 1934). TAX ON MATCHES

There is hereby imposed upon matches, sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of paper matches in books the tax shall be one-half of 1 cent per 1,000 matches, and except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5 cents per 1,000 matches.

SECTION 63. TAX ON CHEWING GUM

There is hereby imposed upon chewing gum or substitutes therefor, sold by the manufacturer, producer, or importer, a tax equivalent to 2 per centum of the price for which so sold.

SEC. 616 (AS AMENDED BY SEC. 5 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 14, 1933). TAX ON ELECTRICAL ENERGY FOR DOMESTIC OR COMMERCIAL CONSUMPTION

(a) There is hereby imposed upon electrical energy sold for domestic or commercial consumption and not for resale a tax equivalent to 3 per centum of the price for which so sold, to be paid by the vendor under such rules and regulations as the Commissioner, with the approval of the Secretary, shall prescribe. The sale of electrical energy to an owner or lessee of a building, who purchases such electrical energy for resale to the tenants therein, shall for the purposes of this section be considered as a sale for consumption and not for resale, but the resale to the tenant shall not be considered a sale for consumption.

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

(c) No tax shall be imposed under this section upon electrical energy sold to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia. None of the provisions of this section shall apply to publicly owned electric and power plants. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe.

SECTION 617 (AS AMENDED BY SEC. 21 (B) OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND SEC. 625 OF THE REVENUE ACT OF 1934). TAX ON GASOLINE

(a) There is hereby imposed on gasoline sold by the producer or importer thereof, or by any producer of gasoline, a tax of 1 cent a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline.

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this title be considered a sale. Any person to whom gasoline is sold tax-free under this section on or after the effective date of the Revenue Act of 1932 shall be considered the producer of such gasoline.

(c) As used in this section—

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

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

(d) Every person subject to tax under this section or section 601 (c) (1) shall, before the thirtieth day after the date of the enactment of the Revenue Act of 1934 (or in the case of a person commencing business after such day before incurring any liability for tax under such sections) register with the collector for the district in which is located his principal place of business (or, if he has no principal place of business in the United States, with the collector at Baltimore, Maryland) and shall give a bond, to be approved by such collector, conditioned that he shall not engage in any attempt, by himself or by collusion with others, to defraud the United States of any tax under such sections; that he shall render truly and completely all returns, statements, and inventories required by law or regulations in pursuance thereof and shall pay all taxes due under such sections; and that he shall comply with all requirements of law and regulations in pursuance thereof with respect to tax under such sections. Such bond shall be in such sum as the collector may require in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, but not less than \$2,000. The collector may from time to time require new or additional bond in accordance with this subsection. Every person who fails to register or give bond as required by this subsection, or who in connection with any purchase of gasoline or lubricating oil falsely represents himself to be registered and bonded as provided by this subsection, or who willfully makes any false statement in an application for registration under this subsection, shall upon conviction thereof be fined not more than \$5,000 or imprisoned not more than five years, or both, together with the costs of prosecution. If the Commissioner finds that any manufacturer or producer has at any time evaded any Federal tax on gasoline or lubricating oil, he may revoke the registration of such manufacturer or producer, and no sale to, or for resale to, such manufacturer or producer thereafter shall be tax-free under section 601 (c) (1), this section, or section 620, as amended, but such manufacturer or producer shall not be relieved of the requirement of giving bond under this subsection.

(e) Under regulations prescribed by the Commissioner with the approval of the Secretary, records required to be kept with respect to taxes under section 601 (c) (1), as amended, or this section, and returns, reports, and statements with respect to such taxes filed with the Commissioner or a collector, shall be open to inspection by such officers of any State or Territory or political subdivision thereof or the District of Columbia as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils. The Commissioner and each collector shall furnish to any of such officers, upon written request, certified copies of any such statements, reports, or returns filed in his office upon the payment of a fee of \$1 for each one hundred words or fraction thereof in the copy or copies requested.

SECTION 618. DEFINITION OF SALE

For the purpose of this title, the lease of an article shall be considered the sale of such article.

SECTION 619. SALE PRICE

(a) In determining, for the purposes of this title, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this title, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations.

(b) If an article is—

- (1) sold at retail;
- (2) sold on consignment; or

(3) sold (otherwise than through an arm's-length transaction) at less than the fair market price;

the tax under this title shall (if based on the price for which the article is sold) be computed on the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner.

(c) In the case of (1) a lease, (2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments,

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SEC. 62 (AS AMENDED BY SEC. 4 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1932, AND SEC. 421 (A) OF THE REVENUE ACT OF 1935). TAX-FREE SALES

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

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

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

(3) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia.

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

SECTION 621 (AS AMENDED BY SEC. 4 (C) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1932, AND SEC. 421 (D) AND (E) OF THE REVENUE ACT OF 1935). CREDITS AND REFUNDS

(a) A credit against tax under this title, or a refund, may be allowed or made—

(1) to a manufacturer or producer, in the amount of any tax under this title which has been paid with respect to the sale of any article (other than a tire or inner tube) purchased by him and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under this title has been paid, or which has been sold free of tax by virtue of section 620, relating to sales of articles for further manufacture.

(2) to any person who has paid tax under this title with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article or a covering or container, or by a bona fide discount, rebate, or allowance; in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

(3) to a manufacturer, producer, or importer, in the amount of tax paid by him under this title with respect to the sale of any article to any vendee, if the manufacturer, producer, or importer has in his possession such evidence as the regulations may prescribe that on or after the first day of the second month following the date of the enactment of the Revenue Act of 1935—

(A) such article was, by any person—

(i) resold for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

(ii) used or resold for use as fuel supplies, ship's stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions;

(iii) in the case of products embraced in paragraph (2) of section 617(c), as amended, used or resold for use otherwise than as fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the production of such fuel: *Provided, however*, That no credit or refund shall be allowed or made under this paragraph in the case of sales or uses of products commonly or commercially known or sold as gasoline, including casinghead and natural gasoline;

(iv) in the case of lubricating oils, used or resold for nonlubricating purposes.

(B) The manufacturer, producer, or importer has repaid or agreed to repay the amount of such tax to the ultimate vendor or has obtained the consent of the ultimate vendor to the allowance of the credit or refund.

(b) Credit or refund under subsection (a) shall be allowed or made only upon compliance with the regulations prescribed by the Commissioner with the approval of the Secretary.

(c) Interest shall be allowed at the rate of 6 per centum per annum with respect to any amount of tax under this title credited or refunded, except that no interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of subsection (a) hereof, and except that no interest shall be allowed for any period prior to the first day of the second month following the date of the enactment of the Revenue Act of 1935.

(d) No overpayment of tax under this title shall be credited or refunded (otherwise than under subsection (a)), in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or unless he files with the Commissioner written consent of such ultimate purchaser to the allowance of the credit or refund.

SECTION 621. USE BY MANUFACTURER, PRODUCER, OR IMPORTER

If—

(1) any person manufactures, produces, or imports an article (other than a tire or inner tube) and uses it (otherwise than as material in the manufacture or production of, or as a component part of, another article to be manufactured or produced by him which will be taxable under this title or sold free of tax by virtue of section 620, relating to sale of articles for further manufacture); or

(2) any person manufactures, produces, or imports a tire or inner tube and sells it on or in connection with, or with the sale of, an article taxable under section 606 (a) or (b), relating to the tax on automobiles, or uses it; he shall be liable for tax under this title in the same manner as if such article was sold by him, and the tax (if based on the price for which the article is sold) shall be computed on the price at which such or similar articles are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

SECTION 622. SALES BY OTHERS THAN MANUFACTURER, PRODUCER, OR IMPORTER

In case any person acquires from the manufacturer, producer, or importer of an article, by operation of law or as a result of any transaction not taxable under this title, the right to sell such article, the sale of such article by such person shall be taxable under this article as if made by the manufacturer, producer, or importer, and such person shall be liable for the tax.

SECTION 624. EXEMPTION OF ARTICLES MANUFACTURED OR PRODUCED BY INDIANS

No tax shall be imposed under this title on any article of native Indian handicraft manufactured or produced by Indians on Indian reservations, or in Indian schools, or by Indians under the jurisdiction of the United States Government in Alaska.

SECTION 625. CONTRACTS PRIOR TO MAY 1, 1932.

(a) If (1) any person has, prior to May 1, 1932, made a bona fide contract for the sale, after the tax takes effect, of any article in respect of the sale of which a tax is imposed under this title, or in respect of which a tax is imposed under this subsection; and (2) such contract does not permit the adding to the amount to be paid under such contract, of the whole of such tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price. If a contract of the character above described was made with the United States, no tax shall be collected under this title. If any article has, under a contract of the character above described, been delivered, prior to June 21, 1932, to any person (other than a dealer or other than a person intending to use the article as material in the manufacture or production of another article, or to sell it on or in connection with, or with the sale of, another article), no tax shall be collected under this title.

(b) The taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected, returned, and paid to the United States by such vendor in the same manner as provided in section 702. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner, who shall cause collection of such taxes to be made from the vendee.

SECTION 626. RETURN AND PAYMENT OF MANUFACTURERS' TAXES

(a) Every person liable for any tax imposed by this title other than taxes on importation (except tax under section 615, relating to tax on soft drinks) shall make monthly returns under oath in duplicate and pay the taxes imposed by this

title to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time as fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 percentum a month from the time when the tax became due until paid.

NOTE.—Section 404 of the Revenue Act of 1935, approved August 30, 1935, changed the rate of interest provided in the above subsection to 6 percent per annum. Such section 404 reads as follows:

SEC. 404. INTEREST ON DELINQUENT TAXES

Notwithstanding any provision of law to the contrary, interest accruing during any period of time after the date of the enactment of this Act upon any internal-revenue tax (including amounts assessed or collected as a part thereof) or customs duty, not paid when due, shall be at the rate of 6 percentum per annum.

SECTION 621. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 600 of the Revenue Act of 1926, shall, insofar as applicable and not inconsistent with this act, be applicable in respect of the taxes imposed by this title.

SECTION 622. RULES AND REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes on articles sold by the manufacturer, producer, or importer. The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes which under the provisions of section 601 (b) are to be levied, assessed, collected, and paid in the same manner as duties imposed by the Tariff Act of 1930.

SECTION 623 (AS AMENDED BY SEC. 1 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933, SECTION 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1933). EFFECTIVE DATE

This title shall take effect on the fifteenth day after the date of the enactment of this act, except that section 622, relating to rules and regulations, and this section, shall take effect on the date of the enactment of this act. No sale or importation after June 30, [1937] 1939 (or after July 31, [1937] 1939, in the case of articles taxable under section 606, relating to the tax on automobiles, etc., or sec. 602, relating to the tax on tires and inner tubes), shall be taxable under this title.

SEC. 624 (ADDED BY SEC. 3 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933). EXEMPTION FROM TAX OF CERTAIN SUPPLIES FOR VESSELS

Under regulations prescribed by the Commissioner, with the approval of the Secretary, no tax under this title shall be imposed upon any article sold for use as fuel supplies, ships' stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions. Articles manufactured or produced with the use of articles upon the importation of which tax has been paid under this title, if laden for use as supplies on such vessels, shall be held to be exported for the purposes of section 601 (b).

TITLE V—MISCELLANEOUS TAXES

PART I—TAX ON TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES

SECTION 701 (AS AMENDED BY SEC. 313 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). IMPOSITION

(a) On and after the fifteenth day after the date of the enactment of this act, there shall be imposed—

(1) in the case of each telegraph, telephone, cable, or radio dispatch, message, or conversation, which originates on or after such date and before July 1, [1937] 1939, within the United States, a tax at the following rates:

(A) Telephone conversations for which the charge is 50 cents or more and less than \$1, 10 cents; for which the charge is \$1 or more and less than \$2, 11 cents; for which the charge is \$2 or more, 20 cents;

(B) telegraph dispatches and messages, 5 per centum of the amount charged therefor; and

(C) cable and radio dispatches and messages, 10 cents; but only one payment of such tax shall be required, notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

(2) a tax equivalent to 5 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act to any telegraph or telephone company for any leased wire or talking circuit special service furnished on or after such date and before July 1, [1937] 1939. This paragraph shall not apply to the amount paid for so much of such service as is utilized in the conduct, by a common carrier or telephone or telegraph company or radio broadcasting station or net work, of its business as such.

(b) No tax shall be imposed under this section upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia, nor upon any payment received from any person for services or facilities utilized in the collection of news for the public press or in the dissemination of news through the public press, if the charge for such services or facilities is billed in writing to such person. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe.

SECTION 702. RETURNS AND PAYMENT OF TAX

(a) The taxes imposed by section 701 shall be paid by the person paying for the services or facilities.

(b) Each person receiving any payments specified in section 701 shall collect the amount of the tax imposed by such section from the person making such payments, and shall on or before the last day of each month make a return, under oath, for the preceding month, and pay the taxes so collected, to the collector of the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe. The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

PART II—ADMISSIONS TAX

SECTION 703 (AS AMENDED BY SEC. 312 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). ADMISSIONS TAX

(a) Paragraph (1) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(1) A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription to be paid by the person paying for such admission; except that in case the amount paid for admission is less than 41 cents, no tax shall be imposed. In the case of persons (except bona fide employees, municipal officers on official business, and children under 12 years of age) admitted free or at reduced rates to any

place at a time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 41 cents";

(b) Paragraph (2) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(2) Upon tickets or cards of admission to theaters, operas, and other places of amusement, sold at news stands, hotels, and places other than the ticket offices of such theaters, operas, or other places of amusement, at a price in excess of the sum of the established price therefor at such ticket offices plus the amount of any tax imposed under paragraph (1), a tax equivalent to 10 per centum of the amount of such excess; such tax to be returned and paid, in the manner and subject to the interest provided in section 502, by the person selling such tickets";

(c) Section 500 of the Revenue Act of 1926, as amended, is amended by adding at the end thereof the following subdivision:

"(e) The exemption from tax provided by subdivision (b) (1) (A) shall not be allowed in the case of admissions to wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions. The exemption from tax provided by subdivision (b) (1) shall not be allowed in the case of admissions to any athletic game or exhibition the proceeds of which inure wholly or partly to the benefit of any college or university (including any academy of the military or naval forces of the United States)."

(d) Subsections (a) and (c) shall take effect on the fifteenth day after the date of the enactment of this act.

(e) Effective July 1, [1937] 1939, section 500 (a) (1) of the Revenue Act of 1926, as amended by subsection (b) of this section, is amended by striking out "less than 41 cents" wherever appearing in such paragraph, and inserting in lieu thereof "\$3 or less".

PART III—STAMP TAXES

SECTION 704 (AS AMENDED BY SEC. 311 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON ISSUES OF BONDS, ETC.

(a) Subdivision 1 of schedule A of title VIII of the Revenue Act of 1926 is amended by striking out "5 cents" and inserting in lieu thereof "10 cents", and by inserting at the end thereof a new sentence to read as follows: "The tax under this subdivision shall not apply to any instrument under the terms of which the obligee is required to make payment therefor in installments and is not permitted to make in any year a payment of more than 20 per centum of the cash amount to which entitled upon maturity of the instrument."

(b) Subsection (a) shall take effect on the 15th day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 1, as amended by subsection (a) of this section, is amended by striking out "10 cents" and inserting in lieu thereof "5 cents".

SECTION 705 (AS AMENDED BY SEC. 312 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON ISSUES OF STOCK, ETC.

(a) Subdivision 2 of schedule A of title VIII of the Revenue Act of 1926 is amended to read as follows:

"2. Capital stock (and similar interests), issue: On each original issue, whether on organization or reorganization, of shares or certificates of stock, or of profits, or of interest in property or accumulation, by any corporation, or by any investment trust or similar organization (or by any person on behalf of such investment trust or similar organization) holding or dealing in any of the instruments mentioned or described in this subdivision or subdivision 1 (whether or not such investment trust or similar organization constitutes a corporation within the meaning of this act), on each \$100 of par or face value or fraction thereof of the certificates issued by such corporation or by such investment trust or similar organization (or of the shares where no certificates were issued), 10 cents: Provided, That where such shares or certificates are issued without par or face value, the tax shall be 10 cents per share (corporate share, or investment trust or other organization share, as the case may be), unless the actual value is in excess of

\$100 per share, in which case the tax shall be 10 cents on each \$100 of actual value or fraction thereof of such certificates (or of the shares where no certificates were issued), or unless the actual value is less than \$100 per share, in which case the tax shall be 2 cents on each \$20 of actual value, or fraction thereof, of such certificates (or of the shares where no certificates were issued).

"The stamps representing the tax imposed by this subdivision shall be affixed to the stock books or corresponding records of the organization and not to the certificates issued."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 2, as amended by subsection (a) of this section, is amended by striking out "10 cents" wherever appearing in such subdivision and inserting in lieu thereof "5 cents", and by striking out "2 cents" and inserting in lieu thereof "1 cent".

SECTION 724 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON TRANSFER OF STOCKS, ETC.

(a) Subdivision 3 of Schedule A of Title VIII of the Revenue Act of 1926 is amended to read as follows:

"3. Capital stock (and similar interests), sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the shares or certificates mentioned or described in subdivision 2, or to rights to subscribe for or to receive such shares or certificates, whether made upon or shown by the books of the corporation or other organization, or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such share, certificate, interest, or right, or not), on each \$100 of par or face value or fraction thereof of the certificates of such corporation or other organization (or of the shares where no certificates were issued), 4 cents, and where such shares or certificates are without par or face value, the tax shall be 4 cents on the transfer or sale or agreement to sell on each share (corporate share, or investment trust or other organization share, as the case may be): *Provided*, That in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further*, That it is not intended by this title to impose a tax upon an agreement evidencing a deposit of certificates as collateral security for money loaned thereon, which certificates are not actually sold, nor upon the delivery or transfer for such purpose of certificates so deposited nor upon the return of stock loaned: *Provided further*, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom sold upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such shares or certificates continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That in case of sale where the evidence of transfer is shown only by the books of the corporation or other organization the stamp shall be placed upon such books; and where the change of ownership is by transfer of the certificate the stamp shall be placed upon the certificate; and in cases of an agreement to sell or where the transfer is by delivery of the certificate assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any stock, share, interest, or right, or bill or memorandum thereof, as herein required, without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 3, as amended by subsection (a) of this section, is amended by striking out "4 cents" wherever appearing in such subdivision and inserting in lieu thereof "2 cents", and by striking out the following: "in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further*, That".

SECTION 724 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON TRANSFER OF BONDS, ETC.

(a) Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"B. Bonds, etc., sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the instruments mentioned or described in subdivision 1 and of a kind the issue of which is taxable thereunder, whether made by any assignment in blank or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such instrument or not), on each \$100 of face value or fraction thereof, 4 cents: *Provided*, That it is not intended by this title to impose a tax upon an agreement evidencing a deposit of instruments as collateral security for money loaned thereon, which instruments are not actually sold, nor upon the delivery or transfer for such purpose of instruments so deposited: *Provided further*, That the tax shall not be imposed on deliveries or transfers of bonds in connection with a reorganization (as defined in section 112 of the Revenue Act of 1932) if any of the gain or loss from the exchange or distribution involved in the delivery or transfer is not recognized under the income tax law applicable to the year in which the delivery or transfer is made: *Provided further*, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such instruments continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That where the change of ownership is by transfer of the instrument the stamp shall be placed upon the instrument; and in cases of an agreement to sell or where the transfer is by delivery of the instrument assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any such instrument, or bill or memorandum thereof, as herein required without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Subdivision 3 of schedule A of title VIII of the Revenue Act of 1926, added to such schedule by subsection (a) of this section, is repealed effective July 1, [1937] 1939.

SECTION 725 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON CONVEYANCES

Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"8. Conveyances: Deed, instrument, or writing, delivered on or after the 15th day after the date of the enactment of the Revenue Act of 1932 and before July 1, [1937] 1939 (unless deposited in escrow before April 1, 1932), whereby

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any lands, tenements, or other realty sold shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by his, her, or their direction, when the consideration or value of the interest or property conveyed, exclusive of the value of any lien or encumbrance remaining thereon at the time of sale, exceeds \$100 and does not exceed \$500, 50 cents; and for each additional \$500 or fractional part thereof, 50 cents. This subdivision shall not apply to any instrument or writing given to secure a debt."

SECTION 70 (AS AMENDED BY SEC. 312 OF THE NATIONAL INDUSTRIAL RECOVERY ACT, SEC. 612 OF THE REVENUE ACT OF 1934, AND THE JOINT RESOLUTION OF JUNE 28, 1935). STAMP TAX ON SALES OF PRODUCE FOR FUTURE DELIVERY

(a) Subdivision 4 of schedule A of title VIII of the Revenue Act of 1930 is amended by striking out "1 cent" wherever appearing in such subdivision, and inserting in lieu thereof "3 cents".

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1935, such subdivision 4, as amended by subsection (a) of this section, is amended by striking out "3 cents" wherever appearing in such subdivision and inserting in lieu thereof "1 cent".

PART IV—TAX ON TRANSPORTATION OF OIL BY PIPE LINE

SECTION 71 (AS AMENDED BY SEC. 312 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935). TAX ON TRANSPORTATION OF OIL BY PIPE LINE

(a) There is hereby imposed upon all transportation of crude petroleum and liquid products thereof by pipe line originating on or after the fifteenth day after the date of the enactment of this act and before July 1, [1937] 1935—

(1) A tax equivalent to 4 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act for such transportation, to be paid by the person furnishing such transportation.

(2) In case no charge for transportation is made, either by reason of ownership of the commodity transported or for any other reason, a tax equivalent to 4 per centum of the fair charge for such transportation, to be paid by the person furnishing such transportation.

(3) If (other than in the case of an arm's length transaction) the payment for transportation is less than the fair charge therefor, a tax equivalent to 4 per centum of such fair charge, to be paid by the person furnishing such transportation.

(b) For the purposes of this section, the fair charge for transportation shall be computed—

(1) from actual bona fide rates or tariffs, or

(2) if no such rates or tariffs exist, then on the basis of the actual bona fide rates or tariffs of other pipe lines for like services, as determined by the Commissioner, or

(3) if no such rates or tariffs exist, then on the basis of a reasonable charge for such transportation, as determined by the Commissioner.

(c) Every person liable for the tax imposed under subsection (a) shall make monthly returns under oath in duplicate and pay such taxes to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

PART VIII—ADMINISTRATIVE PROVISIONS

SECTION 71. PAYMENT OF TAXES

The taxes imposed by parts I, IV, V, and VI of this title shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time the tax become due until paid.

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NOTE.—Section 404 of the Revenue Act of 1935, approved August 30, 1935, changed the rate of interest provided in the above subsection to 6 percent per annum. Such section 404 reads as follows:

SECTION 64. INTEREST ON DELINQUENT TAXES

Notwithstanding any provision of law to the contrary, interest accruing during any period of time after the date of the enactment of this act upon any internal-revenue tax (including amounts assessed or collected as a part thereof) or customs duty, not paid when due, shall be at the rate of 6 per centum per annum.

SECTION 72. REFUNDS AND CREDITS

(a) Credit or refund of any overpayment of tax imposed by part I, V, or VI of this title may be allowed to the person who collected the tax and paid it to the United States if such person establishes to the satisfaction of the Commissioner, under such regulations as the Commissioner with the approval of the Secretary may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or obtained the consent of such person to the allowance of such credit or refund.

(b) Any person entitled to refund of tax under part I, IV, V, or VI of this title paid, or collected and paid, to the United States by him may take credit therefor against taxes due upon any monthly return.

(c) Any person making a refund of any payment on which tax under part I or V has been collected may repay therewith the amount of tax collected on such payment, and the amount of tax so repaid may be credited against the tax under any subsequent return.

SECTION 73. REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of parts I, IV, V, and VI, of this title.

SECTION 74. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 509 of the Revenue Act of 1920, shall, insofar as applicable and not inconsistent with this Act, be applicable in respect of the taxes imposed by parts I, IV, V, and VI of this title.

TITLE VIII—POSTAL RATES

SECTION 101 (A) (AS AMENDED BY SEC. 3 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1935, SEC. 612 OF THE REVENUE ACT OF 1934, AND THE JOINT RESOLUTION OF JUNE 28, 1935). POSTAL RATES

(a) On and after the thirtieth day after the date of the enactment of this Act and until July 1, [1937] 1935, the rate of postage on all mail matter of the first class (except postal cards and private mailing or post-cards, and except other first-class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) shall be 1 cent for each ounce or fraction thereof in addition to the rate provided by existing law: *Provided*, That such additional rate shall not apply on or after July 1, 1935, to first-class matter mailed for local delivery.

Also, in compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in section 2 of the act entitled "An act to extend the gasoline tax for 1 year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1935, as amended by section 515 of the Revenue Act of 1934, and the joint resolution of June 28, 1935, are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is

printed in italics; existing law in which no change is proposed is shown in roman:

Sec. 7. The President is authorized during the period ending June 30, [1937] 1939, to proclaim such modifications of postage rates on mail matter (except that in the case of first-class matter the rate shall not be reduced to less than 2 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interest of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, [1937] 1939. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentages of gross postal receipts specified in section 1001 (c) of the Revenue Act of 1932 as amended by this Act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.

MINORITY VIEWS

We, the Republican members of the Ways and Means Committee, are unanimously opposed to House Joint Resolution 375, which would continue the so-called "nuisance taxes" for another period of 2 years.

These taxes were originally imposed in 1932 with the definite promise to the American people that they would be allowed to expire at the end of 2 years as provided in the statute. They have twice been continued by the present administration in violation of that pledge, once for a 1-year period and again for a 2-year period. The present proposed extension constitutes a third breach of faith on the part of the Administration.

The so-called "nuisance taxes" are all consumption taxes, which fall most heavily on the poor and those least able to pay. They are also discriminatory, in that they apply only to certain selected items.

The fact should not be overlooked that the 3-cent rate on first-class postage, which is continued by the pending joint resolution, constitutes a tax to the extent that the revenues therefrom exceed the cost of carrying this class of mail. In the current fiscal year, this "tax" on the American people is estimated to amount to \$122,000,000.

While it in no way affects our opposition to the joint resolution, we think it appropriate to call attention to the fact that the extension of the nuisance taxes for 2 years, rather than 1 year, contains an element of politics. A 1-year extension would require another extension resolution next year, just prior to the Congressional elections, which of course would work to the political disadvantage of the Democratic Party. The 2-year extension bridges the 1938 elections, and therefore avoids raising the tax issue at that time. Moreover, by continuing the taxes for 2 years, the Democrats possibly may have in mind bringing in a resolution next year to repeal the nuisance taxes just before the election and thus reap the political advantage which would thereby result. This, however, could not be sincerely done in view of the acute financial condition of the Treasury.

The principal basis of our objection to the extension resolution is that we are absolutely opposed to the enactment of any new taxes, or the continuance of any of the nuisance taxes, until the administration has first made an honest and sincere effort to reduce expenditures by the elimination of extravagance and waste.

We have expressed these sentiments before, particularly in connection with the Revenue Acts of 1935 and 1936. We are not retreating one step from this position. We repeat that we are in favor of a balanced Budget, but we feel that in the interest of the already overburdened taxpayers, especially those of small means, it should be balanced by reducing expenditures and not wholly by taxation.

Ever since the President, as a candidate for office in 1932, pledged "that rigid governmental economy shall be forced by a stern and unrelenting administration policy of living within our income", there

has been a succession of deficits under his administration which by the close of the current fiscal year will aggregate nearly \$16,000,000,000. Taxes have been raised again and again, but increased revenues have been completely offset by increased expenditures. The President definitely promised to reduce governmental costs 25 percent below the 1932 level of 5 billions, but instead he has increased them by 2 to 3 billions annually. If he had merely held expenditures at the 1932 level, our present tax structure would produce in the fiscal year 1938 nearly 2 billions in excess of our needs.

For the foregoing reasons, among others, we are opposed to the passage of House Joint Resolution 375.

ALLEN T. TREADWAY,
FRANK CROWTHER,
HAROLD KNUTSON,
DANIEL A. REED,
ROY O. WOODRUFF,
THOMAS A. JENKINS,
LLOYD THURSTON.



Regraded Unclassified

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... his administration which by ... nearly \$10,000,000 ... but increased revenues ... increased expenditures ... 25 percent ... but instead he has increased them ... held expenditures ...

... we are opposed to the ...

- ALFRED T. THORNTON
- FRANK CROWTHER
- HAROLD KNIGHTON
- GARRET A. RICE
- ROY G. WOODRUFF
- THOMAS A. JENKINS
- LOYD THURSTON

75TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 935

EXTENSION OF CERTAIN EXCISE TAXES AND POSTAGE RATES

JUNE 4, 1937.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. DOUGHTON, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H. J. Res. 375]

The Committee on Ways and Means, to whom was referred the joint resolution (H. J. Res. 375) to provide revenue, and for other purposes, having had the same under consideration, report it back to the House without amendment and recommend that the joint resolution do pass.

Under existing law certain excise taxes become inoperative after June 30, 1937, certain others become inoperative after July 31, 1937, and certain others will continue to operate only at reduced rates or with increased exemptions after June 30, 1937. In addition, the rate on nonlocal, first-class mail matter will be subject to reduction from 3 cents to 2 cents after June 30, 1937.

If the temporary taxes, and the temporary increased rates or decreased exemptions, and the temporary increased rate on nonlocal, first-class mail matter are permitted to lapse at this time, the Treasury faces a total annual loss of revenue estimated at nearly \$650,000,000, as will be shown hereafter in this report.

It is the opinion of your committee that the revenues provided by the temporary provisions above referred to cannot be spared at this time. In this connection, there are submitted the following letters, one from the Secretary of the Treasury and one from the Acting Postmaster General, pointing out the necessity for continuing these temporary provisions at this time:

TREASURY DEPARTMENT,
Washington.

Hon. ROBERT L. DOUGHTON,

Chairman, Ways and Means Committee, House of Representatives.

MY DEAR MR. DOUGHTON: The annual Budget message of the President to the Congress, which appears in the Congressional Record under date of January 1937, at page 125, contained the following recommendation:

"Temporary miscellaneous internal-revenue taxes: I recommend that the Congress take steps by suitable legislation to extend the miscellaneous internal-

EXTEND CERTAIN EXCISE TAXES AND POSTAGE RATES

revenue taxes which under existing law will expire next June and July, and also to maintain the current rates of those taxes which would otherwise be reduced next June. I consider that the revenue from such taxes or its equivalent is necessary for the financing of the Budget for 1938."

It was also recommended that the 3-cent postage rate for first-class mail other than for local delivery be continued.

In his supplemental Budget message, which appears in the Congressional Record under date of April 29, 1937, at page 4670, the President pointed out that his expectation of bringing actual income and outgo for the fiscal year 1938 into balance was predicated on two highly important conditions, one of which is the extension of existing taxes which expire this year.

In the light of these recommendations and in view of the Treasury's urgent need of the substantial revenues which these temporary taxes are producing and the fact that they will soon terminate by limitation unless extended, the Department recommends that appropriate action be taken to extend those taxes, which are about to expire, at the existing rates for a period of 2 years. It may be noted that a similar extension was accomplished 2 years ago by the enactment of House Joint Resolution 324, which for purposes of convenience was drafted in such manner as to cover the continuation both of the temporary taxes and the 3-cent postage rate.

Sincerely,

H. MORGENTHAU, Jr.,
Secretary of the Treasury.

POST OFFICE DEPARTMENT,
OFFICE OF THE POSTMASTER GENERAL,
Washington, D. C., March 9, 1937.

Hon. WILLIAM B. BANKHEAD,
Speaker, House of Representatives, Washington, D. C.

MY DEAR MR. BANKHEAD: I wish at this time to bring to the attention of Congress the desirability of continuing the 3-cent rate of postage now applicable to certain first-class matter.

It is estimated that if the 2-cent rate should be in effect during the fiscal year 1938 the Department's revenues would be between \$80,000,000 and \$90,000,000 less than at the 3-cent rate and that, consequently, there would be a net deficiency in the postal revenues of more than \$100,000,000. This would, of course, have to be made up by funds raised by general taxation.

In view of this situation and the fact that the cost of operating the Postal Service has been greatly increased through the establishment of the 40-hour work-week and other increases in the expenditures of the Department, it is deemed most essential that the present 3-cent rate for first-class matter be continued at least 2 years longer.

It has been ascertained from the Bureau of the Budget that this report is in accord with the program of the President.

Very truly yours,

W. W. HOWZE,
Acting Postmaster General.

These temporary taxes and increased rates were provided for in the Revenue Act of 1932, many of the new taxes and rate increases being suggested by Secretary Mills.

Your committee recommends that these temporary provisions be extended for a period of 2 years. The 2-year extension period is selected merely because it is not yet apparent that these additional revenues can be spared before the expiration of such a period. However, your committee recognized that many of these taxes are objectionable or contain objectionable features. But the extension of these taxes for a period of 2 years will not foreclose action on the part of Congress to remove them at an earlier date or to revise the same. In addition, the joint resolution extends to June 30, 1939, the power granted to the President under existing law to reduce the rates on

EXTEND CERTAIN EXCISE TAXES AND POSTAGE RATES 3

nonlocal first-class mail matter. Thus, if the President finds, after a survey, that conditions so warrant, he can reduce the 3-cent postage rate at any time.

In order to show the taxes affected by this joint resolution, the actual revenues derived therefrom in the fiscal year 1936, the estimated revenues to be derived therefrom in 1937 and in 1938, and the estimated annual loss in revenues to be expected from a failure to extend the present temporary provisions of the existing revenue laws, the following table, prepared by the Treasury, is submitted:

EXPIRING MISCELLANEOUS TAXES AND TAXES SUBJECT TO CHANGE IN RATE AND BASE

Taxes which expire on June 30, or July 31, 1937, or are subject to change in rate and/or base after June 30, 1937, together with their yields for the fiscal year 1936 and estimates of their yields for the fiscal years 1937 and 1938.

Tax	Yields during fiscal years—		
	1936	1937 (estimated)	1938 (estimated)
TAXES EXPIRING JUNE 30, 1937			
Gasoline.....	\$177,340,000	\$190,000,000	\$234,000,000
Electricity.....	33,573,000	35,000,000	36,400,000
Lubricating oil.....	27,103,000	31,500,000	33,300,000
Telegraph, telephone, cable, radio facilities, leased wires.....	21,098,000	24,000,000	25,400,000
Toilet preparations.....	12,302,000	15,000,000	15,800,000
Transportation of oil by pipe line.....	9,794,000	10,700,000	11,000,000
Mechanical refrigerators.....	7,053,000	8,800,000	11,100,000
Matches.....	6,889,000	7,000,000	7,200,000
Sporting stools.....	5,531,000	7,020,000	8,000,000
Radios sets, etc.....	5,075,000	7,000,000	7,800,000
Articles made of fur.....	3,321,000	4,000,000	7,000,000
Furskins, shells, etc.....	2,495,000	3,000,000	3,300,000
Brewers' wort and malt sirup.....	1,068,000	900,000	900,000
Chewing gum.....	907,000	900,000	900,000
Cameras and lenses.....	578,000	(?)	(?)
Subtotal.....	315,833,000	353,020,000	373,310,000
Taxes on imports of—			
Crude petroleum, etc.....	7,198,000	(?)	(?)
Coal, coke, etc.....	2,437,000	(?)	(?)
Copper and copper concentrates, etc.....	2,100,000	(?)	(?)
Lumber.....	1,142,000	(?)	(?)
Paraffin and other petroleum wax products.....	113,000	(?)	(?)
Gasoline; lubricating oil.....	(?)	(?)	(?)
Subtotal.....	12,990,000	(?)	17,800,000
Stamp taxes: *			
Transfer of bonds.....	(?)	(?)	(?)
Deeds of conveyance.....	(?)	(?)	(?)
Subtotal.....	(?)	(?)	(?)
Total yield of taxes expiring June 30, 1937 (inclusive of taxes on transfers of bonds and deeds of conveyance).....	328,817,000	353,020,000	390,110,000
TAXES EXPIRING JULY 31, 1937			
Automobiles and motorcycles.....	48,201,000	55,000,000	58,300,000
Tires and tubes.....	32,336,000	36,300,000	37,000,000
Automobile accessories.....	7,152,000	8,800,000	9,300,000
Automobile trucks.....	7,000,000	8,100,000	8,100,000
Total yield, taxes expiring July 31, 1937 ^b	94,689,000	108,200,000	112,800,000
Total yield, taxes expiring June 30 and July 31, 1937 ^a	423,506,000	461,220,000	502,910,000

See footnotes at end of table.

4 EXTEND CERTAIN EXCISE TAXES AND POSTAGE RATES

Taxes which expire on June 30, or July 31, 1937, or are subject to change in rate and/or base after June 30, 1937, together with their yields for the fiscal year 1938 and estimates of their yields for the fiscal years 1937 and 1938—Continued

Tax	Yields during fiscal years—		
	1936	1937 (estimated)	1938 (estimated)
TAXES SUBJECT TO CHANGE IN RATE AND/OR BASE AFTER JUNE 30, 1937			
Issue of bonds 10 cents per \$100 face value or fraction changed to 5 cents per \$100 or fraction	(1)	(1)	(1)
Issue of capital stock 10 cents per \$100 face value or if without face value: (a) if actual value is less than \$100, 5 cents on each \$20 or fraction; (b) if actual value is over \$100, 10 cents on each \$100 or fraction changed to 5 cents per \$100 face value or if without face value: (a) if actual value is less than \$100, 1 cent on each \$20 or fraction; (b) if actual value is over \$100, 5 cents on each \$100 or fraction.	(1)	(1)	(1)
Transfer of capital stock 5 cents per \$100 face value or fraction or if without face value: (a) if selling price is less than \$20 per share, 4 cents; (b) if selling price is \$20 or over, 5 cents per share changed to 5 cents per \$100 face value or fraction.	\$11,555,000	\$14,900,000	\$28,400,000
Issue of produce for future delivery 5 cents per \$100 or fraction changed to 1 cent per \$100 or fraction	3,944,000	4,000,000	3,000,000
Admissions 1 cent for every 10 cents over 40 cents changed to 1 cent for every 10 cents over \$1.	10,301,000	(1)	(1)
Total	31,800,000	39,900,000	41,400,000

¹ Includes customs and taxes.
² (a) included along with sporting goods.
³ Not available.
⁴ Yield for transfer of bonds, debts of conveyance, and issues of securities are: 1936, \$28,162,638 (200 estimate), \$34,000,000; 1938 (estimate), \$37,000,000.
 Estimated reduction in revenue for fiscal year 1938 for stamp taxes on transfers of bonds and debts of conveyance is \$12,300,000.
 Estimated reduction in revenue, 1938, for those taxes subject to change in rate or base:
 Issues of securities..... \$5,400,000
 Stock transfers..... 17,400,000
 Issue of produce for future delivery..... 1,000,000
 Admissions..... 11,200,000
Total..... \$35,000,000

⁵ Excluding amounts not available.
 Source: Budget, 1938, Annual Report of the Commissioner of Internal Revenue, 1938.

Since the majority of these temporary taxes will cease to be operative after June 30, 1937, unless this joint resolution becomes law before that date, the prompt consideration of this measure is urged by your committee.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in the Revenue Act of 1932, as amended, made by the joint resolution are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman:

EXTEND CERTAIN EXCISE TAXES AND POSTAGE RATES 5

TITLE IV—MANUFACTURERS' EXCISE TAXES

SECTION 901 (AS AMENDED BY SEC. 4 (B) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1932, AND SEC. 901 (A) OF THE REVENUE ACT OF 1934, THE ACT ENTITLED "AN ACT TO AMEND SECTION 901 (C) (2) OF THE REVENUE ACT OF 1927", APPROVED JUNE 16, 1934, AND SEC. 228 OF THE LIQUOR TAX ADMINISTRATION ACT). EXCISE TAXES ON CERTAIN ARTICLES

(a) In addition to any other tax or duty imposed by law, there shall be imposed a tax as provided in subsection (c) on every article imported into the United States unless treaty provisions of the United States otherwise provide.

(b) The tax imposed under subsection (a) shall be levied, assessed, collected, and paid in the same manner as a duty imposed by the Tariff Act of 1930, and shall be treated for the purposes of all provisions of law relating to the customs revenue as a duty imposed by such act, except that—

(1) the value on which such tax shall be based shall be the sum of (A) the dutiable value (under section 503 of such act) of the article, plus (B) the customs duties, if any, imposed thereon under any provision of law;

(2) for the purposes of section 499 of such act (relating to additional duties in certain cases of undervaluation) such tax shall not be considered an ad valorem rate of duty or a duty based upon or regulated in any manner by the value of the article, and for the purposes of section 336 of such act (the so-called flexible tariff provision) such tax shall not be considered a duty;

(3) such tax shall not be imposed upon any article imported prior to the date on which this title takes effect;

(4) no drawback of such tax (except tax paid upon the importation of an article described in subsection (c) (4), (5), (6), or (7)) shall be allowed under section 513 (a), (b), or (f) of the Tariff Act of 1930 or any provision of law allowing a drawback of customs duties on articles manufactured or produced with the use of duty-paid materials;

(5) such tax (except tax under subsection (c) (4) to (7), inclusive) shall be imposed in full notwithstanding any provision of law granting exemption from or reduction of duties to products of any possession of the United States; and for the purposes of taxes under subsection (c) (4) to (7), inclusive, the term "United States" includes Puerto Rico.

(c) There is hereby imposed upon the following articles sold in the United States by the manufacturer or producer, or imported into the United States, a tax at the rates hereinafter set forth, to be paid by the manufacturer, producer, or importer:

(1) Lubricating oils, 4 cents a gallon; but the tax on the articles described in this paragraph shall not apply with respect to the importation of such articles. Every person liable for tax under this paragraph shall register and file bond as provided in section 617, as amended. Under regulations prescribed by the Commissioner with the approval of the Secretary, no tax shall be imposed under this section upon lubricating oils sold to a manufacturer or producer of lubricating oils for resale by him, but for the purposes of this title such vendee shall be considered the manufacturer or producer of such lubricating oils.

(2) Brewer's wort, 15 cents a gallon. Liquid malt, malt syrup, and malt extract, fluid, solid, or condensed, made from malted cereal grains in whole or in part, unless sold to, or for resale to, a baker for use in baking or to, or for resale to, a manufacturer or producer of malted milk, medicinal products, foods, cereal beverages, or textiles, for use in the manufacture or production of such products, 2 cents a pound. For the purposes of this paragraph liquid malt containing less than 15 per centum of solids by weight shall be taxable as brewer's wort.

(4) Crude petroleum, 3/4 cent per gallon; fuel oil derived from petroleum, gas oil derived from petroleum, and all liquid derivatives of crude petroleum, except lubricating oil and gasoline or other motor fuel, 1/2 cent per gallon; gasoline or other motor fuel, 2 1/2 cents per gallon; lubricating oil, 4 cents per gallon; paraffin and other petroleum wax products, 1 cent per pound. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(5) Coal of all sizes, grades, and classifications (except culm and dust), coke manufactured therefrom; and coal or coke briquettes, 10 cents per hundred pounds. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles, and shall not be imposed upon any such article if during the preceding calendar year the exports of the articles described in this paragraph from the United States to the country from which such article is imported have been greater in quantity than the imports into the United States from such country of the articles described in this paragraph.

(6) Lumber, rough, or planed or dressed, on one or more sides, except flooring made of maple (except Japanese maple), birch, and beech, \$3 per thousand (board measure); but the tax on the articles described in this paragraph shall apply only with respect to the importation of such articles.

(7) Copper-bearing ores and concentrates and articles provided for in paragraphs 316, 380, 381, 387, 1620, 1634, 1657, 1658, or 1659 of the Tariff Act of 1930, 4 cents per pound on the copper contained therein: *Provided*, That no tax under this paragraph shall be imposed on copper in any of the foregoing which is lost in metallurgical processes: *Provided further*, That ores or concentrates usable as a flux or sulphur reagent in copper smelting and/or converting and having a copper content of not more than 15 per centum, when imported for fusing purposes, shall be admitted free of said tax in an aggregate amount of not to exceed in any one year 15,000 tons of copper content. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, in which copper (including copper in alloys) is the component material of chief value, 3 cents per pound. All articles dutiable under the Tariff Act of 1930, not provided for heretofore in this paragraph, containing 4 per centum or more of copper by weight, 3 per centum ad valorem or $\frac{1}{4}$ of 1 cent per pound, whichever is the lower. The tax on the articles described in this paragraph shall apply only with respect to the importation of such articles. The Secretary is authorized to prescribe all necessary regulations for the enforcement of the provisions of this paragraph.

SECTION 62. TAX ON TIRES AND INNER TUBES

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer, a tax at the following rates:

- (1) Tires wholly or in part of rubber, $2\frac{1}{2}$ cents a pound on total weight (exclusive of metal rims or rim bases), to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.
- (2) Inner tubes (for tires) wholly or in part of rubber, 4 cents a pound on total weight, to be determined under regulations prescribed by the Commissioner with the approval of the Secretary.

SECTION 63. TAX ON TOILET PREPARATIONS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Perfumes, essences, extracts, toilet waters, cosmetics, petroleum jellies, hair oils, pomades, hair dressings, hair restoratives, hair dyes, tooth and mouth washes (except that the rate shall be 5 per centum), dentifrices (except that the rate shall be 5 per centum), tooth pastes (except that the rate shall be 5 per centum), so-called caustics, toilet soaps (except that the rate shall be 5 per centum), toilet powders, and any similar substance, article, or preparation, by whatsoever name known or distinguished; any of the above which are used or applied or intended to be used or applied for toilet purposes.

SECTION 64. TAX ON FURS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 3 per centum of the price for which so sold: Articles made of fur on the hide or pelt or of which any such fur is the component material of chief value.

SECTION 65 (AS AMENDED BY SEC. 211 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 26, 1935). TAX ON AUTOMOBILES, ETC.

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

(a) Automobile truck chassis and automobile truck bodies (including in both cases parts or accessories therefor sold on or in connection therewith or with the sale thereof), 2 per centum. A sale of an automobile truck shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(b) Other automobile chassis and bodies and motorcycles (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), except tractors, 3 per centum. A sale of an automobile shall, for the purposes of this subsection, be considered to be a sale of the chassis and of the body.

(c) Parts or accessories (other than tires and inner tubes) for any of the articles enumerated in subsection (a) or (b), 2 per centum. For the purposes of this subsection and subsections (a) and (b), spark plugs, storage batteries, leaf springs, coils, timers, and tire chains, which are suitable for use on or in connection with, or as component parts of, any of the articles enumerated in subsection (a) or (b), shall be considered parts of accessories for such articles, whether or not primarily adapted for such use. This subsection shall not apply to chassis or bodies for automobile trucks or other automobiles. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of parts or accessories by the manufacturer, producer, or importer to a manufacturer or producer of any of the articles enumerated in subsection (a) or (b). If any such parts or accessories are resold by such vendee otherwise than on or in connection with, or with the sale of, an article enumerated in subsection (a) or (b) and manufactured or produced by such vendee, then for the purposes of this section the vendee shall be considered the manufacturer or producer of the parts or accessories so resold.

(d) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under subsection (a) or (b) shall not apply in the case of sales of bodies by the manufacturer, producer, or importer to a manufacturer or producer of automobile trucks or other automobiles to be sold by such vendee. For the purposes of subsection (a) or (b) such vendee shall be considered the manufacturer or producer of such bodies.

(e) If tires or inner tubes on which tax has been imposed under this title are sold on or in connection with, or with the sale of a chassis, body, or motorcycle, there shall (under regulations prescribed by the Commissioner, with the approval of the Secretary) be credited against the tax under this section an amount equal to, in the case of an automobile truck chassis or body, 2 per centum, and in the case of any other automobile chassis or body or motorcycle, 3 per centum—

(1) Of the purchase price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) if such tires or inner tubes were taxable under section 602 (relating to tax on tires and inner tubes); or

(2) If such tires or inner tubes were taxable under section 622 (relating to use by manufacturer, producer, or importer) then of the price (less, in the case of tires, the part of such price attributable to the metal rim or rim base) at which such or similar tires or inner tubes are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

(f) (1) Where prior to August 1, [1937] 1936, any article subject to the tax imposed by this section or section 602, relating to tax on tires and inner tubes, has been sold by the manufacturer, producer, or importer, and is on such date held by a dealer and intended for sale, there shall be refunded to the manufacturer, producer, or importer the amount of the tax, or if the tax has not been paid, the tax shall be abated.

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

(3) Under regulations prescribed by the Commissioner, with the approval of the Secretary, the refund provided by this subsection—(A) may be applied as a credit against the tax shown by subsequent returns of the manufacturer, producer, or importer, and (B) may be made to the dealer instead of to the manufacturer, producer, or importer, if the manufacturer, producer, or importer waives any claim for the amount so to be refunded.

(4) When the refund, credit, or abatement provided for in this subsection has been allowed to the manufacturer, producer, or importer, he shall remit to the dealer to whom was sold the article in respect of which the refund, credit, or abate-

ment was allowed, so much of that amount of the tax corresponding to the refund, credit, or abatement, as was included in or added to the price paid or agreed to be paid by the dealer. Upon the failure of the manufacturer, producer, or importer to make such remission he shall be liable to the dealer for damages in the amount of three times the amount thereof, and the court shall include in any judgment in favor of the dealer in any suit for the recovery of such damages, costs of the suit and a reasonable attorney's fee to be fixed by the court.

SECTION 87. TAX ON RADIO RECEIVING SETS, ETC.

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold: Chassis, cabinets, tubes, reproducing units, power packs, and phonograph mechanisms, suitable for use in connection with or as part of radio receiving sets or combination radio and phonograph sets (including in each case parts or accessories therefor sold on or in connection therewith or with the sale thereof), and records for phonographs. A sale of any two or more of the above articles shall, for the purpose of this section, be considered a sale of each separately.

SECTION 88. TAX ON MECHANICAL REFRIGERATORS

There is hereby imposed upon the following articles sold by the manufacturer, producer, or importer, a tax equivalent to 5 per centum of the price for which so sold:

(a) Household type refrigerators (for single or multiple cabinet installations) operated with electricity, gas, kerosene, or other means (including parts or accessories therefor sold on or in connection therewith or with the sale thereof).

(b) Cabinets, compressors, condensers, expansion units, absorbers, and controls (hereinafter referred to as "refrigerator components") for, or suitable for use as part of or with, any of the articles enumerated in subsection (a) (including in each case parts or accessories for such refrigerator components sold on or in connection therewith or with the sale thereof) except when sold as component parts of complete refrigerators or refrigerating or cooling apparatus. Under regulations prescribed by the Commissioner, with the approval of the Secretary, the tax under this subsection shall not apply in the case of sales of any such refrigerator components by the manufacturer, producer, or importer to a manufacturer or producer of refrigerators or refrigerating or cooling apparatus. If any such refrigerator components are resold by such vendee otherwise than on or in connection with, or with the sale of, complete refrigerators or refrigerating or cooling apparatus, manufactured or produced by such vendee, then for the purposes of this section the vendee shall be considered the manufacturer or producer of the refrigerator components so resold.

SECTION 89. TAX ON SPORTING GOODS

There is hereby imposed upon the following articles, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold: Tennis rackets, tennis-racket frames and strings, nets, racket covers and presses, skates, snowshoes, skis, toboggans, canoe paddles, polo mallets, baseball bats, gloves, masks, protectors, shoes and uniforms, football helmets, harness and uniforms, basketball goals and uniforms, golf bags and clubs, lacrosse sticks, balls of all kinds, including baseballs, footballs, tennis, golf, lacrosse, billiard and pool balls, fishing rods and reels, billiard and pool tables, chess and checker boards and pieces, dice, games and parts of games (except playing cards and children's toys and games); and all similar articles commonly or commercially known as sporting goods.

SECTION 90. TAX ON FIREARMS, SHELLS, AND CARTRIDGES

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

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SECTION 813. TAX ON CAMERAS

There is hereby imposed upon cameras (except aerial cameras), weighing not more than 100 pounds, and lenses for such cameras, sold by the manufacturer, producer, or importer, a tax equivalent to 10 per centum of the price for which so sold.

SECTION 812 (AS AMENDED BY SEC. 811 OF THE REVENUE ACT OF 1940). TAX ON MATCHES

There is hereby imposed upon matches, sold by the manufacturer, producer, or importer, a tax of 2 cents per 1,000 matches, except that in the case of paper matches in books the tax shall be one-half of 1 cent per 1,000 matches, and except that in the case of fancy wooden matches and wooden matches having a stained, dyed, or colored stick or stem, packed in boxes or in bulk, the tax shall be 5 cents per 1,000 matches.

SECTION 814. TAX ON CHEWING GUM

There is hereby imposed upon chewing gum or substitutes therefor, sold by the manufacturer, producer, or importer, a tax equivalent to 2 per centum of the price for which so sold.

SEC. 815 (AS AMENDED BY SEC. 8 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933). TAX ON ELECTRICAL ENERGY FOR DOMESTIC OR COMMERCIAL CONSUMPTION

(a) There is hereby imposed upon electrical energy sold for domestic or commercial consumption and not for resale a tax equivalent to 3 per centum of the price for which so sold, to be paid by the vendor under such rules and regulations as the Commissioner, with the approval of the Secretary, shall prescribe. The sale of electrical energy to an owner or lessee of a building, who purchases such electrical energy for resale to the tenants therein, shall for the purposes of this section be considered as a sale for consumption and not for resale, but the resale to the tenant shall not be considered a sale for consumption.

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

(c) No tax shall be imposed under this section upon electrical energy sold to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia. None of the provisions of this section shall apply to publicly owned electric and power plants. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner, with the approval of the Secretary, may, by regulation, prescribe.

SECTION 817 (AS AMENDED BY SEC. 211 (B) OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND SEC. 602 OF THE REVENUE ACT OF 1940). TAX ON GASOLINE

(a) There is hereby imposed on gasoline sold by the producer or importer thereof, or by any producer of gasoline, a tax of 1 cent a gallon, except that under regulations prescribed by the Commissioner with the approval of the Secretary the tax shall not apply in the case of sales to a producer of gasoline.

(b) If a producer or importer uses (otherwise than in the production of gasoline) gasoline sold to him free of tax, or produced or imported by him, such use shall for the purposes of this title be considered a sale. Any person to whom gasoline is sold tax-free under this section on or after the effective date of the Revenue Act of 1932 shall be considered the producer of such gasoline.

(c) As used in this section—

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

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

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(d) Every person subject to tax under this section or section 601 (c) (1) shall before the thirtieth day after the date of the enactment of the Revenue Act of 1934 (or in the case of a person commencing business after such day before incurring any liability for tax under such sections) register with the collector for the district in which is located his principal place of business (or, if he has no principal place of business in the United States, with the collector at Baltimore, Maryland) and shall give a bond, to be approved by such collector, conditional that he shall not engage in any attempt, by himself or by collusion with others, to defraud the United States of any tax under such sections; that he shall render truly and completely all returns, statements, and inventories required by law or regulations in pursuance thereof and shall pay all taxes due under such sections; and that he shall comply with all requirements of law and regulations in pursuance thereof with respect to tax under such sections. Such bond shall be in such sum as the collector may require in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, but not less than \$2,000. The collector may from time to time require new or additional bond in accordance with this subsection. Every person who fails to register or give bond as required by this subsection, or who in connection with any purchase of gasoline or lubricating oil falsely represents himself to be registered and bonded as provided by this subsection, or who willfully makes any false statement in an application for registration under this subsection, shall upon conviction thereof be fined not more than \$5,000 or imprisoned not more than five years, or both, together with the costs of prosecution. If the Commissioner finds that any manufacturer or producer has at any time evaded any Federal tax on gasoline or lubricating oil, he may revoke the registration of such manufacturer or producer, and no sale to, or for resale to, such manufacturer or producer thereafter shall be tax-free under section 601 (c) (1), this section, or section 620, as amended, but such manufacturer or producer shall not be relieved of the requirement of giving bond under this subsection.

(e) Under regulations prescribed by the Commissioner with the approval of the Secretary, records required to be kept with respect to taxes under section 601 (c) (1), as amended, or this section, and returns, reports, and statements with respect to such taxes filed with the Commissioner or a collector, shall be open to inspection by such officers of any State or Territory or political subdivision thereof or the District of Columbia as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils. The Commissioner and such collector shall furnish to any of such officers, upon written request, certified copies of any such statements, reports, or returns filed in his office upon the payment of a fee of \$1 for each one hundred words or fraction thereof in the copy or copies requested.

SECTION 518. DEFINITION OF SALE

For the purpose of this title, the lease of an article shall be considered the sale of such article.

SECTION 519. SALE PRICE

(a) In determining, for the purposes of this title, the price for which an article is sold, there shall be included any charge for coverings and containers of whatever nature, and any charge incident to placing the article in condition packed ready for shipment, but there shall be excluded the amount of tax imposed by this title, whether or not stated as a separate charge. A transportation, delivery, insurance, installation, or other charge (not required by the foregoing sentence to be included) shall be excluded from the price only if the amount thereof is established to the satisfaction of the Commissioner, in accordance with the regulations.

(b) If an article is—

- (1) sold at retail;
- (2) sold on consignment; or
- (3) sold (otherwise than through an arm's-length transaction) at less than the

fair market price; the tax under this title shall (if based on the price for which the article is sold) be computed on the price for which such articles are sold, in the ordinary course of trade, by manufacturers or producers thereof, as determined by the Commissioner.

(c) In the case of (1) a lease, (2) a contract for the sale of an article wherein it is provided that the price shall be paid by installments and title to the article sold does not pass until a future date notwithstanding partial payment by installments.

SEC. 602 (AS AMENDED BY SEC. 4 (A) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933, AND SEC. 401 (A) OF THE REVENUE ACT OF 1935). TAX-FREE SALES

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

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

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

(3) for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia.

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

SECTION 601 (AS AMENDED BY SEC. 4 (C) OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933, AND SEC. 401 (B) AND (C) OF THE REVENUE ACT OF 1935). CREDITS AND REFUNDS

(a) A credit against tax under this title, or a refund, may be allowed or made—

- (1) to a manufacturer or producer, in the amount of any tax under this title which has been paid with respect to the sale of any article (other than a tire or inner tube) purchased by him and used by him as material in the manufacture or production of, or as a component part of, an article with respect to which tax under this title has been paid, or which has been sold free of tax by virtue of section 620, relating to sales of articles for further manufacture.

(2) to any person who has paid tax under this title with respect to an article, when the price on which the tax was based is readjusted by reason of return or repossession of the article or a covering or container, or by a bona fide discount, rebate, or allowance; in the amount of that part of the tax proportionate to the part of the price which is refunded or credited.

(3) to a manufacturer, producer, or importer, in the amount of tax paid by him under this title with respect to the sale of any article to any vendee, if the manufacturer, producer, or importer has in his possession such evidence as the regulations may prescribe that on or after the first day of the second month following the date of the enactment of the Revenue Act of 1935—

(A) such article was, by any person—

(i) resold for the exclusive use of the United States, any State, Territory of the United States, or any political subdivision of the foregoing, or the District of Columbia;

(ii) used or resold for use as fuel supplies, ship's stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions;

(iii) in the case of products embraced in paragraph (2) of section 617(c), as amended, used or resold for use otherwise than as fuel for the propulsion of motor vehicles, motor boats, or airplanes, and otherwise than in the production of such fuel: *Provided, however,* That no credit or refund shall be allowed or made under this paragraph in the case of sales or uses of products commonly or commercially known or sold as gasoline, including casinghead and natural gasoline;

(iv) in the case of lubricating oils, used or resold for nonlubricating purposes.

(B) The manufacturer, producer, or importer has repaid or agreed to repay the amount of such tax to the ultimate vendor or has obtained the consent of the ultimate vendor to the allowance of the credit or refund.

(b) Credit or refund under subsection (a) shall be allowed or made only upon compliance with the regulations prescribed by the Commissioner with the approval of the Secretary.

(c) Interest shall be allowed at the rate of 5 per centum per annum with respect to any amount of tax under this title credited or refunded, except that no interest shall be allowed with respect to any amount of tax credited or refunded under the provisions of subsection (a) hereof, and except that no interest shall be allowed for any period prior to the first day of the second month following the date of the enactment of the Revenue Act of 1935.

(d) No overpayment of tax under this title shall be credited or refunded (otherwise than under subsection (a)), in pursuance of a court decision or otherwise, unless the person who paid the tax establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, (1) that he has not included the tax in the price of the article with respect to which it was imposed, or collected the amount of tax from the vendee, or (2) that he has repaid the amount of the tax to the ultimate purchaser of the article, or unless he files with the Commissioner written consent of such ultimate purchaser to the allowance of the credit or refund.

SECTION 52. USE BY MANUFACTURER, PRODUCER, OR IMPORTER

It—

(1) any person manufactures, produces, or imports an article (other than a tire or inner tube) and uses it (otherwise than as material in the manufacture or production of, or as a component part of, another article to be manufactured or produced by him which will be taxable under this title or sold free of tax by virtue of section 620, relating to sale of articles for further manufacture); or

(2) any person manufactures, produces, or imports a tire or inner tube and sells it on or in connection with, or with the sale of, an article taxable under section 606 (a) or (b), relating to the tax on automobiles, or uses it; he shall be liable for tax under this title in the same manner as if such article was sold by him, and the tax (if based on the price for which the article is sold) shall be computed on the price at which such or similar articles are sold, in the ordinary course of trade, by manufacturers, producers, or importers thereof, as determined by the Commissioner.

SECTION 53. SALES BY OTHERS THAN MANUFACTURER, PRODUCER, OR IMPORTER

In case any person acquires from the manufacturer, producer, or importer of an article, by operation of law or as a result of any transaction not taxable under this title, the right to sell such article, the sale of such article by such person shall be taxable under this article as if made by the manufacturer, producer, or importer, and such person shall be liable for the tax.

SECTION 54. EXEMPTION OF ARTICLES MANUFACTURED OR PRODUCED BY INDIANS

No tax shall be imposed under this title on any article of native Indian handicraft manufactured or produced by Indians on Indian reservations, or in Indian schools, or by Indians under the jurisdiction of the United States Government in Alaska.

SECTION 55. CONTRACTS PRIOR TO MAY 1, 1932

(a) If (1) any person has, prior to May 1, 1932, made a bona fide contract for the sale, after the tax takes effect, of any article in respect of the sale of which a tax is imposed under this title, or in respect of which a tax is imposed under this subsection; and (2) such contract does not permit the adding to the amount to be paid under such contract, of the whole of such tax, then (unless the contract prohibits such addition) the vendee shall, in lieu of the vendor, pay so much of the tax as is not so permitted to be added to the contract price. If a contract of the character above described was made with the United States, no tax shall be collected under this title. If any article has, under a contract of the character above described, been delivered, prior to June 21, 1932, to any person (other than a dealer or other than a person intending to use the article as material in the manufacture or production of another article, or to sell it on or in connection with, or with the sale of, another article), no tax shall be collected under this title.

(b) The taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated, and shall be collected, returned, and paid to the United States by such vendor in the same manner as provided in section 702. In case of failure or refusal by the vendee to pay such taxes to the vendor, the vendor shall report the facts to the Commissioner, who shall cause collection of such taxes to be made from the vendee.

SECTION 56. RETURN AND PAYMENT OF MANUFACTURERS' TAXES

(a) Every person liable for any tax imposed by this title other than taxes on importation (except tax under section 615, relating to tax on soft drinks) shall make monthly returns under oath in duplicate and pay the taxes imposed by this

title to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

(b) The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time so fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 percentum a month from the time when the tax became due until paid.

NOTE.—Section 404 of the Revenue Act of 1935, approved August 30, 1935, changed the rate of interest provided in the above subsection to 6 percent per annum. Such section 404 reads as follows:

SEC. 58. INTEREST ON DELINQUENT TAXES

Notwithstanding any provision of law to the contrary, interest accruing during any period of time after the date of the enactment of this Act upon any internal-revenue tax (including amounts assessed or collected as a part thereof) or customs duty, not paid when due, shall be at the rate of 6 percentum per annum.

SECTION 57. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 600 of the Revenue Act of 1926, shall, insofar as applicable and not inconsistent with this act, be applicable in respect of the taxes imposed by this title.

SECTION 58. RULES AND REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes on articles sold by the manufacturer, producer, or importer. The Secretary shall prescribe and publish all needful rules and regulations for the enforcement of this title insofar as it relates to the taxes which under the provisions of section 601 (b) are to be levied, assessed, collected, and paid in the same manner as duties imposed by the Tariff Act of 1930.

SECTION 59 (AS AMENDED BY SEC. 1 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933, SECTION 312 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 23, 1934). EFFECTIVE DATE

This title shall take effect on the fifteenth day after the date of the enactment of this act, except that section 628, relating to rules and regulations, and this section, shall take effect on the date of the enactment of this act. No sale or importation after June 30, [1937] 1939 (or after July 31, [1937] 1939, in the case of articles taxable under section 606, relating to the tax on automobiles, etc., or sec. 602, relating to the tax on tires and inner tubes), shall be taxable under this title.

SEC. 60 (ADDED BY SEC. 3 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1933). EXEMPTION FROM TAX OF CERTAIN SUPPLIES FOR VESSELS

Under regulations prescribed by the Commissioner, with the approval of the Secretary, no tax under this title shall be imposed upon any article sold for use as fuel supplies, ships' stores, sea stores, or legitimate equipment on vessels of war of the United States or of any foreign nation, vessels employed in the fisheries or in the whaling business, or actually engaged in foreign trade or trade between the Atlantic and Pacific ports of the United States or between the United States and any of its possessions. Articles manufactured or produced with the use of articles upon the importation of which tax has been paid under this title, if laden for use as supplies on such vessels, shall be held to be exported for the purposes of section 601 (b).

TITLE V—MISCELLANEOUS TAXES

PART I—TAX ON TELEGRAPH, TELEPHONE, RADIO, AND CABLE FACILITIES

SECTION 701 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1933). IMPOSITION

(a) On and after the fifteenth day after the date of the enactment of this act, there shall be imposed—

(1) in the case of each telegraph, telephone, cable, or radio dispatch, message, or conversation, which originates on or after such date and before July 1, [1937] 1939, within the United States, a tax at the following rates:

(A) Telephone conversations for which the charge is 50 cents or more and less than \$1, 10 cents; for which the charge is \$1 or more and less than \$2, 15 cents; for which the charge is \$2 or more, 20 cents;

(B) telegraph dispatches and messages, 5 per centum of the amount charged therefor; and

(C) cable and radio dispatches and messages, 10 cents; but only one payment of such tax shall be required, notwithstanding the lines or stations of one or more persons are used for the transmission of such dispatch, message, or conversation; and

(2) a tax equivalent to 5 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act to any telegraph or telephone company for any leased wire or talking circuit special service furnished on or after such date and before July 1, [1937] 1939. This paragraph shall not apply to the amount paid for so much of such service as is utilized in the conduct, by a common carrier or telephone or telegraph company or radio broadcasting station or net work, of its business as such.

(b) No tax shall be imposed under this section upon any payment received for services or facilities furnished to the United States or to any State or Territory, or political subdivision thereof, or the District of Columbia, nor upon any payment received from any person for services or facilities utilized in the collection of news for the public press or in the dissemination of news through the public press, if the charge for such services or facilities is billed in writing to such person. The right to exemption under this subsection shall be evidenced in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe.

SECTION 702. RETURNS AND PAYMENT OF TAX

(a) The taxes imposed by section 701 shall be paid by the person paying for the services or facilities.

(b) Each person receiving any payments specified in section 701 shall collect the amount of the tax imposed by such section from the person making such payments, and shall on or before the last day of each month make a return, under oath, for the preceding month, and pay the taxes so collected, to the collector of the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Maryland. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulation prescribe. The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than ninety days.

PART II—ADMISSIONS TAX

SECTION 711 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1933). ADMISSIONS TAX

(a) Paragraph (1) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(1) A tax of 1 cent for each 10 cents or fraction thereof of the amount paid for admission to any place, including admission by season ticket or subscription to be paid by the person paying for such admission; except that in case the amount paid for admission is less than 41 cents, no tax shall be imposed. In the case of persons (except bona fide employees, municipal officers or official business, and children under 12 years of age) admitted free or at reduced rates to 25¢

place at a time when and under circumstances under which an admission charge is made to other persons, an equivalent tax shall be collected based on the price so charged to such other persons for the same or similar accommodations, to be paid by the person so admitted. Amounts paid for admission by season ticket or subscription shall be exempt only if the amount which would be charged to the holder or subscriber for a single admission is less than 41 cents";

(b) Paragraph (2) of section 500 (a) of the Revenue Act of 1926, as amended, is amended to read as follows:

"(2) Upon tickets or parts of admission to theaters, operas, and other places of amusement, sold at news stands, hotels, and places other than the ticket offices of such theaters, operas, or other places of amusement, at a price in excess of the sum of the established price therefor at such ticket offices plus the amount of any tax imposed under paragraph (1), a tax equivalent to 10 per centum of the amount of such excess; such tax to be returned and paid, in the manner and subject to the interest provided in section 502, by the person selling such tickets."

(c) Section 500 of the Revenue Act of 1926, as amended, is amended by adding at the end thereof the following subdivision:

"(e) The exemption from tax provided by subdivision (b) (1) (A) shall not be allowed in the case of admissions to wrestling matches, prize fights, or boxing, sparring, or other pugilistic matches or exhibitions. The exemption from tax provided by subdivision (b) (1) shall not be allowed in the case of admissions to any athletic game or exhibition the proceeds of which inure wholly or partly to the benefit of any college or university (including any academy of the military or naval forces of the United States)."

(d) Subsections (a) and (c) shall take effect on the fifteenth day after the date of the enactment of this act.

(e) Effective July 1, [1937] 1939, section 500 (a) (1) of the Revenue Act of 1926, as amended by subsection (a) of this section, is amended by striking out "less than 41 cents" wherever appearing in such paragraph, and inserting in lieu thereof "\$3 or less".

PART III—STAMP TAXES

SECTION 721 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1933). STAMP TAX ON ISSUES OF BONDS, ETC.

(a) Subdivision 1 of schedule A of title VIII of the Revenue Act of 1926 is amended by striking out "5 cents" and inserting in lieu thereof "10 cents", and by inserting at the end thereof a new sentence to read as follows: "The tax under this subdivision shall not apply to any instrument under the terms of which the obligee is required to make payment therefor in installments and is not permitted to make in any year a payment of more than 20 per centum of the cash amount to which entitled upon maturity of the instrument."

(b) Subsection (a) shall take effect on the 15th day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 1, as amended by subsection (a) of this section, is amended by striking out "10 cents" and inserting in lieu thereof "5 cents".

SECTION 722 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1933). STAMP TAX ON ISSUES OF STOCK, ETC.

(a) Subdivision 2 of schedule A of title VIII of the Revenue Act of 1926 is amended to read as follows:

"2. Capital stock (and similar interests), issue: On each original issue, whether on organization or reorganization, of shares or certificates of stock, or of profits, or of interest in property or accumulations, by any corporation, or by any investment trust or similar organization (or by any person on behalf of such investment trust or similar organization) holding or dealing in any of the instruments mentioned or described in this subdivision or subdivision 1 (whether or not such investment trust or similar organization constitutes a corporation within the meaning of this act), on each \$100 of par or face value or fraction thereof of the certificates issued by such corporation or by such investment trust or similar organization (or of the shares where no certificates were issued), 10 cents: *Provided*, That where such shares or certificates are issued without par or face value, the tax shall be 10 cents per share (corporate share, or investment trust or other organization share, as the case may be), unless the actual value is in excess of

\$100 per share, in which case the tax shall be 10 cents on each \$100 of actual value or fraction thereof of such certificates (or of the shares where no certificates were issued); or unless the actual value is less than \$100 per share, in which case the tax shall be 2 cents on each \$20 of actual value, or fraction thereof, of such certificates (or of the shares where no certificates were issued).

"The stamps representing the tax imposed by this subdivision shall be attached to the stock books or corresponding records of the organization and not to the certificates issued."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 2, as amended by subsection (a) of this section, is amended by striking out "10 cents" wherever appearing in such subdivision and inserting in lieu thereof "5 cents", and by striking out "2 cents" and inserting in lieu thereof "1 cent".

SECTION 722 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 29, 1935). STAMP TAX ON TRANSFER OF STOCKS, ETC.

(a) Subdivision 3 of Schedule A of Title VIII of the Revenue Act of 1926 is amended to read as follows:

"3. Capital stock (and similar interests), sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the shares or certificates mentioned or described in subdivision 2, or to rights to subscribe for or to receive such shares or certificates, whether made upon or shown by the books of the corporation or other organization, or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such share, certificate, interest, or right, or not), on each \$100 of par or face value or fraction thereof of the certificates of such corporation or other organization (or of the shares where no certificates were issued), 4 cents, and where such shares or certificates are without par or face value, the tax shall be 4 cents on the transfer or sale or agreement to sell on each share (corporate share, or investment trust or other organization share, as the case may be): *Provided*, That in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further*, That it is not intended by this title to impose a tax upon an agreement evidencing a deposit of certificates as collateral security for money loaned thereon, which certificates are not actually sold, nor upon the delivery or transfer for such purpose of certificates so deposited nor upon the return of stock loaned: *Provided further*, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such shares or certificates continue to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That in case of sale where the evidence of transfer is shown only by the books of the corporation or other organization the stamp shall be placed upon such books; and where the change of ownership is by transfer of the certificate the stamp shall be placed upon the certificate; and in cases of an agreement to sell or where the transfer is by delivery of the certificate assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any stock, share, interest, or right, or bill or memorandum thereof, as herein required, without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 3, as amended by subsection (a) of this section, is amended by striking out "4 cents" wherever appearing in such subdivision and inserting in lieu thereof "3 cents", and by striking out the following: "in case the selling price, if any, is \$20 or more per share the above rate shall be 5 cents instead of 4 cents: *Provided further*, That".

SECTION 754 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 25, 1933). STAMP TAX ON TRANSFER OF BONDS, ETC.

(a) Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"9. Bonds, etc., sales or transfers: On all sales, or agreements to sell, or memoranda of sales or deliveries of, or transfers of legal title to any of the instruments mentioned or described in subdivision 1 and of a kind the issue of which is taxable thereunder, whether made by any assignment in blank or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale (whether entitling the holder in any manner to the benefit of such instrument or not), on each \$100 of face value or fraction thereof, 4 cents: *Provided*, That it is not intended by this title to impose a tax upon an agreement evidencing a deposit of instruments as collateral security for money loaned thereon, which instruments are not actually sold, nor upon the delivery or transfer for such purpose of instruments so deposited: *Provided further*, That the tax shall not be imposed on deliveries or transfers of bonds in connection with a reorganization (as defined in section 112 of the Revenue Act of 1932) if any of the gain or loss from the exchange or distribution involved in the delivery or transfer is not recognized under the income tax law applicable to the year in which the delivery or transfer is made: *Provided further*, That the tax shall not be imposed upon deliveries or transfers to a broker for sale, nor upon deliveries or transfers by a broker to a customer for whom and upon whose order he has purchased same, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That the tax shall not be imposed upon deliveries or transfers from a fiduciary to a nominee of such fiduciary, or from one nominee of such fiduciary to another, if such instruments continued to be held by such nominee for the same purpose for which they would be held if retained by such fiduciary, or from the nominee to such fiduciary, but such deliveries or transfers shall be accompanied by a certificate setting forth the facts: *Provided further*, That where the change of ownership is by transfer of the instrument the stamp shall be placed upon the instrument; and in cases of an agreement to sell or where the transfer is by delivery of the instrument assigned in blank there shall be made and delivered by the seller to the buyer a bill or memorandum of such sale, to which the stamp shall be affixed; and every bill or memorandum of sale or agreement to sell before mentioned shall show the date thereof, the name of the seller, the amount of the sale, and the matter or thing to which it refers. Any person liable to pay the tax as herein provided, or anyone who acts in the matter as agent or broker for such person, who makes any such sale, or who in pursuance of any such sale delivers any certificate or evidence of the sale of any such instrument, or bill or memorandum thereof, as herein required without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding \$1,000, or be imprisoned not more than six months, or both."

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Subdivision 9 of schedule A of title VIII of the Revenue Act of 1926, added to such schedule by subsection (a) of this section, is repealed effective July 1, [1937] 1939.

SECTION 755 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 25, 1933). STAMP TAX ON CONVEYANCES

Schedule A of title VIII of the Revenue Act of 1926 is amended by adding at the end thereof a new subdivision to read as follows:

"8. Conveyances: Deed, instrument, or writing, delivered on or after the 15th day after the date of the enactment of the Revenue Act of 1932 and before July 1, [1937] 1939 (unless deposited in escrow before April 1, 1932), whereby

any lands, tenements, or other realty sold shall be granted, assigned, transferred, or otherwise conveyed to, or vested in, the purchaser or purchasers, or any other person or persons, by his, her, or their direction, when the consideration or value of the interest or property conveyed, exclusive of the value of any lien or encumbrance remaining thereon at the time of sale, exceeds \$100 and does not exceed \$500, 50 cents; and for each additional \$500 or fractional part thereof, 50 cents. This subdivision shall not apply to any instrument or writing given to secure a debt."

SECTION 76 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT, SEC. 612 OF THE REVENUE ACT OF 1934, AND THE JOINT RESOLUTION OF JUNE 28, 1935. STAMP TAX ON SALES OF PRODUCE FOR FUTURE DELIVERY)

(a) Subdivision 4 of schedule A of Title VIII of the Revenue Act of 1926 is amended by striking out "1 cent" wherever appearing in such subdivision, and inserting in lieu thereof "3 cents".

(b) Subsection (a) shall take effect on the fifteenth day after the date of the enactment of this act.

(c) Effective July 1, [1937] 1939, such subdivision 4, as amended by subsection (a) of this section, is amended by striking out "3 cents" wherever appearing in such subdivision and inserting in lieu thereof "1 cent".

PART IV—TAX ON TRANSPORTATION OF OIL BY PIPE LINE

SECTION 71 (AS AMENDED BY SEC. 212 OF THE NATIONAL INDUSTRIAL RECOVERY ACT AND THE JOINT RESOLUTION OF JUNE 28, 1935. TAX ON TRANSPORTATION OF OIL BY PIPE LINE)

(a) There is hereby imposed upon all transportation of crude petroleum and liquid products thereof by pipe line originating on or after the fifteenth day after the date of the enactment of this act and before July 1, [1937] 1939—

(1) A tax equivalent to 4 per centum of the amount paid on or after the fifteenth day after the date of the enactment of this act for such transportation, to be paid by the person furnishing such transportation.

(2) In case no charge for transportation is made, either by reason of ownership of the commodity transported or for any other reason, a tax equivalent to 4 per centum of the fair charge for such transportation, to be paid by the person furnishing such transportation.

(3) If (other than in the case of an arm's length transaction) the payment for transportation is less than the fair charge therefor, a tax equivalent to 4 per centum of such fair charge, to be paid by the person furnishing such transportation.

(b) For the purposes of this section, the fair charge for transportation shall be computed—

(1) from actual bona fide rates or tariffs, or

(2) if no such rates or tariffs exist, then on the basis of the actual bona fide rates or tariffs of other pipe lines for like services, as determined by the Commissioner, or

(3) if no such rates or tariffs exist, then on the basis of a reasonable charge for such transportation, as determined by the Commissioner.

(c) Every person liable for the tax imposed under subsection (a) shall make monthly returns under oath in duplicate and pay such taxes to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the collector at Baltimore, Maryland. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

PART VIII—ADMINISTRATIVE PROVISIONS

SECTION 71. PAYMENT OF TAXES

The taxes imposed by parts I, IV, V, and VI of this title shall, without assessment by the Commissioner or notice from the collector, be due and payable to the collector at the time fixed for filing the return. If the tax is not paid when due, there shall be added as part of the tax interest at the rate of 1 per centum a month from the time the tax become due until paid.

NOTE.—Section 404 of the Revenue Act of 1935, approved August 30, 1935, changed the rate of interest provided in the above subsection to 6 percent per annum. Such section 404 reads as follows:

SECTION 88. INTEREST ON DELINQUENT TAXES

Notwithstanding any provision of law to the contrary, interest accruing during any period of time after the date of the enactment of this act upon any internal-revenue tax (including amounts assessed or collected as a part thereof) or customs duty, not paid when due, shall be at the rate of 6 per centum per annum.

SECTION 72. REFUNDS AND CREDITS

(a) Credit or refund of any overpayment of tax imposed by part I, V, or VI of this title may be allowed to the person who collected the tax and paid it to the United States if such person establishes to the satisfaction of the Commissioner, under such regulations as the Commissioner with the approval of the Secretary may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or obtained the consent of such person to the allowance of such credit or refund.

(b) Any person entitled to refund of tax under part I, IV, V, or VI of this title paid, or collected and paid, to the United States by him may take credit therefor against taxes due upon any monthly return.

(c) Any person making a refund of any payment on which tax under part I or V has been collected may repay therewith the amount of tax collected on such payment, and the amount of tax so repaid may be credited against the tax under any subsequent return.

SECTION 73. REGULATIONS

The Commissioner, with the approval of the Secretary, shall prescribe and publish all needful rules and regulations for the enforcement of parts I, IV, V, and VI, of this title.

SECTION 74. APPLICABILITY OF ADMINISTRATIVE PROVISIONS

All provisions of law (including penalties) applicable in respect of the taxes imposed by section 500 of the Revenue Act of 1926, shall, insofar as applicable and not inconsistent with this Act, be applicable in respect of the taxes imposed by parts I, IV, V, and VI of this title.

TITLE VIII—POSTAL RATES

SECTION 381 (A) (AS AMENDED BY SEC. 1 OF THE ACT EXTENDING THE GASOLINE TAX FOR 1 YEAR, APPROVED JUNE 16, 1934, SEC. 515 OF THE REVENUE ACT OF 1934, AND THE JOINT RESOLUTION OF JUNE 28, 1935). POSTAL RATES

(a) On and after the thirtieth day after the date of the enactment of this Act and until July 1, [1937] 1939, the rate of postage on all mail matter of the first class (except postal cards and private mailing or post cards, and except other first-class matter on which the rate of postage under existing law is 1 cent for each ounce or fraction thereof) shall be 1 cent for each ounce or fraction thereof in addition to the rate provided by existing law: *Provided*, That such additional rate shall not apply on or after July 1, 1933, to first-class matter mailed for local delivery.

Also, in compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in section 2 of the act entitled "An act to extend the gasoline tax for 1 year, to modify postage rates on mail matter, and for other purposes", approved June 16, 1934, as amended by section 515 of the Revenue Act of 1934, and the joint resolution of June 28, 1935, are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is

printed in italics; existing law in which no change is proposed is shown in roman:

Sec. 2. The President is authorized during the period ending June 30, **[1937]** 1938, to proclaim such modifications of postage rates on mail matter (except that in the case of first-class matter the rate shall not be reduced to less than 3 cents an ounce or fraction thereof) as, after a survey by him, he may deem advisable by reason of increase in business, the interest of the public, or the needs of the Postal Service, and such modifications shall be in effect on and after such date as he shall proclaim and until July 1, **[1937]** 1939. In case a modification of the rate of postage on first-class matter is proclaimed, the President shall also make a corresponding modification in the percentages of gross postal receipts specified in section 1001 (c) of the Revenue Act of 1932 as amended by this Act, which percentages shall be in effect during the period such modification of the rate of postage on first-class matter is in effect. Nothing in this section shall be construed as giving the President authority to change the rate fixed by law on first-class matter mailed for local delivery, postal cards, and private mailing or post cards.

MINORITY VIEWS

We, the Republican members of the Ways and Means Committee, are unanimously opposed to House Joint Resolution 375, which would continue the so-called "nuisance taxes" for another period of 2 years.

These taxes were originally imposed in 1932 with the definite promise to the American people that they would be allowed to expire at the end of 2 years as provided in the statute. They have twice been continued by the present administration in violation of that pledge, once for a 1-year period and again for a 2-year period. The present proposed extension constitutes a third breach of faith on the part of the Administration.

The so-called "nuisance taxes" are all consumption taxes, which fall most heavily on the poor and those least able to pay. They are also discriminatory, in that they apply only to certain selected items.

The fact should not be overlooked that the 3-cent rate on first-class postage, which is continued by the pending joint resolution, constitutes a tax to the extent that the revenues therefrom exceed the cost of carrying this class of mail. In the current fiscal year, this "tax" on the American people is estimated to amount to \$122,000,000.

While it in no way affects our opposition to the joint resolution, we think it appropriate to call attention to the fact that the extension of the nuisance taxes for 2 years, rather than 1 year, contains an element of politics. A 1-year extension would require another extension resolution next year, just prior to the Congressional elections, which of course would work to the political disadvantage of the Democratic Party. The 2-year extension bridges the 1938 elections, and therefore avoids raising the tax issue at that time. Moreover, by continuing the taxes for 2 years, the Democrats possibly may have in mind bringing in a resolution next year to repeal the nuisance taxes just before the election and thus reap the political advantage which would thereby result. This, however, could not be sincerely done in view of the acute financial condition of the Treasury.

The principal basis of our objection to the extension resolution is that we are absolutely opposed to the enactment of any new taxes, or the continuance of any of the nuisance taxes, until the administration has first made an honest and sincere effort to reduce expenditures by the elimination of extravagance and waste.

We have expressed these sentiments before, particularly in connection with the Revenue Acts of 1935 and 1936. We are not retreating one step from this position. We repeat that we are in favor of a balanced Budget, but we feel that in the interest of the already overburdened taxpayers, especially those of small means, it should be balanced by reducing expenditures and not wholly by taxation.

Ever since the President, as a candidate for office in 1932, pledged "that rigid governmental economy shall be forced by a stern and unrelenting administration policy of living within our income", there

has been a succession of deficits under his administration which by the close of the current fiscal year will aggregate nearly \$16,000,000,000. Taxes have been raised again and again, but increased revenues have been completely offset by increased expenditures. The President definitely promised to reduce governmental costs 25 percent below the 1932 level of 5 billions, but instead he has increased them by 2 to 3 billions annually. If he had merely held expenditures at the 1932 level, our present tax structure would produce in the fiscal year 1938 nearly 2 billions in excess of our needs.

For the foregoing reasons, among others, we are opposed to the passage of House Joint Resolution 375.

ALLEN T. TREADWAT.
FRANK CROWTHER.
HAROLD KNUTSON.
DANIEL A. REED.
ROY O. WOODRUFF.
THOMAS A. JENKINS.
LLOYD THURSTON.



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