

For release Morning Papers,
Tuesday, January 1, 1924.

Washington, Dec. 31. - Secretary Mellon's New Year's message is confidence in a prosperous 1924. The Secretary said:

"During the last year, this country has made a remarkable recovery from a severe industrial depression. It has become increasingly evident that, with business on a sound footing and fairly balanced relations between industries, our own country can enjoy stability and a moderate degree of prosperity, even when unsatisfactory conditions prevail abroad. The result should not only inspire confidence for the future but justifies the belief that the year immediately ahead of us will see continued progress, if the drag of an unsound basis of taxation is removed from business and industry.

Much depends upon the continued efforts of the country to keep its financial house in order, holding down expenditures and following sound policies as regards new undertakings. The Government has succeeded in closing the fiscal year 1923 with a surplus of about \$310,000,000 above all expenditures chargeable against ordinary receipts, including the sinking fund and other debt retirements to which the Government is committed under the sound policy of balancing its budget and gradually reducing its indebtedness. During the year, the Treasury has completed the refunding of the seven and one-half billions of the short-dated debt, on a strict investment basis and without disturbance to business or a strain on the financial market. This has included the completion of the refunding of the Victory Loan aggregating over \$4,050,000,000, and the retirement of over half a billion dollars of War Savings Certificates. The year just closed has also witnessed the funding of the

debt owed to this country by Great Britain into bonds aggregating \$4,600,000,000, with satisfactory arrangements for their gradual retirement.

As a result of the present favorable condition of the Government's finances, the Treasury has recommended a reduction of taxes in the belief that the country should be relieved, so far as may be possible, of the excessive burden of taxation, which has been borne so uncomplainingly during and after the war. The Treasury has accordingly recommended to Congress that legislation be enacted, which will distribute the benefits of tax reduction among all classes of taxpayers and release, for investment in productive enterprise, funds which are necessary for the country's expansion and future healthy development.

I am convinced that, if the tax proposals are enacted into law and the sound policy of retrenchment in expenditures is continued, the coming year will witness a steady improvement in the favorable conditions which have already begun to make themselves felt, and this country will enjoy prosperity in 1924."

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Sunday, January 6, 1924.

Secretary of the Treasury Mellon to-day gave publicity to the letter of December 20th, 1923, from Senator Couzens to him, and his reply of January 2nd.

Letter of December 20, 1923, from Senator Couzens to
Secretary of the Treasury Mellon.

December 20, 1923.

Subject: Surtax.

Dear Mr. Secretary:

As part of the program for tax revision, conveyed in your letter of November 10th to Acting Chairman Green of the Ways and Means Committee of the House of Representatives, and further upheld in your Annual Report for 1923, you propose a reduction in maximum surtax rates from 50% to 25%. In support of this proposal you affirm that the productivity of the surtax is shrinking, contending that present rates encourage various legal forms of tax evasion, notably investment in tax exempt securities by receivers of large incomes, and also that these rates seriously impede the development of business by diverting capital from productive industry to other forms of investment, especially to tax exempt securities. To be specific, you say you "have considered this problem in the first instance solely from the standpoint of the Government's revenue, and it is clear that from this standpoint alone a reduction in surtaxes is necessary", that "the high rates now in effect are progressively becoming less productive of revenue", that taxpayers subject to surtaxes "are withdrawing their capital from productive business and investing it instead in tax exempt securities", and that "the constantly growing mass of tax exempt securities is reaching such proportions as to undermine the development of business and industry".

A reduction in the maximum surtax rate from 50% to 25% would represent a drastic cut in the taxes imposed on that class of incomes

popularly considered as most capable of bearing taxation. I feel, therefore, that legislative action in conformity with your suggestions should be supported by very conclusive evidence that such reduction would be for the good of the country as a whole. Your communications on this subject do not seem to contain such evidence.

The only statistical evidence presented appears at the end of your letter to Mr. Green in a "Table showing decline of taxable incomes over \$300,000" from 1916-1921. You show here the number of income tax returns received, the net incomes reported, and the dividends and interest received in these years by individuals making return of net incomes of over \$300,000. But you do not show, either there or in your Report, the actual amount of surtax collected for these years. In other words, you give no figures to prove that the surtax revenue has itself decreased or, if so, to what extent.

Furthermore, in presenting these figures on incomes over \$300,000, you make no allowance for the fact that 1921 was a year of severe depression, beginning with a price collapse in 1920. I note, however, that Mr. Edward White, Statistician of the Bureau of Internal Revenue of your Department, stresses this fact in a discussion of the 1921 income tax statistics, presented by him on November 5th before a local club. He points out that the effect of this business depression was reflected in the number of income tax returns received for 1921, in the amount of net income reported, and in the amount of income tax paid. It appears that these three items, in consequence of the depression in business, were less in 1921 than in 1920 with respect to every income group, and that, accordingly, a falling off in returns, in net income and in taxes paid for the surtax groups, can be explained in this year, and to some extent in 1920, without reference to the rates of surtax.

Also, you do not state how large the income tax collections for 1922, made in the current year 1923, have been to date, or what the probably total figure for the year will be. Since our recovery from business depression was well under way in 1922, I should expect income tax collections for that year to improve. May I ask, therefore, that you furnish me with definite and, if possible, statistical evidence in support of your statements that the surtax revenue of the government is shrinking, that it is doing so on account of the present surtax rates, and that it may be expected to lessen progressively in the future unless the rates are reduced.

I should also be glad to secure some definite proof of the relation of the tax exempt securities question to surtax reduction. In your communications on tax revision, I find nothing to indicate the proportion of tax exempt investment existing in large fortunes. What are the amounts of tax exempt securities held by the receivers of large incomes as compared with their other investments, and what is the loss in taxes paid to the government by reason of this method of investment? What is the entire amount of tax exempt securities outstanding and what could be its estimated maximum effect on the surtax return?

Apparently your proposal for a reduction in the surtax is based on your observations of the investor, [^] I mean the investor who may buy railroad bonds, industrial bonds or Government, State and Municipal bonds. Everyone knows the return usually received on these kinds of investments. There are many people, however, who receive incomes from bank stocks, and as the result of conducting businesses as traders, jobbers, merchants or manufacturers, but are not, strictly speaking, investors in the same sense as above referred to. Those latterly referred

to are in more speculative business and many of them are receiving incomes of from ten to one hundred per cent on their investment. It seems to me that your proposal for a reduction in surtax will give the biggest relief to this class, and that is the class which can best afford to pay.

In your report you point out that tax-payers paying surtaxes in the highest brackets would have to have investments to yield about 10.4% in order to be as attractive as 5% tax exempt securities, but you do not deal with the income from bank stocks and the commonstocks from many industrial concerns, which as stated above pay from 10 to 100%, such cases, for instance, as the Standard Oil dividends of \$138,423,295 in 1923. Certainly tax exempt securities hold no attraction for them.

It would appear that the members of Congress will not be in position to pass judgment on your proposals for reduction in surtax rates until the facts which I have referred to are before us in the most definite form possible.

Very sincerely yours,

(Signed) JAMES COUZENS

Honorable Andrew W. Mellon,
Secretary of the Treasury,
Washington, D. C.

Letter of January 2, 1924, from Secretary of the Treasury Mellon to Senator Couzens.

January 2, 1924.

My dear Senator:

I have your letter of December 20th, the purport of which is that my statement that high surtax rates are becoming progressively less productive has not been sustained by the figures which have heretofore come to your notice. You also state that the year 1921 was a period of business depression which would necessarily be reflected in a reduction of income, and that you desire similar statistics for the taxable year 1922 from the returns of the year 1923.

The preparation of income statistics is a matter of considerable time and labor, and cannot be done until all returns are in from the Collectors, can be assembled, examined, and tabulated. The statistics of 1921 returns were available in October, 1923. The 1922 statistics will not be available until next fall. I cannot, therefore, present the 1922 figures to you at this time.

We have, however, statistics the force of which is most compelling. May I call your attention first to Table 2, an appendix to my letter of November 10th to Mr. Green and from which you quote? This table contains the total net incomes reported from all classes as well as the net incomes of those in the \$300,000 class. It is true that the year 1921 shows less total income than the year 1920, but 1921 is substantially the same as 1919, and may, therefore, represent a not unusual situation. If you will take the full six-year period (1916-1921) shown in the table, you will notice that the total net incomes returned

have increased from \$6,298,000,000 to \$19,577,000,000, whereas incomes in the \$300,000 class have decreased from nearly \$1,000,000,000 to \$153,000,000, and in number of taxpayers in that class from 1,296 to 246. Again referring to the same table, you will note that dividends and taxable interest on investments have increased during the period from \$3,200,000,000 to \$4,160,000,000, whereas dividends and taxable interest on investments of the \$300,000 class taxpayers have decreased from \$706,000,000 to \$155,000,000. If now you will refer to the prosperous year 1920, you will note that whereas that year showed a peak in total net incomes and total dividends and taxable interest on investments, it made no halt in the progressive diminution in the number of taxpayers with incomes in the \$300,000 class, in their total net incomes, or in their incomes from dividends and taxable interest on investments.

The following table shows the amount of surtax returned on account of incomes in excess of \$300,000 for the six-year period, together with the total surtax returned and the percentage the surtax on incomes in excess of \$300,000 was in relation to the total surtax.

Year	Total surtax	Surtax on income in excess of \$300,000	Percentage of total of those in excess of \$300,000
1916*	\$121,946,136	\$ 81,404,194	66.8
1917	433,345,732	201,937,975	46.5
1918	651,289,027	220,218,131	33.8
1919	801,525,303	243,601,410	30.4
1920	596,803,767	134,709,112	22.6
1921	411,327,684	84,797,344	20.6

(* 1916 was a year of low surtax rates)

From this you will note that whereas the total surtax has varied, the percentage of surtax paid by the \$300,000 class has progressively decreased from 66.8 to 20.6, without a break for any prosperous year.

We have, therefore, for the six years of varying degrees of prosperity statistics showing a marked and continuous tendency. That the statistics of 1922 when available will show a reversal of this tendency under the same conditions which have caused it heretofore is improbable.

I stated in my annual report that

"tax-exempt securities are not the only means by which the wealthy taxpayer, within his strictly legal rights, avoids a burden which appears to him to be confiscatory. It has been the history of taxation throughout the world that means have always been found by the ingenuity of the citizen to avoid taxes inherently excessive."

It is not necessary, therefore, that we consider solely tax-exempt securities as the means of tax avoidance, but the existing tax-exempt securities which would be unaffected by any constitutional amendment are the most open and well-known invitation to the avoidance of high surtaxes. There are approximately \$11,000,000,000 of wholly tax-exempt securities outstanding, and the loss of revenue to the Government over what it would receive if the income were taxable is estimated at over \$200,000,000 a year, and the loss of revenue over a similar investment in productive business at over \$400,000,000 a year. In the 1921 Revenue Act the Congress removed the requirement that tax-exempt income be reported. The extent to which people of wealth have had resort to this means of avoidance is not available to the Government except in returns for inheritance tax purposes. The Inheritance Tax Unit of the Internal Revenue Bureau has taken 21 returns filed in 1923 of estates of decedents having net estates of from \$1,000,000

up. These returns were taken at random from the estates of various net values of the great number of returns filed in that year which have not yet been audited for statistical information, and therefore, while typical, do not include all of the returns over this net value. Individually, of course, they vary, but as a whole they show that the percentage of wholly tax-exempt securities to total gross estate in 1923 was 28.97, and the percentage of wholly tax-exempt securities to total bonds and stocks was 41.98. This compares with similar percentages for previous years, as follows:

Year	Wholly tax-exempt to net estate	Wholly tax-exempt to total stocks and bonds
1917	2.21	3.26
1918	4.27	6.66
1919	5.30	7.87
1920	9.79	14.50
1921	8.97	13.30
1922	6.82	10.53
1923	28.97	41.98

Again we have proof of this progressive diversion of wealth from productive to unproductive business.

Your statement to the effect that tax-exempt securities are not attractive as compared with bank stocks and industrials which yield from 10 to 100 per cent on their investment is misleading if you make your basis the amount originally invested. The proper basis is the market value of the securities. The question is, can a taxpayer get more return after income taxes out of \$1000 worth of tax-exempt securities or out of \$1000 worth of some taxable investment? I know of no sound bank stock which yields as high as 10 per cent on what it can be sold for and the

money put in tax-exempts, nor of any sound investments which run up to 100 per cent on the market value of the stock. It is true that speculation sometimes gives these high returns, but it is the very demand for such returns on account of the high surtaxes which has kept capital out of ordinary productive business and attracted it only to such projects as give opportunity for undue profit.

Your citation of the Standard Oil dividends in 1923 as an example of investments which would be made in preference to tax-exempt securities is most appropriately answered by the return of the estate of Mr. William Rockefeller, who was undoubtedly quite familiar with the possibilities of the Standard Oil Companies. The total market value of his investments in those stocks was less than \$7,000,000, whereas the value of his wholly tax-exempt bonds was over \$44,000,000, six times what he had in the four Standard Oil Companies.

We have in this country a system of war-time high surtaxes which have been and will continue to be progressively less productive of revenue to the Government and which by driving capital out of productive business and destroying the American spirit of business initiative are working grave economic harm. It is not those who have the capital who are hurt, it is the whole country who would benefit by its productive use who suffer. Common experience and all statistics available point to the same end. What is the remedy? Let us have diagnosis and cure - not autopsy and verdict.

Very truly yours,

A. W. MELLON

Secretary of the Treasury.

Honorable James Couzens,
United States Senate.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Tuesday, January 8, 1924.

Secretary Mellon today gave publicity to his answer to Congressman Frear's letter of January 3rd, published in the Congressional Record of January 7th.

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January 8, 1924.

My dear Congressman:

I have your letter of January 3, in which you propose, instead of the passage of an amendment to the Constitution permitting the taxation by the Federal Government of income from State securities subsequently issued, and giving reciprocal rights to the States, the immediate passage of a bill taxing the income on State and municipal securities now existing and requiring that the statute be not held void without the concurrence of at least all but one of the Supreme Court justices, and that it shall continue in full force and effect irrespective of the decision of any inferior court. You ask my support of your proposal.

Not being a lawyer, I shall not enter into a discussion with you on the constitutionality of your bill. I might, however, call your attention to the fact that your legal argument appears to be based upon dissenting opinions of the Supreme Court and not on the opinions which have become the law of the land. I have been informed that a sub-committee of the Ways and Means Committee, composed entirely of lawyers, of which you were one, has decided, with the concurrence of all but you, that the bill would be clearly unconstitutional and on no account should be passed. This agrees with every other lawyer whose views I have seen.

With respect to the constitutionality of the restrictions on the action of the Supreme Court and the inferior courts, I again cannot give you a legal opinion, but it seems to me that if these restrictions are constitutional, why not eliminate all question as to the constitutionality

of your bill by going just one small step further and providing "This act shall not be held unconstitutional"?

I may, however, be permitted to say something on what I consider the merits of your bill.

The bill applies only to municipal and State securities and does not apply to securities created by Congress. The proposed constitutional amendment is reciprocal, that is, both State and United States securities thereafter issued would be taxable. Do you not think the discrimination in your suggestion is indefensible? Is Congress to say that the United States will tax securities issued by a State or its subdivisions, but the State may not tax securities issued by the United States?

The proposed constitutional amendment covers only securities issued subsequently to its adoption. Your bill affects existing securities in the hands of innocent holders. Tax-exemption was a material factor in fixing the price at which these securities were sold to their present owners. As an example of what this means, the First Liberty $3\frac{1}{2}$'s are fully tax-exempt, the $4\frac{1}{2}$'s of the same issue and maturity are exempt as to normal tax only. Based upon the average market price of these bonds during last month, the removal of the exemption from surtax would drop the price from 99.7% to 87.2%, or a loss of \$125 for a \$1000 bond, and removal of the normal tax exemption would reduce the price further to 82.4%, or a total loss of \$173 on each \$1000 bond. A similar situation would, of course, exist in every municipal and State bond. This is the value of tax exemption sold and paid for. You propose to confiscate this value and to pay nothing for it. Irrespective of its validity, it seems to me such legislation would be dishonest.

Because you must base your legal case on what some justices of the Supreme Court may have said in their dissenting opinions, you must admit that there is a grave constitutional question involved in your suggestion, on which the probability of the act being declared unconstitutional greatly exceeds the probability of its constitutionality. The question can only be decided by an opinion of the United States Supreme Court on a case duly brought before it. If your bill were passed promptly, it would affect income received in 1924, which is returned for taxation in 1925. Sometime later a decision would be obtained from the Supreme Court. In the meantime, the doubt of the law's validity would completely destroy the market for all State and municipal bonds, because the investor would be unwilling to purchase bonds at a price justified by their tax-exempt feature and the States and the municipalities would be charged with negligence if they sold their bonds on the basis of not being tax-exempt. You may recall that a similar situation arose a few years ago when there was no market for Federal Farm Loan bonds for several years until the Supreme Court passed upon the constitutionality of the tax-exempt feature. This condition of uncertainty would exist irrespective of what might ultimately be the decision. If ultimately the Supreme Court should determine that the act was unconstitutional - and you seem to be practically alone in believing that any other result will follow - then you would have accomplished nothing and you would have to start over with the constitutional amendment. At that time the Government would have to refund enormous sums of money which it had collected on the tax-exempt income and was wrongfully withholding from the owners, together with interest on these sums. The effect on the Government's budget in making repayment of the amounts which it would then

have spent and which it had no right to collect or hold would be rest serious.

To summarize, first, your bill makes an indefensible discrimination between securities issued by States and municipalities and securities issued under authority of Congress. Second, it confiscates, without compensation, property values which have been paid for by the investor. Third, it would seriously disturb the State and Federal Government finances, and finally the entire proceeding would most probably be vain and the time utterly wasted.

I agree with you that the proposed constitutional amendment, because it does not reach the \$11,000,000,000 of fully tax-exempt securities already in existence, is not a complete remedy. I have, therefore, recommended such a reduction in surtaxes as to make further investment in tax-exempt securities less desirable, for the most compelling reason in the world, that is, because the investor will be given an opportunity to make more money out of productive business than of unproductive tax-exempts. Upon the present basis of surtaxes, a $4\frac{1}{2}$ per cent municipal bond gives as much for a man with a large income as he would receive after taxes from an investment returning him 11 per cent. No prudent investor will consider an 11 per cent investment the equal in safety to a municipal bond and will not go into productive business on those terms. Under the recommendations which I have made, the return on a $4\frac{1}{2}$ per cent tax-exempt would be equalled by a taxable investment yielding about $6\frac{1}{2}$ per cent. Returns in excess of this may reasonably be expected and the prosperity of the country increased through devotion of moneys to productive enterprise.

I have assumed that your suggestion has been made in an endeavor to reach some constructive and practical solution of the question. If so, do you not think it would be better to abandon a project which is unsound, unfair, and in all probabilities vain, in favor of the constitutional amendment affecting future issues of tax-exempt securities, and a reduction of surtaxes affecting, through economic incentive, present issues?

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Honorable James A. Frear,
House of Representatives.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
January 10, 1924.

The Treasury has estimated that the wholly tax-exempt securities outstanding aggregate \$12,309,000,000 as of January 1, 1924. These figures are based on compilations of the Bureau of the Census, supplemented by the latest information available to the Treasury. While the figures as to the municipal and state bonds may not be entirely complete, it is believed the amount is substantially correct. The details are as follows:

Issued by	Gross Amount	Amount held in Treasury or in sinking funds and trust funds of states, cities, etc.	Amount held outside of Treasury, sinking funds, and trust funds.
States, counties, cities, etc.	\$11,036,000,000	\$ 1,500,000,000 (a)	\$ 9,536,000,000
United States Government	2,294,000,000	753,000,000 (b)	1,541,000,000
Federal Land banks Intermediate credit banks, and Joint stock land banks	1,228,000,000	105,000,000 (c)	1,123,000,000
Insular possessions	<u>112,000,000</u>	<u>3,000,000 (b)</u>	<u>109,000,000</u>
Total	\$14,670,000,000	\$ 2,361,000,000	\$12,309,000,000

- (a) Tax-exempt securities held in sinking funds and trust funds.
- (b) Owned by banks, but held by the United States Treasury as security for circulation or deposits.
- (c) Owned by the Government, and held in trust for national banks.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Wednesday, January 16, 1924.

Secretary Mellon gave publicity to his reply
to Senator Couzens' letters of January 9th and 11th, 1924.

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January 15, 1924.

My dear Senator:

I have your letters of January 9th and 11th. Much of what you say in these letters is simply a reiteration of your previous statement. You raise, however, several matters which are not covered by my letter to you.

You argue that the reduction in the high surtax rate will have no effect upon business, because the most it will mean is simply a shifting of investments, and some one must purchase the tax-exempts if they are sold. Before the imposition of the high surtaxes, municipal and State bonds had a wide market. They were well regarded by the investor and found their way into trust funds and into the strong boxes of the conservative investors no longer in active business. Men of initiative and activity did not acquire these securities. Their wealth, therefore, was left free to be devoted to productive business. Under high surtax rates tax-exempts without risk afforded a greater net return than productive business with risk could provide, and men with the capacity to produce found it more remunerative to do nothing. High surtaxes are no more than a bonus at the expense of the Federal Government to the State and municipal borrower, giving a wholly artificial value to tax exemption. A removal of this artificiality will restore all securities to natural conditions. True State and municipal extravagance will be curtailed, but their bonds will sell on their merits to the same class of investors who heretofore favored them. The men capable of business

success will get out of their dead investments and put their brains and money to work.

It is not the existing highly successful industrials which need the effect of a system of taxation which will give a freer play of capital. I might mention two businesses of great importance to the general public which are not now adequately supplied. It is estimated that the railroads will require a billion dollars a year of new capital in order satisfactorily to provide the facilities and equipment requisite to handle the traffic presented and to reduce the cost of transportation. In earlier years the railroads have been able to maintain a reasonable proportion between their total stock issues and their total interest obligations. As illustrative of this, the percentages of new bond issues to new stock issues in the three years 1911, 1912, 1913, were respectively 59 per cent, 60 per cent, and 53 per cent. In the last three years, under high surtaxes, these percentages have become 100 per cent, 95 per cent, and 94 per cent. The time is rapidly approaching when the railroads will be unable to issue further bonds without substantial increase in the stock investment. Originally railroad stocks have been purchased and held by wealthy men and the bonds have more generally gone into the hands of the smaller investor. The Supreme Court has recently sustained the validity of the "recapture clause", which effectually prevents any new stock being sold at a price which would give a man with large income an adequate return on his investment. If the railroads are to be furnished with capital, much must come from the sale of stock and to permit any sale surtaxes must be so reduced as to attract the large investor to that type of security.

There is still an acute shortage of housing facilities in the large cities of this country. While it is true that the high cost of material and labor has contributed to this shortage, the real reason why capital has not been more attracted to this investment is the surtaxes. If a flat building could be built in 1913 on a \$100,000 investment, and the investor desired 8 per cent return, his rents had to be adjusted so as to give him net \$8,000. If in 1923 a similar building should require \$200,000, the investor, to get the same return after high surtaxes, would need net rents of \$38,000. He would probably, however, wish to provide against this abnormal cost of building by amortizing the excess cost and demand net rents of \$48,000. We have either the failure to make investment because of the unlikelihood of adequate return, or a gouging of the tenants.

I am glad that you have brought up your own case. It is not unusual. I have heard of other men in your situation, and actual experience is the best test. Just as the statement in your previous letter that no man having opportunity to invest in Standard Oil stock would touch tax-exempt securities was happily answered by the probate record of the estate of William Rockefeller, which showed the exact contrary, so I think you are the answer to your own arguments. In your letter of January 11th you say that in 1920 you paid some \$7,000,000 of tax on the profit from the sale of certain property, obviously your stock in the Ford Motor-Car Company, and you then largely invested your capital in tax-exempt securities. It is reported in the newspapers that all of your capital is now in tax-exempt securities, and I have not seen any denial from you. This means, if it means anything, that you pay no income tax. Now, it

is a most unusual thing that a man of wealth and business experience should put his entire fortune into one class of security which some change in the law might render much less valuable. It has usually been considered prudent that investments be diversified and you might have selected, as well as tax-exempt securities, United States Government and sound public utility and industrial bonds, the care of which would bring no more business worry than tax-exempts. If, as you say, high surtaxes are immaterial, it would be interesting to know what influenced you in your selection of tax-exempt securities to the exclusion of all others.

Let us, however, apply your case to the arguments infavor of a reduction of high surtaxes, with which I understand you disagree.

It is urged that high surtaxes bear most heavily on the taxpayer while he is producing, that is, making money. The increase in value of your investment in Ford Motor-Car Company stock is unique, and few and far between will like opportunities come again, but while you were acquiring this wealth you paid, as you say, a large tax.

It is urged that wealth in possession, either by inheritance or realization of a fortunate investment, is not taxed. Your wealth is all in tax-exempt securities and you pay no tax.

It is urged that the high surtaxes are becoming less productive of revenue. In your case they have become barren.

It is urged that if high surtaxes were reduced it is probable that the Government would receive more revenue under a lower rate than it receives under the higher rate. It is not to be doubted that if surtaxes had been reasonable at the time you invested your wealth you would

have done the prudent thing and diversified your investments, taking part at least in securities the income from which is taxable. If you had done this, certainly the revenue to the Government from your income would have been greater than nothing.

You say you paid several million dollars tax on the sale of your stock in the Ford Motor-Car Company. This tax must have been based on the difference between your sale price and the March 1, 1913, value. What percentage did you pay for your actual profit based on your original investment cost, which you say is the true criterion?

You say that when you bought your tax-exempt bonds you prepaid taxes in their price. To what Government did you make payment?

Your tax-exempts must return you about $4\frac{1}{2}$ per cent. Sound taxable bonds would probably not pay over 6 per cent. Is the loss of $1\frac{1}{2}$ per cent of interest equivalent to 58 per cent of your total income?

Must a system of taxation which permits a man with an income of over \$1,000,000 a year to pay not one cent to the support of his Government remain unaltered?

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Hon. James Couzens,
United States Senate,
Washington, D. C.

TREASURY DEPARTMENT

FOR RELEASE, for publication,
Thursday afternoon, January 17, 1924,
in newspaper editions appearing
after 3:00 p.m.

Speech by

ELIOT A. RICHMOND

Assistant Secretary of the Treasury

at dinner

SPEECH OF

given by the Merchants' Club of

HON. GARRARD B. WINSTON

UNDER SECRETARY OF THE TREASURY

before

CHAMBER OF COMMERCE OF THE UNITED STATES, EASTERN DIVISION

at Philadelphia,

January 17, 1924.

Philadelphia

on Saturday, January 19, 1924.

For release in newspaper editions, January 20, 1924.

Note:

For full text of speech see Subject File: Taxation *Secretary's Speeches*

Speech by

ELIOT WADSWORTH

Assistant Secretary of the Treasury

at dinner

given by the Manufacturers' Club of

Philadelphia,

to

HON. ANDREW W. MELLON

Secretary of the Treasury,

at the Clubhouse,

Philadelphia

on Saturday, January 19, 1924.

For release Sunday morning papers, January 20, 1924.

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When Andrew W. Mellon, of Pennsylvania, was sworn in as Secretary of the Treasury, on March 4, 1921, he became at that moment ex-officio Chairman of the Federal Reserve Board, The Farm Loan Board and The War Finance Corporation. He assumed a position in which his influence affected every financial relationship between the people and the Government, the United States and the nations of the World.

His particular task in the government was in many ways similar to that of the treasurer of a business organization, for the Treasury handles the fiscal affairs of the nation, collecting its revenue, paying its bills, guarding its assets and borrowing and loaning money as the necessity arises.

An appraisal of the government as a business at that time did not show a very pleasing condition. The expense account and the debt were both too high, over seven billion dollars of the debt was coming due within two years. Liberty Bonds had shown a steady decline and were quoted at about 86. There was much complaint among the holders over the loss which they faced. The sale of more bonds was out of the question. General business conditions were far from flattering. The country was passing through a period of drastic deflation. Pessimists found a sympathetic audience. Travellers returning from abroad frequently predicted European collapse to be followed by chaos.

There never was a time when the United States more needed a man of courage, vision and optimism to put its finances in order. That man was found. He was no seeker of office, but, when called, laid down his heavy personal responsibilities and has served the nation with single-minded

purpose through every waking hour, from that day to this.

You ask me to report on this service. To a business audience, a bare statement of results will serve best to tell the story. The whole administration must share in the credit or blame for these results. Each of you may give to the Secretary of the Treasury his fair proportion of both as your judgment dictates.

The Secretary of the Treasury administers the bureaus and divisions which collect taxes, customs, and other Federal income, make all disbursements, issue and retire Government securities, manufacture Liberty Bonds, bank notes, currency and stamps. In addition to these financial activities, the Bureau of the Public Health Service, the Coast Guard, the Supervising Architect and Prohibition Enforcement are under his supervision. 18,000 employees in Washington, 41,000 outside of Washington, scattered throughout the country, carry on these diverse operations, which are essential to every activity of the Federal Government. The mere day-to-day routine work is no light responsibility.

I spoke of the expenses being too high in 1921. The splendid service of the Budget System installed on July 1st of that year provides not only the figures given below, but contributed largely to the economies which those figures so clearly indicate.

THE NATIONS EXPENSES.
Fiscal years ending June 30th.

1921 - - - - -	\$5,500	Million
1922 - - - - -	3,800	"
1923 - - - - -	3,700	"
1924 (Estimate) - - - - -	3,600	"
1925 (Estimate) - - - - -	3,300	"

In its operating methods, the Federal Government has been given the biggest polishing and speeding up of its whole life. Great savings have resulted. The number of Civil Service employees has been reduced by over 50,000. Supplies are bought more efficiently. Business is conducted on better methods. Transportation bills have been cut. Rent has been saved by the more effective use of Government-owned buildings. In the Treasury, where a number of offices did their own purchasing, one office now does it all, and the work is divided into commodity groups. You may say that this is all just simple business management, and that is exactly the case. The point is that business methods have been applied to Government operation.

I spoke of the National Debt and the maturities of over seven billion dollars to be faced within two years. Here was a situation calling for skill and judgment of the highest order. One percent saved in renewing those maturities would cut 70 million dollars a year from our expense account. Each billion dollars of principal paid off would save 45 million dollars a year forever. A program was adopted and carried out, with the result that today the nation's debt is lower than in March, 1921, by \$2,135,000,000, and there is a saving in the interest charge on the debt of over 100 million dollars a year on account of this reduction and the refunding at a lower rate of interest of maturing obligations.

As public confidence in the new Secretary of the Treasury and his refinancing plan developed, Liberty Bonds began to rise, all issues crossing par in July, 1922. To every holder of \$1,000 Liberty Bonds, this meant a profit of \$140. The market was so strong that in the autumn of 1922, 750 million $4\frac{1}{4}\%$ 25-30 year bonds were sold, bringing about a welcome reduction in the short-time debt.

Not only were the maturing issues taken care of without adversely affecting business but the new notes put out to replace the old have been so arranged as to maturity that they may be met when due with a minimum of disturbance to business and industry. There can be no question as to where the credit belongs for the complete success of these refunding operations.

These things have not just happened. There has been tremendous effort to save the taxpayers' money. The net results are a surplus in the income account of \$300,000,000 for each of the last two years, and now the welcome announcement that a cut in taxes may be made without danger to the finances of the nation.

A concrete plan for tax reduction, worked out after months of study, is presented. The plan is not guess-work. There is a reason for every item. What will be done with that plan is in the hands of the Congress, but really the decision rests with the taxpayers themselves. No voter who fails to express his opinion on this paramount issue is entitled to complain if he pays for this year the same tax he paid last.

No story of the last three years in the Treasury could be complete without mentioning the complicated situation growing out of the debts of foreign governments to America, in amount nearly \$10,000,000,000.

In 1921 there was no plan, no precedent to follow, and a considerable agitation for the cancellation of these debts. Mr. Mellon set his face strongly against cancellation, and asked Congress for authority to negotiate settlements with the debtor countries as opportunity arose. By the Act of February 9, 1922, the World War Foreign Debt Commission was created, with limited power, to fund the debts. Some negotiations

followed, and about a year ago the largest financial transaction ever known, involving \$4,600,000,000, was consummated with Great Britain. The proceedings were so unusual that they deserve description:

The United States was represented by the Commission. Secretary Mellon presided, Secretary Hughes and Secretary Hoover at his right and left and Senator Smoot and Congressman Burton, in the places next to them representing the Congress. The Chancellor of the Exchequer, Mr. Stanley Baldwin, and Governor Norman of the Bank of England, represented Great Britain. Nine meetings were held, during a period of less than four weeks. At the first meeting it was agreed that no notes should be taken of the proceedings, and that no one should be committed by what was said. There was a plain business discussion, every detail being frankly talked over by both sides. The Chancellor returned to England to consult his Government, cabling back that the terms informally discussed in Washington were acceptable, and then took place the most unique meeting of all, ^{which} at the British Ambassador represented his Government.

No long technical agreement was drawn up, none was possible, as only Congressional authority could bind the bargain. Instead of an agreement, a statement was prepared in friendly conference, setting forth the proposed terms. Scarcely covering half a typewritten page, it told the plan in full. About six o'clock in the afternoon, after a three-hour meeting, Mr. Mellon asked everyone present if the statement was satisfactory, and received an affirmative reply. At once it was given to the press. The following morning the public knew all there was to know.

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The little sheet was all the documentary evidence that existed of the world's greatest financial conference, the results of which were confirmed by the two Governments. The whole proceeding was so direct, so simple and businesslike, that I tell of it here tonight, partly for its own interest, but particularly as it is so typical of the quiet straightforward way in which Secretary Mellon has met the enormous problems confronting him, and solved them. I do not, for one minute, belittle the services rendered by the whole Commission, which worked in perfect harmony to bring results. The story is told as one which pictures, as well as anything can, Mr. Mellon's way of working out his problems, with careful thought of every detail, and then, but not before, announcing his solution. No wonder we have learned to depend upon him, to read his words with the conviction that they should be heeded.

I wonder if anyone here, accustomed as you are to large business transactions, would ask for better representatives in an important negotiation than those men who spoke for the United States in that settlement? The questions involved were financial, economic and political. Where could we find in this country a better team than Mellon, Hughes, Hoover, Smoot, and Burton? Is it too much to say that in such a financial transaction there is no man that the country would rather trust than Andrew W. Mellon?

The past three years have not only immensely improved the finances of the nation, but have brought the people into closer relationship with the Government, through frank discussions, in which the Secretary of the Treasury has taken a leading part. Not the least of the services which

he has rendered is the setting forth, in simple words, the financial problems of the country, and presenting logical programs, supported by facts and reasons. In doing so he has contributed, more than we perhaps realize, to a general understanding of the business affairs of a nation, with the result that the people are thinking of Government management and its effect upon them as never before.

These years have made a record in giving practical demonstration, from beginning to end, that economy in Government brings direct benefits to the taxpayer. That is not a new subject for orators, but it is seldom that the cause and effect are clearly associated in every mind.

Interest in Government finance has been stimulated, and not always along sound lines, by the economic experiments and financial acrobatics in which some nations have indulged. The disastrous results that followed have served as exhibits from which many practical lessons have been learned of what not to do, and to emphasize the soundness of the course which we have followed.

In this country there are some who would like to prospect in the wild places, seeking "cure-alls" for temporary financial ills. Some would use a surplus twice, once to reduce taxes, and again to pay a bonus. Some would have the Federal Treasury buy and hold the surplus products of one or another group of citizens, or have the Government guarantee the price of certain commodities at the expense of the taxpayer. Look back over these last three years of economic turmoil and you will realize how much it has meant to this country and the world to have a clear head and a strong hand in the Treasury Department at Washington.

It is not my part to praise the guestwhom you honor tonight. I have only tried to tell something of what he has accomplished and the heavy responsibilities which he has borne with such extraordinary benefit to the nation. The universal trust and confidence which the citizens in every walk of life feel in him is the highest praise that may come to any man in public life.

Secretary Mellon to-day made the following statement:

Representative Garner, the ranking Democrat on the Ways and Means Committee, has given publicity to a plan of income tax reduction, and has requested the Treasury to determine the probable effect of this plan on Government revenues. Since this request was made, the Government Actuary has been engaged in determining the effect of Mr. Garner's suggestion, but owing to the immense amount of detail involved, the figures are not yet available. It is believed, however, that irrespective of the revenue feature, the essential differences between Mr. Garner's plan and the Treasury bill should be stated.

Briefly, Mr. Garner increases the exemption of single men by \$1,000, and of married men from \$500 to \$1,000, depending on their income. He has made some further reduction in normal taxes on lower incomes, and made the earned income credit one-third instead of one-fourth. Whereas in the Treasury bill surtax rates commence at \$10,000 net income, Mr. Garner has made it \$12,000. He has then rapidly increased the surtaxes so that at \$60,000 net income they reach the same rates as in the present law. They are continued as in the present law until net income of \$92,000 is reached and a 44 per cent surtax, then they are abruptly ended. This compares with the Treasury plan of a fairly spaced increase in surtax rates, commencing at \$10,000 to 25 per cent at \$100,000.

By the increase in exemptions Mr. Garner effectually removes from the payment of any income those whose incomes are below \$2,000 for single men and \$3,000 for married men, and who constitute in number more than a

majority of the total taxpayers. It is obvious that under the Garner plan this majority will be benefited in their direct payment to the Government to the extent of, say, \$15 apiece over what they would pay under the Treasury bill. The proposed change in the surtax rates from the present law is obviously insincere. True, the starting point is made different from the Treasury bill, and Mr. Garner stops at 44 per cent instead of 50 per cent. It is to be noticed, however, that the middle incomes pay the same surtax that they pay under the present law, and the income in higher brackets pay 50 per cent, 44 per cent surtax and 6 per cent normal, as against 58 per cent aggregate under the present law. This change is hardly material, and the economic effect of taxation is completely ignored by the Garner plan. The plan is political and nothing else.

Let us illustrate the political character of the Garner plan by the argument made by its supporters against the Treasury bill. They say that under the Mellon plan a man with \$1,000,000 income makes a saving of about \$250,000, whereas 200 men each with incomes of \$5,000 and the same aggregate income, save only \$5,950. Reverse the picture. The test, of course, is what tax a man must pay. The millionaire, under the Mellon plan, will pay a tax of \$298,792.00, and the 200 small incomes \$38.25 each, or a total as to them of only \$7,650.00. The one high income pays 40 times the tax that the 200 small incomes of equal aggregate amount pay. Did the proponents of that argument believe they were giving the public the whole truth when they made it?

No thoughtful person longer doubts that, irrespective of his income,

he pays the high surtaxes in the general high price level. For example, the Baltimore & Ohio Railroad Company has bonds maturing next year bearing $3\frac{1}{2}$ per cent interest, the Chicago, Milwaukee & St. Paul has maturities in the same year bearing 4 per cent interest. Both roads will have to refund on a 6 per cent basis. The additional price of money must be paid, not by the roads, but by their shippers in freight rates. The farmer, who alone must meet world competition in what he sells, in what he buys pays the surtax. The New York Renting Commission reports that tenants are in no better position to-day than they were in 1920, and that rents have risen enormously. Increased cost of building is not responsible. Again the tenant pays the surtax.

The public should clearly understand what is involved in this effort to reestablish in this country a sound basis of taxation. The question is not one of whether two or three million voters save in their direct payments of tax \$15 apiece, but whether by the reestablishment of an economically sound basis the 110 million people in this country will save much more than \$15 apiece in what they pay for the necessities of life. There is only one thing which must be insisted upon: the high surtax rates must be reduced to a point where capital is freed from their killing effect upon new investments. To the solution of this economic question, Mr. Garner's plan is not even intended to be directed.

The present rates of tax, aggregating at a maximum 58 per cent, are treated as if they were the normal rates of tax. Any reduction from them, it is argued, is a great concession to the rich. This is not true. Before the war required the taking of every cent which could be

obtained for the support of the Government in its emergency, a surtax rate reaching 13 per cent at two million dollars was considered high. As a bit of history, substantially as much revenue was realized from incomes over \$300,000 out of this 13 per cent maximum in 1916 as was realized in 1921 from the same class of taxpayers out of the 65 per cent rate. These high surtax rates are war taxes, and nothing but war taxes. The war is over. Such taxation should cease. To pretend to change them and no more, is to keep up the high war living costs which every one pays.

We come, then, to the fundamental differences between Mr. Garner's plan and the Treasury bill: His is a makeshift; the Treasury plan is the result of experience and study. His seeks popularity by offering a small direct saving to the most taxpayers; the Treasury bill is fair to all classes. His is not intended to be effective on the economic side of taxation; the Treasury bill is designed to free capital and to benefit not only the individuals who pay taxes direct, but every person in the country who must pay these taxes in every purchase. It is the difference between a political method of handling tax reduction and a business method.

TREASURY DEPARTMENT.

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FOR IMMEDIATE RELEASE,
Monday, January 21, 1924.

SPEECH OF

HON. GARRARD B. WINSTON

UNDER SECRETARY OF THE TREASURY

before

CHAMBER OF COMMERCE OF THE UNITED STATES, NORTHERN CENTRAL DIVISION,

at Chicago,

January 21, 1924.

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There is no reason why the subject of taxation cannot be approached from a purely non-partisan viewpoint. The outstanding features of the Mellon plan is the Secretary's recommendation for a reduction of the high surtaxes. Similar recommendations have been made by the last two preceding Secretaries of the Treasury, both of whom held their offices under a Democratic President. There is nothing political in recommending a sound basis of taxation. It is simply common sense.

Let us, then, look at this subject as each one of you would soberly consider it, without the play of crowd psychology, which is the political method of approaching a subject. The Government is the people. To fight a war it needs much money. To conduct its manifold activities in time of peace, it still needs money, but in lesser amount. Whatever it does need, it must take from the people. There is no other source of income and no other means of taking except taxes. Now, taxes have a history of ultimately finding their way down to the consumer. True, in the earlier years of the imposition of a new tax the person upon whom the burden directly falls pays the tax, but he immediately casts around for means to shift this burden from his shoulders to another's, and with this shift is almost invariably added something of additional profit. I have never understood, for instance, that an excess-profits tax upon a corporation influenced it to decrease its profit and thus its tax. On the contrary, it either quit business because unprofitable when compared with the risk, or it sought an undue profit so as to have more left when the tax collector was through. So high taxes have always meant a high price level, and the tax is really

paid by every man, woman and child in the country, and not alone by the persons actually giving their checks to the Government.

It is for this basic reason that the present question of tax reform is not how much each individual taxpayer reduces his direct contribution, although this, of course, is a powerful influence upon the individual affected; the real problem to determine is what plan results in the least burden to the people and the most revenue to the Government.

As a preliminary to any tax reduction the needs and commitments of the Government must be assured. These fix the minimum below which relief cannot extend. In the last few years the Government has so cut down its expenses by strict economy through an intelligent budget system, and increased its revenues by the restoration generally of a more prosperous condition in the country, that for the past two years it has shown a surplus of about \$310,000,000 a year, and the estimated surplus for the fiscal year 1924 is \$329,000,000. This is the margin available.

I wish to say just a word about Government surplus, for many seem to look upon it as a deposit of cash in bank which would be available for expenditure to-day. Such is not the case. At the peak of the public debt we owed about twenty-six and one-half billion dollars, and we now owe just less than twenty-two billion dollars. Of this public debt, about one billion dollars is in short-time certificates, having a maturity of less than a year, and four billion dollars in notes maturing during the next four years. On each of the four quarterly tax-payment dates the Government issues its Treasury certificates to keep stable the money market during tax payments and to give the Government funds with which to operate until the next payment. In other words, at least four times a year the Government is borrowing money.

So an excess of receipts over expenditures for any 3-months period simply results in smaller borrowing for the next period, and not at all in an accumulation of cash. It is an automatic reduction of debt. Just as in your business, if you were heavily in debt to the banks, you would renew your paper for lesser amount each ninety days as you accumulated funds. It is true, therefore, that every new expenditure must be paid out of new borrowings. The sinking fund, which is part of the Budget of regular Governmental expenditures, now takes care of about \$300,000,000 a year, and the British repayments and other less important items bring the amount of debt reduction annually to about half a billion dollars per year. It is felt that the desirability of further debt reduction out of surplus receipts is not so great as the right of the people to share in the greater prosperity of the Government by a lessening of their tax burden. Based upon these premises, the Mellon plan of comprehensive tax reduction was worked out.

I need not go into the details, which must by now be known to all of you. Mr. Mellon first stated his recommendations generally in his letter of November 10th to Mr. Green. He supplemented this in his letter of December 17th, transmitting the draft of the Treasury bill embodying these recommendations and giving a statement of the substantial changes made. Since then, the bill itself and a detailed explanation of the reason and effect of all the changes have been printed in the newspapers. I believe that on no previous occasion have recommendations for new legislation been given such complete publicity while the draft of the bill was still pending in Committee and not yet introduced in the Congress. The Treasury stands in the open and submits its case in every particular

to the public.

Briefly, the bill gives a credit of 25 per cent for earned income, reduces the normal and surtax rates, makes changes in the interest of simplicity and clarity, eliminates methods of tax avoidance, and provides a more satisfactory method of determining tax liability. In addition, Mr. Mellon recommended the repeal of the telegraph and admission taxes.

These recommendations were not drawn with the idea of favoring one class over another, but every payer of a personal income tax is benefited. About 70 per cent of the loss of revenue to the Government from the recommendations comes in the brackets of income under \$10,000 a year, and only $2\frac{1}{2}$ per cent of the loss of revenue from income in excess of \$100,000 a year, and it is estimated that even this $2\frac{1}{2}$ per cent will be more than made up in the second year of the operation of the law. It is not a rich man's bill; it is not a poor man's bill; it is fair to all.

The reception of Mr. Mellon's recommendations is worthy of the courage and statemanship of their author. Both the press and the public have been favorable. It is true, of course, that attacks have been made on the bill for purely political purposes. Senator Johnson charges the Administration with overtaxing the people, apparently because receipts under the law now sought to be amended exceed present expenditures, which have been reduced by the strictest governmental economy, and he proposes as a remedy the reduction only of the tax paid directly by the smaller taxpayer. This ignores completely the higher taxes paid indirectly by those same persons through the economically unsound basis of taxation which Mr. Mellon now seeks to correct. Mr. Garner, the minority representative upon the Ways and Means Committee, presents a plan, the

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guiding principle of which is the complete exemption of the largest number of taxpayers from any tax at all, and again ignores utterly the economic feature of taxation. Mr. Frear, of Wisconsin, proposes to restore all high war taxation and to put on the books taxes ineffective to produce revenue.

I shall not discuss the details of these plans. There are, however, two distinct lines of political opposition. These are represented by those in favor of the bonus, who seek to ride two horses, and those who feel that because a man of large income also receives the benefit, on that ground alone, the plan must be wrong, irrespective of its benefit to the country as a whole.

The popular demand for tax reduction has become so insistent that even the bonus advocates cannot ignore it. Effort has, therefore, been made to show that we can have both bonus and tax reduction; eat your cake and have it. The Treasury is concerned solely with the fiscal effects of a bonus commitment, and it is from this viewpoint alone that I shall approach the subject. The bonus bill, in the form that it was vetoed by President Harding, has been reintroduced in the present Congress, and I understand is the one which the American Legion expects will be passed. This bill has three options: vocational training, farm and home aid, and the certificate plan. Since it is now five years after the war has closed and the men have gone into civilian employment, it is not expected that many will take vocational training, nor is it likely that a large number will desire the farm and home aid. The certificate plan will be the popular option. Accordingly, it was assumed, in the preparation of the Treasury's figures, that 1 per cent would take vocational training, 9 per cent farm

and home aid, and 90 per cent the certificates. It is this certificate plan, therefore, which is the most important. If we eliminate the 400,000 men whose bonus payment would be less than \$50 and who would receive their payment in cash, there are something over four million men entitled to certificates. The certificate base is the number of days in service at \$1 a day in this country, and \$1.25 a day abroad or afloat, less the \$50 bonus paid when the men were discharged. The average base is \$408 per man. To this base is then added 25 per cent and the whole is compounded at $4\frac{1}{2}$ per cent per annum for twenty years. The figure thus obtained is the amount which each man will receive at the expiration of twenty years or his heirs will receive upon his earlier death. The average maturity value is \$1,230 per man, or a total of about \$4,500,000,000. So much for the certificates themselves. This is twenty-year endowment insurance. We come now to the cash feature.

The holder of a certificate may borrow on it for the first three years from the banks. At the end of three years the Government must take these loans up from the banks and thereafter the Government must make the loans. It is this three-year shifting of the governmental burden to the banks which gives the low appearance of cost to the Government in the first three years. If you will notice, in the bonus arguments the average cost is taken for the first three years and not for the first four years, and in no such figures has any amount been set aside annually for the payment of more than \$3,000,000,000 on maturity in twenty years.

Looking at the problem on the expected percentage of selection between the various options and a reasonable assumption that certain certificate holders will borrow so as to realize cash in the present, it is figured by

the Government Actuary that the total cost to the Government will be over \$5,000,000,000, of which a billion dollars comes in the first four years. It would take an average of \$211,000,000 a year to meet payments and sinking fund for the first twenty years, leaving something over \$600,000,000 payment for which would drag along in the succeeding years and which could be taken care of by new legislation. Now, it must be obvious to you all that a commitment involving a direct cost to the Government in the next four years of \$1,000,000,000 is inconsistent with any comprehensive plan of tax reduction.

I say this with the greater reason because I have mentioned only the direct cost; the indirect cost cannot be definitely calculated. I might indicate, however, two of the most conspicuous elements which would have their effect. During the next five years the Government has maturing over \$8,000,000,000 of its securities. At least \$6,000,000,000 of these will have to be refunded. The borrowing on the bonus certificates is likely to raise the general interest rate which the Government as well as the public will have to pay. The mere passage of the act will depress Government securities and raise the rate of return on them which the Government must meet when it goes into the market with new bonds. It has been the experience in those States where a bonus was paid that the majority of the recipients spent it rapidly. It was my own observation when the \$60 bonus was paid on mustering out of the Army that the men did not go to work until the money was spent. We have these two conditions then, of increased demand and decreased production; -- the effect on the general price level is inevitable. And again, the Government as well as all of the people would be required to meet this level. I think you will agree that under these circumstances, if such a bill becomes a law, Mr. Mellon's statement that we will not see a comprehensive plan of tax reduction in this generation is a sound prediction.

I come now to surtaxes. It is the aim of a sound scheme of taxation to bring money into the Government with the least disturbance to the people, and not to dry up the sources from which this revenue flows. During the war the Government imposed taxation at rates so high that except for the patriotic willingness of all the people to share in the burden, the rates would have become completely ineffectual. Since the close of the war and the restoration of peace-time conditions of business and thought, this motive has ceased to be material and all people have come to look on taxes not as a patriotic duty, but as a business expense, which they treat in a business way and avoid as much of this expense as is possible. It has always been the teaching of history that taxes inherently excessive are not paid. We have no reason to expect different results here in America.

We now have on our statute books an income tax, normal and surtax, aggregating 56 per cent on incomes over \$100,000, and 58 per cent for incomes over \$200,000. This is a remnant of war time taxation, and is defended upon the theory that it is the best way to get revenue consistent with the ability of the citizen to pay. Let us consider how this theory works out in practice. The last figures available in statistical form are those for the taxable year 1921 returned in 1922. If we take as a class incomes of \$300,000 and over and the six-year period during which income taxes have been really material, we can learn whether the tax will continue to be a revenue producer to the Government, or whether it is drying up the very source from which the Government derives its revenue. In 1916 there were about 1300 men in this class. By 1921 that number had dropped to less than 250. In 1916 the total income of this class was nearly \$1,000,000,000. In the last of the six-year period it was \$150,000,000. This, of course, does not

mean that the country had less income in the later year than in the earlier year. As a matter of fact, the income reported in the first year by all classes was some \$6,000,000,000, and in the last year some \$19,000,000,000. If now we take the total surtax collected from all classes, we find that in 1916 the \$300,000 class paid 66 per cent of the total surtaxes, whereas in 1921 it paid only 20 per cent. There may be slight variations in the figures, depending upon years of unusual prosperity or the reverse, but the trend is continuous and all one way. If any statistical curve of diminishing return can be computed which gives us an insight into probable ultimate results, I think the figures on high surtaxes give this curve for the Government's revenues. It is time we got back to peace-time taxation.

Mr. Mellon proposes a 25 per cent surtax and 6 per cent normal tax, a total of 31 per cent. The Treasury has been asked how this figure was determined. The situation again is one in which ordinary business experience must give the answer. If you are manufacturing a motor-car or a hairpin, you will endeavor to fix a price for your article at a point which will yield you a profit and at the same time stimulate demand for your product. If you put your price too low, your sales are large but your profits small; if you put your price too high, your profit for each article is high but your sales so fall off that your total profit again is low. Somewhere between these extremes is the price at which you will make the most money. Now, an income tax is no more than the price which the Government charges for the privilege of having taxable income. If the price is too low, the Government's revenue is not large enough; if the price is too high, the taxpayer, through the many means readily to hand, avoids a taxable income, and the Government

gets less out of a high tax than it would out of a lower tax. Again, what is the proper figure between these extremes is one not determinable with absolute accuracy. It is the opinion of some authorities on taxation that this figure is below 15 per cent. None of them goes as high as 25 per cent. Clearly, 58 per cent is excessive. For example, an investor is offered a prospect of going into a business returning, before taxes, 11 per cent. He can buy a municipal bond paying $4\frac{1}{2}$ per cent, and if his income is large he gets the same return from the bond as from his business. Now, no business returning 11 per cent net is as sound as a municipal bond. As a consequence, the investor puts his money into tax-exempts, the Government gets no tax at all, and productive business is starved. Each of you must have known of at least one new project which was never consummated for no other reason than high surtaxes. With the Mellon rate of 31 per cent, being 6 per cent normal and 25 per cent surtax, an investment yielding $6\frac{1}{2}$ per cent would be the equivalent of the $4\frac{1}{2}$ per cent tax-exempt. ~~Businesses~~ with reasonable assurance of such a return can be found, with the speculative probability of greater return. The investor, with the chance of making more, will accept the business and reject the tax-exempt. As a consequence, he has a taxable income in which the Government shares, instead of an income giving no revenue whatsoever to the Government. An interesting illustration of this situation is that in 1916, with surtax rates running up to 10 per cent as a maximum, the Government collected from the \$500,000 class \$81,000,000 in surtaxes. In 1921, with the surtax reaching 65 per cent, the Government collected from the same class of taxpayers \$84,000,000. In other words, the Government got substantially the same from high incomes on a 10 per cent surtax as it got on a 65 per cent surtax. When there is peace in taxation

as well as internationally, it is probable that ten per cent, the old Hebrew tithe, which was always considered a heavy tax, will yield the most revenue with the least drying up of the source.

If high surtaxes were simply becoming ineffective, we might let the system stand until the Government should be obliged to seek other sources of revenue, but there is a much more serious harm involved. Initiative has always been the most valuable American characteristic. It was this spirit in our ancestors which brought them to this country. It was this spirit which peopled and developed the West. It is this spirit extended into business which has made America the prosperous nation that it is. To kill or to throttle this spirit is to destroy our future. A man who has acquired wealth and now possesses it, need not and does not worry about high surtaxes. There are \$12,000,000,000 of fully tax-exempt securities available to the public to which present wealth can be diverted. There are other ways of avoiding a taxable income. But it is the man who is making wealth upon whom the full burden of the tax rests and who is without opportunity of avoiding any share of its weight. Under the present law, at \$50,000 a man pays 31 per cent, at \$75,000 43 per cent, at \$100,000 56 per cent. The high surtaxes, therefore, are borne not only ^{by} the extreme incomes, but by the middle incomes. To share not at all in a man's losses and to take one-half of his gains, making him work three days out of six for the Government, is to impose odds too heavy to be borne. More and more the business adventure becomes too hazardous and the high spirit of initiative disappears in discouragement. An economic system which permits wealth in existence to escape its share in the expense of the Government and wealth in creation to be penalized until the creative spirit is destroyed,

cannot be the right system for America.

The situation in Washington is clarifying. It is no longer a question as to whether or not there shall be tax reduction, but whether the tax reduction shall be in good faith or as a political expedient. The Garner plan raises the exemption by \$1,000 on single men, and \$500 to \$1,000 on married men, depending on their incomes. It makes some changes in the normal tax on small incomes; it increases the credit for earned income from one-fourth to one-third. It then comes to the surtaxes. Instead of starting at \$10,000, as the Mellon plan starts, he selects \$12,000; he then raises the surtaxes rapidly until at \$60,000 they reach the point of the 1921 law. He keeps them at the same figures as in this law, until at \$92,000 of income and 44 per cent of surtax, when he stops abruptly. There is nothing scientific about his schedules. It is a trading plan. There is only one question in tax reduction: the economic question. Mr. Garner utterly ignores the effect of high surtaxes on the price level. He would rather show a saving to the majority of the taxpayers of a small amount paid directly to the Government than a saving by all the people in the country of a much larger amount in the adjustment of the high price level.

The question is much broader than this. Before high surtaxes, we had the capital and brains of men of ability working for themselves and the prosperity of the country. These same men have abandoned the employment of their brains and have put their capital into non-productive tax-exempts. It is true, existing industries are prospering and becoming stronger, but new investments are not made. Interest rates have gone up, and everywhere there has been shifted to the consumer these high surtaxes.

There is no use giving a boy two cents to buy a five-cent carfare. He has to walk in either case. So, it is no use pretending to reduce surtaxes. In order to have any economic effect at all, they must be cut far enough to free capital for new enterprises. Your efforts should not be scattered on details of tax reform, but should be directed to the vital necessity for this country's continued prosperity, -- an economically sound basis of taxation.

TREASURY DEPARTMENT.

FOR RELEASE MORNING PAPERS
Tuesday, January 22, 1924.

The following unsolicited letter has been received by the Treasury, and, as illustrative of the effect of high surtaxes, is given to the public.

DANIEL GUGGENHEIM,
120 Broadway,
New York.

January 18, 1924.

My dear Mr. Secretary:

The experience of my firm may throw some definite light upon the problem of tax revision to which your efforts are making so constructive a contribution. The firm was started by my father and during the last fifty years has devoted its efforts to the search for, and then the development of, profitable mining properties. Our operations have been carried on in all parts of the world, they have resulted in wide-spread employment for labor, in extensive sales of American goods, in an increase in American commerce, in profits for those who have invested their money in these enterprises, and in a substantial return to our firm.

Up to a few years ago our operations were upon a progressively increasing scale; at the present time they are upon a greatly reduced scale, and the reason is because of the unduly high surtaxes upon incomes. The net result is a great decline in our ability to do that which we would like to do in the promotion of American enterprise, business activity and prosperity.

Until recent years it was not uncommon for us directly through our firm or through corporations created for that purpose, to spend fully \$500,000 each year in the mere examination of mining properties. Today our expenses in that direction are practically nil, and the large organization which we had built up for that purpose has been virtually dissolved.

Under the present plan of taxation, the business man must assume the burden of all losses, whereas the Government through taxes takes so large a share of the profits that in a business such as mining, involving great risks of loss, the possible net return -- under existing law -- does not warrant taking the chances involved.

If a reduction in the surtaxes is made in accordance with your proposals, there is no doubt that I will personally be relieved from certain taxation. But that fact will not add to my personal comfort or expenditure; it will merely enable me to make a further investment in profitable enterprise, the profits from which will in turn be subject to taxation. A change in the plan of taxation, under which those who earn substantial profits may retain a sufficient share of them to compensate for possible losses, will very decidedly affect the vigor of not alone our own but all American business effort.

Contrast our own present inactivity with a few instances of enterprises which have been conducted on a large scale in the past.

My firm in the early nineties invested approximately \$7,500,000 in Mexico. This investment later became our participation in the assets of the American Smelting & Refining Company, which has since grown into .

one of the leading industrial corporations of the country with present assets of nearly \$200,000,000.

In Alaska our firm invested and caused to be invested on its recommendation over \$22,000,000 in the Kennecott Copper Corporation before any dividends were paid. That Company now has so increased its investment that its assets now amount to nearly \$150,000,000, including its ownership of interest in subsidiary corporations.

In the Chile Copper Company, in Chile, we and others invested \$50,000,000 before any dividends were paid. That Company now has assets of some \$150,000,000.

In the Braden Copper Company, Chile, we invested and brought about the investment of nearly \$50,000,000 before any dividends were paid.

The original investment and risk in all these cases led to great later development and the production of wealth and dividends subject to taxation.

At the present time and for several years past we have been developing tin properties in Bolivia. In those properties we have invested some \$10,000,000 and have not yet invited public participation and risk because we are not yet prepared to give these properties our definite sanction.

American engineers and experts are utilized in all these enterprises; materials and machinery are exported from America; the exchange of goods increases American commerce in both directions; and, after the producing stage of development of these enterprises has been reached, the profits upon them afford a legitimate compensation for the employment of

capital of American investors.

In addition to the foregoing specific instances, my firm has been importuned to make investments and developments in various parts of the world and has been offered many tempting concessions in foreign countries. The development of these opportunities would be of great advantage to American commerce and prosperity.

Careful consideration of the whole situation has led to the conclusion, very regretfully on our part, that the large surtaxes which, under existing law, must be paid on any profits, when added to the risks normally involved in mining activities, make such enterprises as we have undertaken in the past too hazardous for present effort.

In so far as this situation relates merely to the affairs of Guggenheim Brothers, it may be of little consequence. But in so far as our experience reflects the experience of others similarly situated, I venture to believe that our experience points to this conclusion:

The present law discourages the growth of enterprises which may give increasing employment to labor; it specifically penalizes, and thus prevents the development of business enterprises involving great risk and at the same time offering opportunity for extensive development and thus the payment of ever growing taxes. The present tax law presents a definite obstacle to the expansion of American business enterprise, and, therefore, a menace to the continued prosperity of this country.

If to our present sound money system we can add tax reforms such as you have proposed, which will provide adequate revenues for the government and at the same time regulate the tax burden so that it will not discourage industry, the zest which will be given to American business

enterprise and activity will make every citizen, rich or poor, in
this great country more prosperous and happier.

Yours faithfully,

(Signed) DANIEL GUGGENHEIM

Honorable Andrew W. Mellon,
Secretary of the Treasury,
Washington, D. C.

TREASURY DEPARTMENT

FOR RELEASE, Afternoon Papers,
Friday, January 25, 1924.

Secretary Mellon today gave publicity to his letter
of January 24th in reply to Senator Couzens' letter of January
18th.

January 24, 1924.

My dear Senator:

I have your letter of January 18th. By some unique process of reasoning you announce that I have abandoned my propositions that high surtaxes are becoming less productive of revenue and that capital is not free to go into productive business. While in my last letter I did not repeat word for word what I said in my first -- there must be some progress to correspondence -- still, if you will recall, I applied in my last letter your particular case to these same propositions and showed how in your case their correctness was established. If this to you be abandonment, then to you my letters are vain.

You try to answer the railroads' need for stock investment by the usual political diatribe against them. The question is can they obtain the capital which is required to meet the country's needs and this depends upon what they can offer investors. Under the present surtaxes, and it is they which have been the continuous subject of our correspondence, a 6 per cent stock nets the small income 6 per cent. It nets the large income but 3 per cent. That is what I meant by inadequacy of return, and its correction lies in a lowering of surtax rates.

You answer the flat building illustration by saying that building is usually done through a corporation. The individual investor is interested in what he receives. The interposition of a corporate entity between the rents of the tenant and the profits to the investor simply

adds an additional $4\frac{1}{2}$ per cent of income tax, being the difference between the corporate income tax of $12\frac{1}{2}$ per cent and the individual normal income tax of 8 per cent with which dividends are credited. Rents must be even higher.

You question the accuracy of my statement that your profit was in the sale of Ford Motor-Car Company stock. I call attention to your letter of the 11th, in which you say that you paid \$7,229,161.75 tax in 1920, and that "this resulted entirely from a transfer of certain property". The sale of your stock in the Ford Motor-Car Company was a matter of wide public notice when it was made. If this was not the "certain property", I have drawn an inference which was not justified, but the public has not credited you with the sale of any other property about this time which would indicate such a high tax. You also question my statement that all of your property is invested in tax-exempt securities. In your letter of the 11th, you said "as I have largely invested my capital in State, county, and municipal bonds * * * ." Again in that letter you stated that in the past ten years you had paid \$8,223,879.21 income taxes, and in the year 1920 \$7,229,161.75. There is, therefore, \$1,000,000 of tax which must be accounted for in the other nine years. While you had your stock in the Ford Motor-Car Company, it is publicly known that the Company paid substantial dividends, which must have accounted for a large part, if not all, of the \$1,000,000 in tax for the nine other years in question. As I said to you in my first letter, tax-exempts are not the only method of avoiding a taxable income, and for the illustration your case furnishes it is immaterial whether all income taxes are avoided by the purchase of municipal bonds or by some of the other lawful methods which are available.

Had you yourself not seen fit to discuss your own case, I should not, of course, have mentioned it. In your letter of the 11th you sought to give the impression that at sometime, somehow income taxes were paid in advance and any obligation for the future discharged for all time. For example, you showed the tax that you had paid for the ten years, of which about 7/8 was in 1920, and, in speaking of your purchase of tax-exempts, you said, "I really prepaid the taxes". You repeat this in your letter of the 18th. It was to correct this impression that I asked you certain questions in my last letter. These you have not answered and I shall do so for you.

Knowing the basis upon which taxes are assessed, being the March 1, 1913, value, I assume that the tax you paid on the sale of this "certain property" was based on a profit not compared with the actual cost of the property to you, but with its greatly enhanced value at the time the income tax amendment became effective in 1913. This is the law. It is fair, and no criticism of you is implied. Answer to my question would probably disclose that the percentage of your real profit which the Government took in that year would not sustain the belief that the Government should be held to have bartered away its right equitably to share in your future income from what was left to you of that profit. Answer to the question directed to your tax-exempt securities will show that the 1 1/2 per cent difference in interest between a 4 1/2 per cent tax-exempt and a 6 per cent sound taxable bond is not equivalent to the saving in income tax which is made by reason of this character of investment. To equal the income tax the interest on the taxable bond would have to be 11 per cent instead of

6 per cent -- an obvious impossibility. This tax is not paid and the municipality saves but a small part of what the Federal Government loses. Answer to my third question would, of course, have disclosed that your claimed "prepayment" was made not to the Federal Government, but, if at all, to the municipality. The Federal Government receives not one cent of benefit, either directly or indirectly, from the price of the tax-exempts. High surtaxes simply mean a bonus to the municipalities by giving their securities an artificial value, wholly unconnected with their inherent worth or with any power of the municipality. This both encourages the municipalities to extravagance and brings into existence in this country a large mass of wealth forever unreachable for the support of the Government.

As I have said, your case is not unique. There are many other men in similar situations. What you have done, or are doing, or what investments you make, are entirely within your lawful rights. Your case is of interest solely as an illustration of what is being done by reason of the present system of taxation and which you, apparently, are unwilling to alter. It has no other value.

Let us return, therefore, to the original subject which is the basis of the correspondence between us. That is, whether the high surtaxes are becoming less productive of revenue to the Government and are injurious to business initiative. Let me repeat what I said in my first letter. The number of incomes of \$300,000 and over has dropped from about 1300 in 1916 to 250 in 1921. The total income in this class has dropped from \$1,000,000,000 to \$150,000,000 in the same period, although the reported income of the country had increased from \$6,000,000,000 in 1916 to \$21,000,000,000 in 1921. While these large incomes paid 66 per cent of all surtaxes in 1916,

in 1921 they paid only 20 per cent. In 1916, on a surtax which reached a maximum of 13 per cent, there was collected from these incomes about \$80,000,000 of surtaxes; in 1921, with the maximum surtax rate reaching 65 per cent, there was collected only \$84,000,000, substantially the same amount on a 13 per cent maximum as on a 65 per cent maximum.

You, certainly as well as anybody, must have appreciated the killing effect of high surtaxes upon business initiative. What possible influence other than these high surtaxes caused you to invest so much of your fortune in tax-exempts? Other examples are common knowledge to any man of experience.

The case is really too plain for argument. All business involves risk. If business loses the Government shares not at all in the loss; if business is successful the Government takes more than half of the gain. What can long withstand these odds? You may argue your theories as you please, but neither you nor any other man once he has gained wealth cares to take these risks on such terms. The spirit of initiative may still be there, but the unsound system of taxation is driving it into idleness. We shall become a nation of followers, not leaders. A tax system having this inevitable effect must be changed.

Very truly yours,

(Signed) A . W. MELLON,

Secretary of the Treasury,

Hon. James Couzens,

United States Senate.

TREASURY DEPARTMENT.

65
For release in morning papers,
Friday, February 1, 1924.

STATEMENT BY SECRETARY MELLON.

Secretary Mellon announced that he has authorized the Federal Reserve Banks on and after Friday, February 1, 1924, and until further notice, to redeem in cash before March 15, 1924, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury certificates of indebtedness of Series T M 1924 dated March 15, 1923, and Series T M 2 1924 dated September 15, 1923, both maturing March 15, 1924.

Secretary of the Treasury Mellon yesterday made the following announcement:

On January 7, 1924, Mr. Garner gave publicity to the Democratic plan of tax reduction, which purported to be a comprehensive, practical plan. On January 12, 1924, Mr. Garner extended his remarks in the Congressional Record and inserted tables which do not agree with his original announcement of rates. On January 25, 1924, Mr. Garner gave the Government Actuary still other rates of normal tax. It is on these last rates that the Actuary determined a loss of revenue to the Government, based on the 1921 returns, of \$347,000,000 from personal income alone and the table showing these figures has been published. The Ways and Means Committee has approved the reduction in indirect or nuisance taxes to the extent of roughly \$110,000,000. It is understood that Mr. Garner is in general agreement with this proposed reduction. The \$110,000,000 must, therefore, be added to any loss on personal income tax under the Garner plan.

Governmental surplus, which alone permits tax reduction, is the difference between the estimated revenues of the Government in the year the reduction is to be effective and the estimate of the expenditures of the Government in that same year. It is quite immaterial what the effect of a plan of tax reduction is on any past year having incomes subject to tax differing from the estimated incomes for the year the tax reduction is to be felt. 1921 was a year of low personal income, and the loss of revenue by reason of Mr. Garner's plan based on 1921 income does not show at all what would be the actual loss of revenue in other years.

In order that the Treasury might determine the future position of the Government if Mr. Garner should succeed in having his plan become a law, the Government Actuary has figured the loss of revenue by that plan after it is in full effect. This loss is estimated at over \$510,000,000. To this, of course, must be added the \$110,000,000 loss in revenue from the indirect taxes, a total of over \$620,000,000. This compares with \$222,000,000 loss in revenue on personal income under the Mellon plan, plus the \$110,000,000 loss of revenue from repeal of the indirect taxes, a total of \$332,000,000. In other words, the Garner plan would mean almost twice as much loss of revenue as the Mellon plan. No expected Governmental surplus could meet the loss of revenue desired by Mr. Garner, and a deficit would be the result.

By increasing certain exemptions, Mr. Garner proposes to eliminate more than half of the taxpayers. For example, based on the 1921 returns, under the Mellon plan there would be 3,589,985 taxpayers, and under the Garner plan 1,138,626. True these individuals would save perhaps \$15.00 apiece, but there is no material reduction of the high surtaxes, and the plan would have no effect on the general high price level. As against the small saving in taxes directly paid by a proportion of voters, all the 110,000,000 of people in this country would continue to pay indirectly high taxes two or three times over.

In an open letter to Mr. Green, Chairman of the Ways and Means Committee, Thomas S. Adams, Professor of Economics at Yale University, and the most experienced man on income tax in the country, says:

"We debate and dispute about the minutiae of rates, when the question is the honesty or integrity - and hence the real life - of the progressive income tax.

"The income tax will not be saved by lifting from its load a mere straw. Reducing the maximum surtax from 50 to 44, or even to 40 per cent, would in my opinion be useless. It would be cutting off the tail by inches. Taxpayers who will avoid 50 per cent surtaxes, will avoid 40 per cent and, in my deliberate judgment, 35 per cent surtaxes. There are some occasions when a half loaf is better than nothing at all. This is not one of those occasions. I can see no justification in principle for a cut in the maximum surtax of 10 or 12 per cent. There should be greater reduction or no reduction at all. The reason or justification for cutting the upper surtaxes is not to reduce the taxes of the few rich men who happen to be caught. The justification is to be a tax that can be enforced; to reduce the discrepancy between the taxation of corporations and the taxation of individuals; to give back to certain lines of business whose normal supply of credit comes from wealthy individuals, their normal and natural investment market; and most of all, to give to the income tax at this critical period a task which it can creditably perform.

"When revenue is needed, most Americans (including myself) believe in levying the highest progressive rates that can be imposed without doing more harm than good to the nation as a whole. But at this moment, any rate is too high that will retard the restoration of the income tax to health and working efficiency. Any rate is too high that pushes the income tax into deeper disrepute. With the holes in the income tax wide open, it seems to me that its friends should be the first to resent and oppose rates which expose the tax to contempt as a complicated nightmare of political dreamers. We want an effective progressive tax, not a gesture."

That the Garner plan is a political makeshift is clearly demonstrated.

Although purported to be a comprehensive, well-considered plan, its author changed his suggested rates of normal tax twice in the first three weeks. It was not thought out. If Mr. Garner's plan of tax reduction is adopted, Congress must proceed to find other sources of taxation. It is not practical.

TREASURY DEPARTMENT
FOR IMMEDIATE RELEASE

FOR IMMEDIATE RELEASE,
THURSDAY, FEBRUARY 14, 1924.

The President today gave publicity
 TO THE FOLLOWING LETTER FROM THE
 SECRETARY OF THE TREASURY.

The papers of the Treasury Department have been disturbed and it is not now practicable to reconstruct the original part of the Department's records. The organization has been disturbed and it is not now practicable to reconstruct the original part of the Department's records. After consultation with the Secretary of the Treasury I have asked the Secretary of War to detail as Acting Director of the Bureau Major Wallace F. Kirby, of the Regular Army, United States Army, who is on leave from the War Department and who served with distinction in the Army's expeditionary force in France in charge of battle maps and plotting. Major Kirby will retain his commission in the Army and after the Bureau is put once more in good working order a permanent Director will be appointed. The present Director's resignation will be accepted without prejudice to his consideration for reappointment.

Note:

For full text of letter see Subject File: U.S. Sec. -- General

FOR IMMEDIATE RELEASE

February 14, 1924.

The President today made the following announcement:

The Bureau of Engraving and Printing is an essential part of Government operations. For the past two years its organization has been disturbed and it is not now functioning with smoothness. After consultation with the Secretary of the Treasury I have asked the Secretary of War to detail as Acting Director of the Bureau Major Wallace W. Kirby, of the Engineer Corps, United States Army, who is an expert in the work done in the Bureau, and who served with distinction in the American Expeditionary Forces in France in charge of battle maps and map making. Major Kirby will retain his commission in the Army, and after the Bureau is put once more in good working order a permanent Director will be appointed. The present Director's resignation will be accepted without prejudice to his consideration for reappointment.

Major Wallace W. Kirby is an officer of the regular army in the Engineer Corps. He is a recognized specialist in reproduction processes and methods. He has had practical experience covering 23 years' employment in numerous commercial establishments engaged in plate printing, lithographic processes, type printing, and photo-engraving and in the United States Geological and United States Coast and Geodetic surveys. For 1½ years he superintended the photo-lithographic section of the Bureau of Engraving and Printing.

At the outbreak of the World War he was commissioned in the United States Army, Corps of Engineers, and given full charge of equipping and operating the map reproduction activities of the Army. He equipped and operated the Army reproduction establishment, known as the American Base Printing Plant, at Langres, France, and in addition to his duties there he equipped every corps and army plant operated by the American Expeditionary Forces in France. He was also in command of the 29th Engineers, the special unit of experts organized for surveying and map reproduction purposes. While engaged on this work, realizing the need for rapid delivery of maps at the front, he designed mobile equipment, mounted it upon trucks and reproduced maps close to the front line trenches. His work in this connection elicited the praise of the Commander in Chief of the American Expeditionary Forces and officers of the British and French services. For his services he was awarded the Distinguished Service medal.

TREASURY DEPARTMENT

72
FOR IMMEDIATE RELEASE,
Monday, February 18, 1924.

Secretary Mellon gave publicity to the following reply received from Col. Thomas W. Miller, Alien Property Custodian, to the Secretary's letter of February 18, 1924:

ALIEN PROPERTY CUSTODIAN

Washington

February 18
1924.

Honorable Andrew W. Mellon,
The Secretary of the Treasury,
Washington.

My dear Secretary Mellon:-

Your favor of even date evidently crossed a previous one of mine, sent you today, in transit.

Replying specifically to your letter, please be advised that the quotation of my remarks of yesterday contains inaccuracies, and even to the extent of quoting, as a part of my remarks, the remarks of other speakers who were present. I did not say that you had juggled figures. Furthermore, I did not state that a high official of your Department had told me anything. What I did say was that I had been informed that an official of the Treasury Department had verified my statements and figures which were sent you earlier today. What I referred to was a conversation I had with a prominent Republican United States Senator, whose name will be revealed to you with his permission or not, if he objects to my so doing. You have been misquoted yourself, and men in public life are subject to that.

I note your reference to the statements made by a man of public prominence within the past week, and it just happens that a reference was made to my office in that same gentleman's remarks.

I hope this will make the matter entirely clear.

Respectfully yours,

(Signed) THOMAS W. MILLER.

TREASURY DEPARTMENT.

77
FOR IMMEDIATE RELEASE,
Saturday, February 23, 1924.

February 21, 1924.

My dear Congressman:

I have your letter of February 20th. I am enclosing herewith Treasury estimates of the effect of my recommendations for tax reduction in the form originally submitted by me to Mr. Green, and a statement showing the effect of the Garner plan as originally proposed. In the report of the Ways and Means Committee to the House there appears the estimate by the Treasury of the effect of the tax reduction in the form in which the bill was presented to the House. I may summarize the loss of revenue to the Government under the various plans as follows:

	<u>Mellon Plan</u>	<u>Garner Plan</u>	<u>Ways and Means Committee Recommendations</u>
Personal income	\$222,900,000	\$511,977,000	\$233,400,000
Special taxes	<u>100,000,000</u>	<u>108,040,000</u>	<u>108,040,000</u>
Total	\$322,900,000	\$620,017,000	\$341,440,000

The estimated surplus as appears in the Budget message of the President to Congress for the fiscal year 1924 is \$329,639,624 and for the fiscal year 1925, \$395,681,634. The estimated cost of the bonus bill in the form vetoed by President Harding is shown in my letter of December 18, 1923, to Representative Andrew, copy of which is enclosed.

From these figures it is obvious that the bonus cannot be paid within the estimated surplus if any of the three plans is adopted, nor would the estimated surplus justify the payment of such a bonus if

any of the three plans were changed in the respect of making the normal tax rates 2 per cent and 5 per cent and the surtax rates graduated up to 40 per cent, which are the figures specifically mentioned by you.

You ask me what rate would have to be adopted in order to pay this bonus. You have the estimated figures before you. It is obvious that if all tax reduction be foregone a certain amount of revenue would be available to the Government for such purpose as might be determined. If any plan of tax reduction be adopted and additional taxes of other character be imposed, the effect on the Government revenue could only be determined when the specific nature of the proposed taxes was given. I regret that unless you can present some comprehensive plan by which you propose to raise the necessary money, or in what particular you propose the taxes shall not be reduced, I am unable to give you specific figures.

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Hon. F. H. LaGuardia,
House of Representatives,
Washington, D. C.

3 enclosures.

TREASURY DEPARTMENT.

76
FOR RELEASE, MORNING PAPERS,
Sunday, February 24, 1924.

In answer to inquiries made to him by the press to-day, Mr. Mellon made the following statement:

I know of no instances of corruption in the Bureau of Internal Revenue, except a few which have been prosecuted criminally. It is impossible, of course, to say in any business anywhere that chances for corruption do not exist. I have found governmental employees generally honest and loyal to the Government, and I believe such is the case in the Bureau of Internal Revenue.

It should be remembered that income taxes were of little importance prior to the war. The law was simple, the surtax rates were low, and contests by taxpayers infrequent. With the high surtaxes and an enormously complicated law, the last Administration was required to expand its forces greatly, and the machinery, being new, was not then working satisfactorily. When the present Administration took hold, the Bureau of Internal Revenue was going further and further behind. Up to then it had been possible to do little, if any, work upon difficult and complicated returns. Through reorganization, improvements in method, and with the assistance of expert advice, the administration of the Bureau is now working efficiently and rapidly catching up on arrears. The Treasury expects to have all returns substantially current by the close of the next fiscal year. We will be greatly assisted in this by the administrative changes recommended by the Treasury in the bill now pending in Congress. We have already commenced on a policy of decentralization which will increase efficiency and obviate some of the expenses of the taxpayers.

In the Annual Reports of the Tax Simplification Board to Congress the situation is discussed at length. There are now only one-third of one per cent of 1917 returns uncompleted. The primal reason for delay in adjusting taxes for the years 1917 and 1918 is the immense amount of work involved in settling invested capital, determining the value of natural resources, the March 1, 1913 value of assets, and questions of consolidation. The decisions of the courts, such as the stock dividend case, required many reaudits and large refunds. This also retarded settlements. These are the years of the excess profits taxes. Once these high tax years are settled and settled correctly, an audit of income tax returns will be much simpler and can be more promptly handled.

I do not believe that any overhauling of the Bureau would do other than harm. The training necessary to handle tax cases is highly technical, and education and experience are essential. The employees in the Bureau have this training and experience, and are functioning satisfactorily. To disturb the situation by creating in them the impression that an "overhauling" is to take place, would be to destroy the morale of the organization and render the existing machinery much less effective.

Secretary of the Treasury Mellon to-day gave publicity to his answer to Senator Caraway's questions in reference to the charges that the Secretary was interested in propaganda against the bonus.

Dear Senator Caraway:

I have received your letter of the 1st instant, in which you ask me questions with reference to certain charges that have been made by the Commander of the American Legion, Mr. Quinn, and I comply with your request as follows:

1st: Is it true that H. B. Rust, President of the Koppers Company, and George S. Davison, official of the Gulf Oil Company, contributed substantial sums to the Anti-Bonus League?

Answer: I have no knowledge as to whether or not Mr. Rust or Mr. Davison contributed any sums to the Anti-Bonus League.

2nd: Would you mind telling if you are interested in the corporations mentioned, or have you business relations with the two gentlemen mentioned?

Answer: I am interested as a stockholder in each of the corporations mentioned in Question 1, but I have no official connection with either of these companies, nor business relations with the two gentlemen excepting as a stockholder in the companies in which they are officers.

3rd: It is charged that employees of the Chicago Bi-Product Coke Company, a subsidiary of the Koppers Company, were commanded or requested to write letters to the Members of Congress opposing adjusted compensation. Do you know whether this is true or not, or have you taken any steps to ascertain whether it be true?

Answer: I have no information whatever as to whether or not employees of the Chicago Bi-Product Coke Company were commanded or requested to write letters to Members of Congress opposing adjusted compensation, and have taken no steps to ascertain whether that is true.

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4th: These charges have been made by the commander of the American Legion, Mr. Quinn. They are also supported by an affidavit by Mr. Allen, and they purport to show that you had advised and counseled and possibly contributed, either through yourself, or your business associates or companies in which you are interested, to this activity. Will you tell me whether this is true?

Answer: Your letter and that which I have read in the daily papers is the only knowledge I have had of charges having been made by Mr. Quinn of the American Legion with respect to the subject matter in questions 1, 2 and 3. I do not know who Mr. Allen is, to whom you refer, nor what his source of information may be upon which he relies for making the affidavit mentioned. I have not been consulted with, nor contributed personally to this activity. I have no knowledge of what my former business associates or their companies may have done in the matter.

5th: Particularly I would like to know if you authorized, or cooperated with Mr. Davison in raising a fund, the ultimate amount which was said to be, or was to have been \$20,000. The purpose of said fund was that it was to be used in propaganda against the Soldiers' Adjusted Compensation Measure.

Answer: I have never authorized nor cooperated with Mr. Davison or any other person in raising any fund whatever that had for its purpose any propaganda against the Soldiers' Adjusted Compensation Measure, or any other measure that has been before the Congress during the time I have occupied my present office.

I believe the foregoing answers cover the information which you have requested. No doubt Mr. Davison and Mr. Rust, if called upon, will respond promptly to any inquiries on the subject which you may desire to make of them.

Sincerely yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Hon. T. H. Caraway,
United States Senate.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Monday, March 10, 1924.

Statement by Secretary Mellon.

The Treasury is to-day announcing its March financing, which takes the form of an offering of one year 4 per cent Treasury certificates of indebtedness, dated and bearing interest from March 15, 1924, maturing March 15, 1925. The certificates are tax certificates, and the amount of the offering is \$400,000,000, or thereabouts. The Treasury will accept in exchange for the new certificates, at par, with adjustment of accrued interest, any Treasury certificates maturing March 15, 1924.

About \$550,000,000 of certificates of indebtedness will become payable on March 15, 1924, together with interest on the public debt of approximately \$143,000,000. There will also be interest payments to be made on April 15 and May 15, totaling about \$217,000,000.

The present offering of certificates is intended, with the tax payment to be received on March 15, and with the balances already on hand, to provide for all requirements until the June 15, 1924, tax payment date when additional financing will be necessary.

The text of the official circular follows:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TM-1925, dated and bearing interest from March 15, 1924, payable March 15, 1925, with interest at the rate of four per cent per annum, payable semiannually.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached, payable September 15, 1924, and March 15, 1925.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to

make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before March 15, 1924, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury certificates of indebtedness of Series TM and TM2-1924, both maturing March 15, 1924, will be accepted at par, with an adjustment of accrued interest, in payment for any certificates of the Series TM-1925 now offered which shall be subscribed for and allotted.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

TREASURY DEPARTMENT.

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FOR IMMEDIATE RELEASE
Wednesday, March 12, 1924.

Secretary Mellon made the following statement today before the Finance Committee of the Senat in connection with the Revenue Bill of 1924.

Tax reduction must depend in the first instance on the probable revenue of the Government for the years when the reduction is to take effect. It is estimated that the bill in the form in which it passed the House of Representatives, after giving effect to any increase in revenue through additional taxation and through changes which hinder avoidance of income tax, will mean a loss in revenue of some \$450,000,000. The estimated surplus for the fiscal year 1925, which will feel the first effects of this tax reduction is \$395,000,000. This figure is based upon a reduction in ordinary expenditures from approximately \$3,300,000,000 actual in 1923, to \$3,050,000,000 estimated in 1924, and \$2,815,000,000 estimated in 1925. This reduction in expenditures will require persistent effort and great economy. If extradordinary liabilities are incurred by the Government, then it is obvious that the surplus of \$395,000,000 cannot be relied upon. While the exact figures of expenditures and receipts for years subsequent to 1925 have not been worked out, it is the belief of the Treasury that, assuming that there is no substantial correction of surtax rates, the surplus in 1926 will be less than in 1925, and still further decreases may be expected in the years following. It must be clear, therefore, that in your consideration of tax reduction you must bear in mind, first, that the absolute loss of revenue based on income estimated on present rates should not be greater than your available surplus, and,

second, that your plan of taxation should be sound in its essential features and not destroy the source of revenue.

On the bill as it passed the House of Representatives and is now before your Committee I have the following comments to make:

1. The loss of revenue will be \$450,000,000. There will be no stimulation to revenue producing transactions because there is no material reduction in surtaxes. If this bill should become a law, a deficit would inevitably result and it would be necessary to find other means of raising revenue.

2. Surtaxes. My reasons for believing that a scientifically graduated surtax rate with a maximum of 25 per cent will both stimulate business and yield ultimately more revenue to the Government have been so frequently stated that I need not repeat them here. In the bill as it left the House there is reduction but not reform in taxation. The surtax rates start at $1\frac{1}{2}$ per cent at \$10,000, reach 36 per cent at \$100,000, and $37\frac{1}{2}$ per cent at \$200,000. If the rates had been properly scaled in the 1921 Act, it might be possible to make an intelligent percentage reduction, but the bill simply continues the defect in the present law and penalizes principally middle incomes. Here, with unscientific tax rates, the burden is borne by the man of initiative attempting to make money -- not by wealth in existence. It is my opinion that the 25 per cent scale down of surtaxes will have no material bearing on releasing capital, but, on the contrary, the flight of capital will continue. Particularly is this true since Congress has refused to recommend a Constitutional amendment to prevent further issuance of tax-exempt securities. As an example, under the proposed rates a business has to pay 8 per cent to equal in net return a $4\frac{1}{2}$ per cent municipal based

on the proposed rates. This is too wide a margin.

3. The definition of earned income has been extended to include, in cases where the income is the result of the use of capital in connection with personal services, an amount representing a reasonable salary for the personal services rendered. The Department for the years of excess profits taxes experienced the greatest administrative difficulties in determining what was a reasonable salary in cases of closely-owned corporations. The present definition means that in every case where there is any personal service whatsoever, the Department must determine what is a reasonable salary for those particular services. This would bring up for determination by the Department several hundred thousand separate cases each year, and you can easily understand the difficulties the Department will have in administering such a law. I believe that with the provision that all income under \$5,000 shall be considered earned, substantial justice will be done and the administration of the law should not be complicated by enlarging the definition. There is, of course, absolutely no reason for a \$20,000 limitation on earned income. If the distinction between unearned income and earned income is good, it is good in every bracket. If the tax on unearned incomes in excess of \$20,000 is at the proper rate, then the same rate is too high for earned incomes.

4. Publicity of returns. So far as I know, in all other nations having income tax laws the privacy of returns is respected. In every State in the United States, privacy of returns is guaranteed by law. There is one exception -- Wisconsin, where the privacy provision of the Act has been repealed, but I am informed that the validity of the law has been attacked, and the lower court has ruled against the law. The provision

in the present bill removes this privacy so far as certain committees of Congress are concerned. This would not be objectionable if the returns were submitted to the committees only in executive session and mention of the returns on the floor of Congress and the publication thereof in the Congressional Record prevented. But there is no privacy if the returns are discussed in open committee or on the floor and publication of such returns made under privilege.

5. Estate taxes. Without other than a discussion on the floor of the House and with no hearing before a committee, there was incorporated in the revenue bill an increase in inheritance taxes from a maximum of 25 per cent to a maximum of 40 per cent. In my opinion, such legislation is most unwise. The right of the Federal Government to tax inheritances is based upon no specific constitutional power, but upon the theory of an excise tax. They have heretofore been used only as war taxes and should be preserved for such use.

Inheritance taxes are properly sources of revenue for the States. They are a material element in a State budget; they are a comparatively small element in the Federal budget. To deprive the States of this source of revenue - properly their own - is to compel the States to increase taxes and to resort to their principal source of income which is levies on land. The far-reaching economic effect of high inheritance taxes is not properly understood. These taxes are a levy upon capital. There is no requirement in our law, as there is in the English law, that the proceeds from estate taxes shall go into capital improvements of the Government. In other words, capital is being destroyed for current operating expenses and the cumulative effect of such destruction cannot help but be harmful to

the country. Again, estates have to be liquidated to the extent necessary to provide for taxes, and the forced sale of property and securities tends to bring down not only the value of such property and securities but values everywhere. The ultimate effect of this is to bring down the very values upon which the tax is levied and ultimately to destroy the productivity of the tax, both to the State and to the Federal Government. The provision that State inheritance taxes may be credited to the Federal tax to the extent of 25 per cent is in effect a partial payment by the Government to the States of the inheritance tax collected by the Government, and works a discrimination between States having different rates of tax.

6. Tax on gifts. This tax also is a tax on capital, the proceeds of which do not go into capital and, therefore, work a destruction of the total capital of the country. Any annual tax on gifts is susceptible of evasion by spreading the gifts over a period of years. It will mean practically nothing by way of revenue to the Government. It will be extremely difficult to detect and enforce. It has a most peculiar incidence, unlike any other tax that I know of -- the one who gives pays the tax, and not the one who receives.

7. Miscellaneous taxes. The reduction of these taxes depends entirely upon the available revenue of the Government. Since this revenue is unequal to the proposed reduction, some modification in these respects should be made.

TREASURY DEPARTMENT.

FOR RELEASE MORNING PAPERS
Friday, March 14, 1924.

Secretary Mellon announced that subscriptions for the issue of Treasury certificates of indebtedness dated March 15, 1924, Series TM-1925, 4 per cent, maturing March 15, 1925, closed at the close of business on March 11, 1924. The reports received from the 12 Federal Reserve Banks show that for the offering, which was for \$400,000,000, or thereabouts, total subscriptions aggregate some \$660,000,000, of which \$58,000,000 were for Treasury account. Of these subscriptions about \$137,000,000 represent subscriptions for which Treasury certificates maturing March 15, 1924, were tendered in payment, all of which were allotted in full. Allotments on other subscriptions were made as follows: All subscriptions in amounts not exceeding \$10,000 for any one subscriber were allotted in full and subscriptions over \$10,000 were allotted 40 per cent, but not less than \$10,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

Secretary Mellon today announced that the total amount of subscriptions received for the issue of 4 per cent Treasury certificates of indebtedness of Series TM-1925, dated March 15, 1924, maturing March 15, 1925, was \$662,760,500, and that the total of subscriptions allotted was \$400,299,000, of which \$137,365,000 represent allotments on subscriptions for which certificates maturing March 15, 1924, were tendered in payment. Of this last amount \$58,000,000 were exchanges for Treasury account. All exchange subscriptions were allotted in full, while allotments on other subscriptions were made on a graduated scale on the basis already announced.

The subscriptions and allotments were divided among the several Federal Reserve Districts as follows:

Federal Reserve District:	Total Subscriptions Received:	Total Subscriptions Allotted:
Treasury	\$58,000,000	\$ 58,000,000
Boston	30,363,500	18,652,500
New York	204,844,000	113,136,000
Philadelphia	67,636,500	34,606,500
Cleveland	64,569,000	32,538,500
Richmond	18,875,500	11,937,500
Atlanta	19,838,000	10,160,000
Chicago	72,975,500	49,417,500
St. Louis	14,359,000	10,006,500
Minneapolis	14,251,000	11,608,000
Kansas City	17,029,500	9,781,000
Dallas	26,003,500	12,914,000
San Francisco	<u>54,015,500</u>	<u>27,511,000</u>
TOTAL	\$662,760,500	\$400,299,000

In view of press reports today of Democratic criticism of Treasury estimates of receipts, the Secretary of the Treasury made the following statement:

In order to have the benefit of independent judgment upon the principal items of receipts, the Treasury had adopted the practice of requiring independent figures from the Government Actuary on customs, income and profits taxes, and miscellaneous internal revenue, and estimates as to customs from the Director of Customs and as to income and profits taxes and miscellaneous internal revenue from the Commissioner of Internal Revenue. As originally submitted to the Under Secretary, these tentative figures were as follows:

	<u>1924</u>	<u>1925</u>
By the Government Actuary:		
Customs	\$ 540,000,000	\$ 493,000,000
Income and profits taxes	1,937,000,000	1,953,000,000
Miscellaneous internal revenue	965,000,000	941,000,000
By the Commissioner of Internal Revenue:		
Income and profits taxes	1,750,000,000	1,700,000,000
Miscellaneous internal revenue	933,585,000	927,585,000
By the Director of Customs:		
Customs	570,000,000	575,000,000

The Under Secretary thereupon called a conference of those who made the estimates and after considerable discussion the Actuary's figures for customs for 1924 of \$540,000,000 were raised to the Director of Customs'

figures of \$570,000,000. The Actuary's figures for customs in 1925 were accepted in place of the Director of Customs' estimate because the Actuary had had more experience in determining probable future conditions throughout the world which would affect customs receipts and he felt strongly that the high level of customs receipts would not continue. In the estimate that customs receipts would drop off the Treasury is apparently being justified, since in the first six months of the fiscal year 1924 customs receipts were some \$21,000,000 in excess of the corresponding six months of the previous year. They are now only some \$10,000,000 in excess, showing a decrease in receipts for the $2\frac{1}{2}$ months since January 1, 1924, of about \$11,000,000. It seems likely that the estimate of \$570,000,000 for the fiscal year 1924 will not be exceeded and may not be reached. No reason has been shown to change the estimate for 1925.

In the figures for both income and profits taxes and miscellaneous internal revenue taxes, it was felt that the Commissioner of Internal Revenue had better means of estimation than the Actuary, but that the figures of \$1,750,000,000 for 1924 and \$1,700,000,000 for 1925 in view of the Actuary's views of business conditions might be too low, and the Commissioner of Internal Revenue was requested to submit new figures in view of what had been discussed at the conference. The Commissioner of Internal Revenue after deliberation raised his figures for each of the years by \$100,000,000, and these figures were accepted by the Under Secretary and appear as the official estimates of the Treasury. In past years the figures on internal revenue which had been used by the Treasury in its Annual Reports had always been those submitted by the Commissioner.

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Up to today the collection of income and profit taxes indicate that the estimate for 1924 will be substantially correct:

In estimating probable receipts eight months and a year and a half in advance as was necessary when these estimates were made in October, 1923, for years ending June 30, 1924, and June 30, 1925, the Treasury has had no ulterior purpose other than an effort to arrive at the probable correct figures and has used the best intelligence available anywhere for that purpose. It must be borne in mind that this country is now on a high level of prosperity and with the adoption of a sound tax structure should so continue. Estimates of receipts for internal revenue are principally affected by changes in the industrial prosperity of the country. Estimates based on a continuation of prosperous conditions would exceed actual receipts if a change is made in the conditions, since the change must be downward. In like manner, when estimates were made in 1922 and the country was not then prosperous, a change in conditions made the estimates fall short of the actual receipts. Irrespective of any change in the industrial conditions of the country, a material factor in Government revenue is that the greater part of back taxes has already been collected and less revenue may be expected in the future from this source.

The Secretary of the Treasury today made the following statement:

Considerable publicity has been given the amount of refunds of taxes allowed by the Government and vague and general charges have been made that large sums of money have been returned to taxpayers illegally and unjustly. Reports of these refunds have been made to Congress from time to time as required by law but only recently have the papers noticed these reports. The elements which have in fact affected the amounts of refunds of taxes are the completion of the audits by the Bureau of taxes for high war tax years, decisions of the Supreme Court on disputed questions of tax liability, and the better recognition by the taxpayer of his rights. It should be borne in mind that since 1917 there have been about \$26,000,000,000 of taxes collected and the total refunds are only \$262,000,000, or 1 per cent of the amount collected. The additional assessments made by the Bureau as a result of the audit of returns are eight times the amount of refunds. In other words, there is an additional assessment in favor of the Government of \$1.00 for every 13 cents of refund in favor of the taxpayer.

The charges have been made that preference has been given to companies in which the Secretary of the Treasury is financially interested. Such a charge is preposterous and unqualifiedly false. The Gulf Refining Company's case to which so much publicity has been directed was settled before I became Secretary of the Treasury. I have never interfered or attempted to influence the Bureau in its decision of any tax case. No evidence has been produced by anyone at any time from which a reasonable inference might be drawn that discrimination was being made in favor of any taxpayer.

The Treasury welcomes any investigation of the Bureau of Internal Revenue which has for its purpose the investigation of conditions with a view to constructive suggestions for an improvement in the administration of the Bureau in the interests of the Government and the taxpayers. The news value of testimony before the committee is obviously centered in sensational general charges made by discharged employees rather than the remarkable achievements of the Bureau in view of the conditions with which it was faced after the war.

During the war the Internal Revenue Bureau had to administer new and exceedingly complicated tax laws. Capable employees were very difficult to obtain and were entirely untrained. The interests of the Government at that time were quite properly directed to obtaining revenue and not to settling difficult questions of tax liability. As a rule the taxpayers did not dispute their assessments and the larger complicated cases were not touched. Consequently when the present administration took hold it found practically no work had been done on the large cases. Through improved methods of administration and hard work the accumulation of old cases pending in the Bureau has been greatly reduced and audit of returns should be current at the end of the next fiscal year. There are still pending only .3 of 1% of 1917 cases; .5 of 1% of 1918 cases; 1.2% of 1919 cases; 2.2% of 1920 cases, and 3.5% of 1921 cases.

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TREASURY DEPARTMENT.
Immediate Release.

March 22, 1924.

The final steps were taken today in connection with the funding of the debt of the Government of Finland to the United States. Mr. A. L. Aström, Envoy Extraordinary and Minister Plenipotentiary of Finland, delivered to the Treasury bonds of the Government of the Republic of Finland, in the principal amount of \$9,000,000, receiving in exchange the original notes given by his Government for relief supplies furnished during the period just after the Armistice.

This transaction completes the funding of the second item of the foreign debts held by the United States, the first having been that of the Government of Great Britain which was completed last July.

Secretary Mellon made the following statement today before the Finance Committee of the Senate in connection with the proposed increase of estate taxes.

I wish to enlarge on my previous statement before your Committee in the matter of the proposed increase of Federal estate taxes from a maximum of 25 per cent to a maximum of 40 per cent. This amendment was inserted in the bill on the floor of the House with no hearings before a committee and no consideration of its effect on the future welfare of the United States.

As a preliminary to the discussion of this tax as a revenue measure, I think there should first be eliminated any question of the tax as a means of punishing wealth or as in some way for the social good of our civilization.

The theory upon which this country was founded is equality of opportunity. So long as a man uses his abilities within the bounds of the moral sense of the community, monetary success is not a crime, but on the contrary adds to the total wealth of the country and to an increase in the standard of living as a whole.

The social necessity of breaking up large fortunes in this country does not exist. Very wisely our forefathers declined to implant on this

continent the principle of primogeniture under which the eldest son alone inherited and properties were kept intact. Under our American law it is customary for estates to be divided equally among the children and in a few generations any single large fortune is split into many moderate inheritances and the continuation through generations of a single fortune has been proven to be impossible. It is an often quoted saying, "There are three generations from shirt sleeves to shirt sleeves."

Approaching excessive estate taxes from the standpoint of revenue, I think your attention should be drawn to that sound principle that the character of taxation should not be such as to destroy the very source from which revenue is to flow. Almost every state in the Union has an estate or inheritance tax, and every estate pays, therefore, not only the Federal tax but the tax of the state of the residence of the decedent, plus, under the present modern system of investment, the taxes of one or more other states. The total tax - always two taxes and often three or four - may take more than half of a large estate, and cases are possible where it would take practically the entire property. The situation here is even worse than in England, where there is but one tax; here there are several.

When a man dies, his property does not often consist of cash or regularly marketable securities. The estate taxes must be met in cash and not in kind. His executors must proceed to realize this cash through

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sales of the decedent's property. The effect of a man's death is immediately to give notice to all possible purchasers that a forced sale will soon take place. This has the effect of dropping the price at which securities can be sold. These high rates of tax in their application do not show, therefore, the true proportion of the estate taken. In its practical effect, a 40 per cent rate requires for its satisfaction 50 per cent or more of the normal value of the estate, and in cases where an estate is burdened with considerable indebtedness, as is usual where the decedent was engaged in active business, the destructive effect is still greater. Even upon investments which are of the most liquid and marketable character, the effect is to an extent the same, since the public knows that a sale must take place and there is an immediate reaction in quoted market values in anticipation of the liquidation.

Now values generally are built up and maintained by operation of the credit system. To say that a market value of a particular stock is \$100 per share means only that if some one is willing to buy the stock and some one else is willing to sell, a reasonable number of shares will change hands under these conditions at \$100 per share. On the other hand, if a seller is forced to dispose of his stock, he must find a purchaser where he can and at ^aprice at which the purchaser will buy because he knows he pays much less than its real value. Particularly is this true where the sales have to be made in large blocks or where the company whose stock is offered is not generally known to the public. I know of one very wealthy man in England whose fortune has been made almost entirely out of taking advantage of this necessity of executors. If there were but a single instance of such

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forced sales, the effect on the country as a whole perhaps would not be material. When you consider, however, that death brings into the market in every decade a large proportion of the total wealth of the country, the cumulative effect upon prices is very serious. The delicate credit structure upon which these prices rest is broken down and to that extent values which we call wealth disappear. They are not transferred; they disintegrate. The wealth is gone. No tax can be more illogical than that which is destructive of the very values upon which the tax is based. Ten per cent of \$100 is \$10, but 40 per cent of \$20 is only \$8.

There is a point in the application of rate of tax beyond which it is impossible to extract revenue and carried to this extreme the consequences are revolutionary. For instance, assuming that all inheritances, large and small, were taxed at 40 per cent. It would then be only two or three generations until private ownership of property would cease to exist. Since these taxes are used in the current operation of the Government, the result would be not that the Government had absorbed the wealth of the country, but that the wealth had been spent and none was left.

Development of the credit structure and increase in values make the high standard of living in this country and the breaking down of these values must necessarily reduce this standard of living for every one. As a striking illustration of this truth I need only cite to you the recent case of Russia. Russia is a country of large natural resources and had great wealth. There were comprehensive commercial operations, great industrial productivity, and financial institutions with large resources in all the centers of population. The banks held commercial paper,

mortgages, and other instruments of credit based on land and varied production. The revolutionists contemplated the seizure of this property. They could see these values which indicated the wealth which they thought they might take over. What happened? When they commenced to make destructive tax levies and seize hold of the assets of the institutions, values disappeared and almost all wealth with them. No one got it. It simply became non-existent, and all that was obtained by those who had expected to benefit in the acquisition of this wealth was the physical gold and jewels, which had no value in Russia but which could be easily exported and sold in countries where values had not yet been destroyed. When these physical things had been disposed of, wealth entirely disappeared. Any estate tax in that country would be a dry source of revenue.

In degree England shows a similar tendency. Since it became a nation, in England land had represented wealth. I do not mean simply unproductive residences, but land with its accompanying tenant population. Under the high death duties, ownership in land has ceased to have value and large estates can now be purchased for less than the cost of the improvements. In other words, the land itself is rendered valueless by the death duties and no longer produces revenue.

It should always be borne in mind that estate taxes are levied upon capital; that they are used for current operating expenses; and that they amount, therefore, to a destruction of the total capital in the country. Carried to an excess they differ in no way from the methods of the revolutionists in Russia. Yet the House amendment would make this inherently unsound increase in taxes for the sake of a mere \$12,000,000 of addi-

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tional revenue. In the course of a few years this additional revenue will disappear and even the original revenue will be depleted.

The whole return from the estate taxes, some \$110,000,000 under present rates, is insignificant in comparison with the general receipts of the Government. It is but a slight portion of the Government revenues, but it is a large and important part of State revenues. To destroy values from which the States receive income is to force them to resort to higher taxes on land. The Federal Government should keep estate taxes as a reserve in times of national stress. All prior inheritance taxes have been war taxes. It is only now that Congress proposes to destroy this reserve in times when revenues from other sources are not only adequate but in excess of the nation's needs. In my opinion, such a course of action is economic suicide.

(Printed in the New York World, May 14, 1924.)

In connection with the provision inserted in the revenue bill by the Senate for the complete publicity of income tax returns, Secretary Mellon said to-day:

The Constitution guarantees to the citizen the sanctity of his private affairs. This privilege gives way to the superior right of the Government or the courts where information is essential to the operation of government or to the determination of questions in litigation. The Government now has access to income tax returns and the authority, which is constantly being exercised, to obtain a complete disclosure of all matters which may bear on the amount of tax which is due the Government. Publicity of returns is, therefore, of no benefit whatsoever to the Government. There is no reason for this proposed infringement of the spirit of our institutions.

It is interesting to note that in every State having an income tax the law, with one exception, protects the privacy of returns. That exception is Wisconsin, which has recently repealed the privacy section of the statute, but the lower court has enjoined the giving of such information to the public and this case is now pending in the Supreme Court of the State.

The object gained by publicity of returns is the satisfaction of the curiosity of the public, either idle or for unfair motives. The powerful corporation will be able to crush its smaller competitors if it has ready access to the complete financial status and costs of its rivals. What struggling business man would care to have every competitor know the

innermost details of his business?

While the Government does not know every source of income of a taxpayer and must rely upon the good faith of those reporting income, still in the great majority of cases this reliance is entirely justifiable, principally because a taxpayer knows that in making a truthful disclosure of the sources of his income the information stops with the Government. It is like confiding to one's lawyer.

With publicity of returns, however, the temptation to conceal income will be much greater and I venture to say that with such a provision in the law, millions of dollars of income which would otherwise be reported will be concealed to the great loss in revenue to the Government. Far from being the means of increasing revenue, publicity will destroy revenue.

We have not heretofore sought to govern the American through informers. That has been confined to suspected criminals. Publicity of returns introduces this new element into government. Based on no necessity, causing unfair injury to the taxpayer, and bringing loss of revenue to the Treasury, can even a political argument justify such a sacrifice of fair dealing between the Government and its citizens?

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Thursday, May 29, 1924.

Mr. Mellon said to-day, the irresponsible testimony of Mean's before the Wheeler Committee to-day is too absurd to deserve notice. Some months ago I was subpoenaed by the committee but have as yet not been asked to appear. If the Committee gives any credence to Mean's story it will undoubtedly call on me for the facts.

Treasury Department.

For release in morning papers
Monday, June 2, 1924.

STATEMENT BY SECRETARY MELLON

Secretary Mellon announced that he has authorized the Federal Reserve Banks on and after Monday, June 2, 1924, and until further notice, to redeem in cash before maturity, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury notes of Series A 1924 dated June 15, 1921, maturing June 15, 1924, and Treasury certificates of indebtedness of Series T J 1924 dated December 15, 1923, maturing June 16, 1924,

TREASURY DEPARTMENT.

FOR RELEASE, Morning papers,
Monday, June 9, 1924.

STATEMENT BY SECRETARY MELLON.

The Treasury is today announcing its June financing which takes the form of an offering of two and three-quarters per cent Treasury certificates of indebtedness, dated and bearing interest from June 16, 1924, maturing December 15, 1924. The certificates are tax certificates, and the amount of the offering is \$150,000,000, or thereabouts. The Treasury will accept in payment for the new certificates, at par, Treasury certificates of Series TJ-1924, maturing June 16, 1924, and Treasury notes of Series A-1924, maturing June 15, 1924.

About \$134,000,000 of certificates of indebtedness will become payable on June 16, 1924, and \$311,000,000 of Treasury notes will become payable on June 15, 1924, together with interest on the public debt of approximately \$76,000,000. The low rate of interest on the new certificates reflects the present easy money conditions.

The present offering of certificates is intended with the expected tax payments on June 16, 1924, and the balances already on hand, to provide for all requirements until the September 15, 1924, tax payment date when additional financing will be necessary.

The text of the official circular follows:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TD2-1924, dated and bearing interest from June 16, 1924, payable December 15, 1924, with interest at the rate of two and three-

quarters per cent per annum on an annual basis.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have one interest coupon attached, payable December 15, 1924.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions

at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before June 16, 1924, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury certificates of indebtedness of Series TJ-1924, maturing June 16, 1924, and Treasury notes of Series A-1924, maturing June 15, 1924, will be accepted at par, in payment for any certificates of the Series TD2-1924 now offered which shall be subscribed for and allotted with an adjustment of the interest accrued, if any, on the certificates of Series TD2-1924 so paid for.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

TREASURY DEPARTMENT

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FOR RELEASE MORNING PAPERS,
Friday, June 13, 1924.

The Secretary of the Treasury announced that subscriptions for the issue of Treasury certificates of indebtedness dated June 16, 1924, Series TD2-1924, $2\frac{3}{4}$ per cent, maturing December 15, 1924, closed at the close of business on June 11, 1924. The reports received from the twelve Federal Reserve Banks show that for the offering total subscriptions aggregate a little over \$600,000,000. Of these subscriptions some \$125,000,000 represent subscriptions for which Treasury certificates maturing June 16, 1924, or Treasury notes maturing June 15, 1924, were tendered in payment, all of which were allotted in full. Allotments on other subscriptions were made as follows: Cash subscriptions in amounts not exceeding \$10,000 for any one subscriber were allotted 80 per cent; cash subscriptions in amounts over \$10,000 but not exceeding \$50,000 were allotted 40 per cent, but not less than \$8,000 on any one subscription; and cash subscriptions in amounts over \$50,000 but not exceeding \$100,000 were allotted 20 per cent, but not less than \$20,000 on any one subscription. No allotments were made on cash subscriptions in amounts exceeding \$100,000 for any one subscriber.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

The Secretary of the Treasury to-day announced that the total amount of subscriptions received for the issue of $2\frac{3}{4}$ per cent Treasury certificates of indebtedness of Series TD2-1924, dated June 16, 1924, maturing December 15, 1924, was \$609,192,500, and that the total of subscriptions allotted was \$193,065,500, of which \$124,608,400 represent allotments on subscriptions for which Treasury certificates maturing June 16, 1924, or Treasury notes maturing June 15, 1924, were tendered in payment. Of this last amount \$1,133,000 were exchanges for Treasury account. All exchange subscriptions were allotted in full, while allotments on other subscriptions were made on a graduated scale on the basis already announced.

The subscriptions and allotments were divided among the several Federal Reserve Districts as follows:

Federal Reserve District:	Total Subscriptions Received:	Total Subscriptions Allotted:
Treasury	\$ 1,133,000	\$ 1,133,000
Boston	59,525,000	26,699,000
New York	235,421,000	59,045,500
Philadelphia	69,351,500	12,637,500
Cleveland	37,612,500	14,961,000
Richmond	17,957,000	3,794,000
Atlanta	13,550,000	4,044,000
Chicago	61,039,000	33,804,500
St. Louis	8,441,500	2,573,000
Minneapolis	15,380,500	7,963,000
Kansas City	12,650,500	3,988,500
Dallas	22,514,500	7,841,000
San Francisco	54,616,500	14,581,500

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Monday, June 16, 1924.

TREASURY DEPARTMENT

The Secretary of the Treasury announced today that Great Britain had paid the installment of interest, in the amount of \$68,655,000, due June 15, 1924, on its funded indebtedness to the United States under the terms of the debt settlement approved by the Act of February 28, 1923. The payment consisted of \$19,000,000 of Treasury Certificates of Indebtedness, Series TJ-1924, maturing June 16, 1924, which were accepted at par, and \$49,655,000 in cash.

The Secretary further announced that the Treasury had received today the semi-annual interest payment on the indebtedness of the Republic of Finland, pursuant to the funding agreement dated May 1, 1923, approved by the Act of March 12, 1924. The total payment amounted to \$134,325, and consisted of \$20,250 face amount of Second Liberty Loan $4\frac{1}{2}$ per cent bonds, with accrued interest thereon amounting to \$72.50, and \$114,002.50 in cash.

The certificates and bonds thus accepted have been canceled and retired and the public debt reduced accordingly.

TREASURY DEPARTMENT

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FOR RELEASE, MORNING PAPERS,
Thursday, June 26, 1924.

The Secretary of the Treasury announced today that the Treasury contemplated calling for redemption and payment on the first optional payment date, February 1, 1925, the entire outstanding issue, consisting of \$118,489,900, of the 4% loan of 1925 authorized by the act of January 14, 1875, and dated February 1, 1895. The greater part of these bonds are now used to secure national bank circulation. It is not expected that the retirement of this amount of national bank circulation will have any effect on the total circulation outstanding, since Federal Reserve notes will be available to take their place.

Secretary Mellon said to-day:

The figures are now available covering the operations for the fiscal year 1924 just closed, on the basis of Daily Treasury Statements. The total ordinary receipts were \$4,012,044,701.65, and total expenditures chargeable against such receipts were \$3,506,677,715.34, showing a surplus for the year of \$505,366,986.31. This compares with the surplus estimated in October, 1923, when the fiscal year still had eight months to run, of \$329,639,624. Since the surplus is the difference between the ordinary receipts and the expenditures chargeable against such receipts, it is obvious that either a change in the receipts or the expenditures will work a change in the surplus. In dealing with figures as large as those of the Government, a small percentage change makes a very material change in the surplus. For example, an increase of 3 per cent in receipts and a decrease of 3 per cent in expenditures would add over \$200,000,000 to the surplus, and a similar decrease in receipts and increase in expenditures would take over \$200,000,000 from the surplus.

Comparing the estimates made in October with the actual results for the fiscal year, receipts were overestimated \$32,000,000, and expenditures overestimated \$208,000,000, including \$50,000,000 of foreign debt payments of interest in June made in cash instead of as expected in our own securities, and therefore showing up as a receipt with no corresponding expenditure on account of the cancellation of the securities so received. The change in the money market since the first of the calendar year was perhaps the most material factor in bringing about the increase in the actual surplus over the

surplus estimated in October. Liberty bonds went above par and were not used in payment of foreign obligations for interest, and railroad securities heretofore acquired by the Government could be refunded at lower interest rates by the railroads and were, therefore, paid off or purchased, and instead of a net cash outgo in the railroad account there was a net cash income, making a difference of some \$120,000,000 over the earlier estimate. The above with some other minor items, gave a net increase of actual over estimated surplus of \$175,727,362.31.

Customs receipts were \$545,637,503.99, as compared with \$570,000,000 estimated, and Internal Revenue receipts, after giving the 25 per cent credit on six months of the 1924 personal income taxes, were \$2,795,157,036.08, being \$11,572,036.08 over the estimates.

The gross public debt stood on June 30, 1923, at \$22,349,707,365.36, and on June 30, 1924, at \$21,250,812,989.49, a decrease in debt during the fiscal year of \$1,098,894,375.87. This reduction was accomplished through (1) the application of the sinking fund and other public debt charges against ordinary receipts, aggregating \$457,999,750, (2) a reduction in the general fund balance of \$135,527,639.56, and (3) use of the entire surplus of \$505,366,986.31. The annual interest charges on the debt represented by this reduction is equivalent to over \$45,000,000.

The Government begins the fiscal year 1925 with a general fund balance of \$235,411,481.52, as against \$370,939,121.08 a year ago. This is the Government's bank account and will be used to meet Governmental expenditures in excess of receipts until the next income tax payment date in September.

In welcoming the newly constituted Board of Tax Appeals, created by the Revenue Act of 1924, Acting Secretary of the Treasury Winston said in part:

Under the practice of determining and assessing additional taxes prior to the Revenue Act of 1924, there were certain fundamental defects which sometimes led the public to feel it did not receive unprejudiced and equitable treatment. It is to be remembered we have only to do with additional taxes. There is no hardship on the original tax prepared by the taxpayer himself. He knows what it will be and is prepared accordingly. Under the law a tax once assessed had to be paid by the taxpayer and then his remedy was to sue for its recovery. He must first find the cash for a liability for which he may not have provided. This had to be so, for to permit the taxpayer to try out the question of the validity of the tax through an injunction against its collection might so seriously handicap the general collection of taxes as to menace the revenues of the Government. The first interest of all of the people is, of course, that the Government continue to function, and to do this it must have the means of prompt collection of the necessary supplies to keep it going, that is, taxes. The method was, therefore, the determination by the Commissioner of the amount of tax due, its collection and suit to recover. The Commissioner personally could not pass upon all questions, and there was created in the Bureau machinery for determining for him the tax liability. This machinery, whether the Income Tax Unit, Committee on Appeals and Review, or the Solicitor's Office, all simply expressed the determination of the Commissioner

as to the amount of tax due. In clear cases there was perhaps no cause of complaint, but on doubtful questions the decision would normally go against the taxpayer, for two reasons -- first, the employee of the Bureau in passing on the case would be inclined unconsciously to give the shade to his employer, the Bureau, and, second, and the principal reason, if a decision was against the collection of the tax the question could never be raised in court. It is obvious that the Commissioner could not go into court to collect a tax he had decided was not due. He or his machinery must decide in the Government's favor and let the taxpayer pay and sue to recover in order that the courts pass on a doubtful point of law. These defects in doubtful cases meant, as I have said, that the tax as assessed had to be paid and the taxpayer was left to his remedy in the courts. The payment of the tax was often a great hardship on the taxpayer, meaning in general that he had to raise the cash for an unexpected liability which might not be lawfully due.

To correct these defects the suggestion was made by the Treasury and embodied in the Revenue Act of 1924 of the creation of an independent board before whom the taxpayer and the Treasury would each present its case. If the board should hold that no tax was due, the Commissioner was free to try out the question in the courts. If the board held that the tax was due, then an assessment could be levied and the taxpayer would have to pay the tax and sue for its recovery. This was fair enough because the taxpayer would have first had an unprejudiced determination of his liability.

Your Board, therefore, is an independent agency of the Government in the same way as the Interstate Commerce Commission, the Federal Trade Commission, and others. You are not a part of the Treasury, although it

should be to the interest of all that you work very closely with the Treasury. It will still be necessary for the Bureau to have machinery for determination of tax liability before the case reaches your Board at all. It is by such procedure only that many mutual misunderstandings between the Government and the taxpayer can be cleared up, the points at issue brought out, and your Board prevented from being utterly swamped by the cases which come before it. In other words, it will be the purpose of the Bureau to eliminate all those cases which can be settled. In spite of this preliminary work, however, there is great danger that your Board may be overwhelmed. Congress has seen fit to make your Board, which should be an administrative body for the determination of tax liability, in effect a court of record for the litigation of disputed questions, with the requirement in most cases that the evidence be transcribed and that a decision and opinion be given.

While, as I have said, you are not a part of the Treasury, you have a very serious responsibility reposed in you for the satisfactory functioning of the entire Federal Government. We cannot live without the revenue from taxes. If your Board permits its docket to become congested, the Government is delayed in the collection of its revenue and in order to operate must find revenue elsewhere. For the next few years back taxes are a very material part of the Government's receipts. During the last fiscal year they probably ran as high as \$400,000,000. We were averaging between \$30,000,000 and \$40,000,000 a month when the Revenue Act of 1924 was passed. In June our receipts from this source dropped to \$3,000,000. You can readily see, therefore, that unless your Board acts with promptness

and with fairness to the Government, our revenues will not be sufficient to carry us through the next fiscal year, the surplus of which is now estimated at under \$50,000,000. I have had some experience representing taxpayers and I think it can be safely said that a taxpayer is not so much interested in exact justice as he is in prompt and final justice. It is not so material to him whether his tax is \$100,000 or \$125,000 as it is that the tax be promptly fixed and be not again disturbed. If he knows his liabilities he can prepare for them and get them behind him. I think, therefore, your duty both to your Government and to the public is a prompt decision in all cases. You should not permit yourselves to be lost in involved and tedious law suits. Make yourselves an administrative body to settle taxes. Give speedy decisions. To delay is to deny justice - both to the Government and the taxpayer.

I therefore want to urge you to organize as promptly as possible and to begin the hearing and decision of cases. In the practical working of your Board experience will teach you many improved ways of doing things. You will probably get further if you start to work at once under a tentative form of rules of procedure, feeling perfectly free to correct them as experience shows the necessity than if you should attempt first to work out a theoretically perfect code of practice. What organization you require can be built up as you proceed.

Commissioner Blair has so far as possible prepared the road for you. Office space has been reserved, a frame of organization suggested, and rules of procedure of similar governmental agencies collected. Nothing can be done legally until the selection of a chairman from your number. You twelve constitute the nucleus of the final board of 28, which will be

completed by fall. Mr. Hamel, one of your number, has been chairman of the Committee on Appeals and Review in the Bureau. It is this committee whose work you take over, and he has organized that committee most effectually. He knows the law, its administration, and the methods of procedure. I think if he should be the present selection of this nucleus of the final board, you would find your preliminary work better and more efficiently handled than by any other chairman.

August 16, 1924.

During the war, in order to allay the feeling of unrest in India, Congress authorized the Treasury to melt down and to sell as bullion, for the use of the Government of India, standard silver dollars. Under this law about 260 million silver dollars, representing over 200 million fine ounces of silver, were disposed of. When silver again became available for purchase the Treasury, as required by law, bought silver to replace that sold and coined new standard silver dollars. This repurchase is now substantially completed. While much of the silver sold was represented in currency circulation by silver certificates, there has been a material decrease in the number of silver dollars in the hands of the public since the original melting down. It is the desire of the Treasury to restore to general circulation in the United States silver dollars which formerly represented a material portion of the money used by the public. The increased use of the silver dollar will permit the Treasury to maintain its paper dollar circulation in better condition, and will effect a material saving in the expenses of the Government. There will be no change in the amount of money in circulation.

The Treasury's program was initiated by the appearance yesterday in the pay envelopes of several thousand employees of the Treasury of one silver dollar each. It is the Treasury's plan to invite the assistance and cooperation of other Government Departments, as well as banks and civic organizations generally, in acquainting the public with the desirability of accepting the silver dollar as an auxiliary to the paper dollar in the interest of a better quality of paper currency and of economy to the Government.

TREASURY DEPARTMENT.

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For release morning papers.
Thursday, September 4, 1924.

STATEMENT BY SECRETARY MELLON.

Secretary Mellon announced that he has authorized the Federal Reserve Banks on and after Thursday, September 4, 1924, and until further notice, to redeem in cash before September 15, 1924, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury notes of Series B-1924 dated September 15, 1921, maturing September 15, 1924.

TREASURY DEPARTMENT

122
FOR RELEASE, Morning papers,
Monday, September 8, 1924.

STATEMENT BY SECRETARY MELLON.

The Treasury is today announcing its September financing which takes the form of an offering of two and three-quarters per cent Treasury certificates of indebtedness, dated and bearing interest from September 15, 1924, maturing September 15, 1925. The certificates are tax certificates, and the amount of the offering is \$350,000,000, or thereabouts. The Treasury will accept in payment for the new certificates, at par, Treasury notes of Series B-1924, maturing September 15, 1924.

The proceeds of these two and three-quarters per cent certificates will be used with other cash now in the general fund and tax receipts to pay the \$377,000,000 of five and one-half per cent Treasury notes payable September 15, 1924, and to meet the interest payments on the public debt of approximately \$135,000,000 in September, \$150,000,000 in October, and \$66,000,000 in November.

The present offering of certificates is intended, with the expected tax payments of September 15, 1924, and the balances already on hand, to provide for all requirements until the December 15, 1924 tax payment date when additional financing will be necessary.

The text of the official circular follows:

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The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TS-1925, dated and bearing interest from September 15, 1924, payable September 15, 1925, with interest at the rate of two and three-quarters per cent per annum, payable semiannually.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached, payable March 15, 1925, and September 15, 1925.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.

The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity

of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before September 15, 1924, or on later allotment, after allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury notes of Series B-1924, maturing September 15, 1924, will be accepted at par, with an adjustment of accrued interest, if any, in payment for any certificates of the Series TS-1925 now offered which shall be subscribed for and allotted.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

September 11, 1924.

FOR RELEASE, Morning Papers, Friday Sept. 12, 1924.

Secretary Mellon announced that subscriptions for the issue of Treasury certificates of indebtedness, dated September 15, 1924, Series TS-1925, $2\frac{3}{4}\%$, maturing September 15, 1925, closed at the close of business on September 10, 1924. The reports received from the twelve Federal reserve banks show that for the offering, which was for \$350,000,000, or thereabouts, total subscriptions aggregate some \$596,000,000. Of these subscriptions about \$126,000,000 represent subscriptions for which Treasury notes, Series B-1924, maturing September 15, 1924, were tendered in payment.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal reserve banks.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Saturday, September 13, 1924.

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The Secretary of the Treasury today announced that the total amount of subscriptions allotted for the issue of $2\frac{3}{4}$ per cent Treasury certificates of indebtedness of Series TS-1925, dated September 15, 1924, maturing September 15, 1925, was \$391,369,500. As previously announced the total amount of subscriptions received was \$596,145,500, of which \$125,982,000 represent subscriptions for which Treasury notes, Series B-1924, maturing September 15, 1924, were tendered in payment. All exchange subscriptions were allotted in full and all cash subscriptions in amounts not exceeding \$10,000 for any one subscriber were likewise allotted in full. Allotments on other subscriptions were made as follows:

Cash subscriptions in amounts over \$10,000 but not exceeding \$50,000 were allotted 80 per cent, but not less than \$10,000 on any one subscription; cash subscriptions in amounts over \$50,000 but not exceeding \$100,000 were allotted 60 per cent, but not less than \$40,000 on any one subscription; cash subscriptions in amounts over \$100,000 but not exceeding \$1,000,000 were allotted 50 per cent but not less than \$60,000 on any one subscription; cash subscriptions over \$1,000,000 but not exceeding \$2,500,000 were allotted 40 per cent, but not less than \$500,000 on any one subscription; and cash subscriptions in amounts over \$2,500,000 were

allotted 20 per cent, but not less than \$1,000,000 on any one subscription.

The subscriptions and allotments were divided among the several Federal Reserve Districts as follows:

Federal Reserve District	Total Subscriptions received:	Total Subscriptions Allotted:
Boston	\$47,385,500	\$36,778,500
New York	240,836,500	147,735,500
Philadelphia	61,346,000	41,306,000
Cleveland	69,851,500	36,036,000
Richmond	18,807,000	13,578,000
Atlanta	12,242,000	9,131,000
Chicago	51,859,500	44,619,000
St. Louis	6,430,500	5,117,500
Minneapolis	8,760,500	8,056,500
Kansas City	12,462,000	7,564,000
Dallas	11,681,500	7,656,000
San Francisco	<u>54,483,000</u>	<u>33,791,500</u>
Total	596,145,500	391,369,500

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE
Saturday, Sept. 13, 1924.

Secretary Mellon said to-day:

"It is reported generally in the press that Mr. Hurley, as a member of the Debt Commission, has prepared a plan for the settlement of the French debt, and that this plan has been checked over by me. Neither I nor, as I believe, any other member of the Debt Commission had any knowledge of Mr. Hurley's suggestions until he presented a memorandum to me the other day, which I have not yet had the opportunity to examine."

TREASURY DEPARTMENT

FOR RELEASE, for publication,
Thursday morning, September 18, 1924.

SPEECH OF

HON. GARRARD B. WINSTON

UNDER SECRETARY OF THE TREASURY

before

THE SEVENTEENTH ANNUAL CONFERENCE ON TAXATION
UNDER THE AUSPICES OF THE NATIONAL TAX ASSOCIATION

at St. Louis

September 17, 1924.

President Coolidge, in his message transmitting the Revenue Act of 1924 to Congress with his signature, suggested the advisability of calling a conference of the taxing authorities of the States and of the Federal Government to give consideration to some comprehensive plan of division of the field of death taxes between the various States and the Federal Government and the elimination of overlapping and unfair taxes. In appearing before you to-day, I do not represent the Administration, nor do I expect to advocate a solution of the problem. It is my desire simply to present to you the importance to us all of an economic consideration of the taxing question which is involved.

I am, of course, more familiar with Federal legislation than with your state laws, with which we in the Treasury do not come in direct touch. So I shall lay more emphasis on what I know and will not go into the details of state laws.

The history of death taxes with the Federal Government is short. We have occupied this field of taxation four times in our history; and each time until the present we have relinquished the field to the States when the particular emergency for which additional taxation was required had passed.

In the early days of the Republic, to obtain money with which to pay in part for the Revolutionary War, a stamp duty was imposed on legacies or for any share of personal estate received on death. This tax was paid by the beneficiary, and amounted roughly to .2 of 1%. The Act was passed in 1797 and repealed five years later in 1802. The yield to the Government from this tax cannot be separated from the revenue from the sale of stamps for all purposes, which averaged about \$250,000 a year.

During the Civil War, Congress imposed a very moderate inheritance tax. The act was passed in 1862 and repealed in 1870. Its average yield was about \$1,500,000 a year.

During the Spanish War a tax was levied on the transfer of personal property by death, at rates which in the cases of direct heirs reached a maximum of 2 $\frac{1}{4}$ %. The law was passed in 1898 and repealed in 1902, and subsequently certain taxes collected under it on charitable bequests were refunded. The greatest amount of revenue derived in any one year from this tax was something over \$5,000,000.

The estate tax was resorted to in 1916, when the maximum rate imposed was 10%. In March, 1917, this rate was increased to 15%, and in October of that year to 25%. In the Revenue Act of 1924 it is raised to 40% with a credit for state taxes. The revenue received from this tax has been as follows:

1917	\$6,000,000
1918	47,000,000
1919	82,000,000
1920	103,000,000
1921	154,000,000
1922	139,000,000
1923	126,000,000
1924	102,000,000

It is estimated that in 1925 the revenue from this source will be \$114,000,000, an increase of \$12,000,000 over the previous year.

You are familiar with the examples which have frequently been cited of how the various States and the Federal Government, under existing laws, can take more in death taxes than 100 per cent of the estate. This is brought about, under our complex system of property ownership, by certain double or triple taxes imposed by States which make both the situs and domicile the

basis of the taxes. I need not go into this matter in detail. It is sufficient to affirm that the inheritance tax levied by the State of the domicile of the decedent, plus the inheritance tax or taxes levied on some of his property by other States, in which such property is situated, plus the Federal estate tax, is a most serious burden and approaches, if it does not reach and pass, the limits of taxable capacity in this field. The problem assumes, therefore, a more serious form than simply the inconvenience of paying a tax to several jurisdictions, or the unfairness of overlapping or double taxation. If Government, and in this I include the aggregate takings of the Federal and State governments, takes from its people more than the particular source of taxation can stand, it will ultimately destroy all revenue from that source and Government will have to look elsewhere to meet its expenses.

We may consider this excessively high taxation from two standpoints: first, its effect upon existing capital, or its static effect; and, second, its effect on the production of future capital or its dynamic effect.

Now death taxes are taxes upon capital, and this point must be kept clearly in mind. It is obvious that if Government, to maintain itself, were to take 50 per cent of every estate, small or large, and if on the average in the course of a generation a man could not double his inheritance, there would be an actual depletion of capital within the country, and ultimately nothing would be left to tax. This is clear enough, but there is another less readily visible but more immediate result.

Inheritance taxes are based upon capital values. Even though the rate of tax remains the same, it makes a serious difference in Government revenue whether a wealthy man dies when the market for the assets

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left by him is up or when it is down. The Federal tax on an estate consisting net of 100,000 shares of United States Steel would be \$2,961,000 if steel were 110, and \$1,861,000 if steel were 80 when the death of the decedent occurred, making a difference of \$1,100,000 in revenue derived by the Government. This result might be brought about by market conditions alone, and if so, in the long run the disparity is equalized, since sometimes the market value of the stock is up and sometimes down, and on the average Government revenue would not suffer. If, however, there is a continuing pressure on all values, not on steel stock alone, or on stocks alone, but on every kind of property within the country, the result is a bringing down of values and necessarily a lessening of the revenue, because the tax depends upon values and upon nothing else.

The tax is always a percentage of the value of the assets at time of death. Since an executor must obtain cash to pay his tax, he usually must dispose of the assets of the estate at what is essentially a forced sale. If an estate must realize upon some stock not generally dealt in, or a piece of real estate, for example, it can do so only by reducing the price until a bargain figure is reached which will attract purchasers. When the next estate comes along for taxation with similar stock or a like kind of property, its tax will be based upon the lower price fixed by the sale of the assets of the first estate. Thus we have a permanent lessening of values and a continuous exhaustion of the source for death taxes.

As an instance, I have been told that large landed estates in England are almost unsalable by reason of the high death duties and that these properties can frequently be bought for the value of the improvements

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alone. The land, therefore, in such cases is without value; and, where formerly such land was a basis for death duties and produced tax revenue, now, having no material value by reason of these very death duties, it yields no tribute. Formerly the land might be worth £5000 and the improvements £5000, a total of £10,000 for taxation purposes; now the land is without value and the tax must be levied upon £5000 of improvements. If the same revenue is to be produced, the tax rate must be doubled, since property subject to tax has been halved. Any tax which thus materially lowers values destroys itself.

The dynamic or moving effect of high taxes is not so immediate in its effect as the actual depletion of capital and lessening of capital values. It is nevertheless of great importance in the establishment of a permanent policy. After man has become sufficiently civilized to provide for the reasonable requirements of living, the impetus to further effort at production is found largely in the desire to leave one's family well provided for. So long as the individual feels that he can pay the tax and still leave an estate to his family, he will increase his efforts; but, if he finds that by reason of excessive taxation the results are not commensurate with the effort, he will probably cut down his production and the general wealth of the country will be diminished accordingly. We will have more golf players and fewer Henry Fords and Thomas Edisons. A man will not seek to build up a large fortune just to have it taken away from his family at his death.

Mind you, I am not discussing this question from a social point of view, but from the Government revenue standpoint. I understand death taxes are imposed to raise cash. If the United States Treasury and the State treasuries want something which will realize revenue, much more can be obtained

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from one large estate than from several smaller ones with an equal aggregate value. An estate of \$10,000,000 net yields \$2,561,000 Federal estate tax, while 100 estates of \$100,000 each yield an aggregate tax of only \$150,000. It would take over 1700 estates of \$100,000 each, aggregating over \$170,000,000, to produce the same amount of revenue as one \$10,000,000 estate. It is, therefore, essential that large fortunes continue to be made and be not taxed out of existence. So, if we are to have an accumulation of capital upon which to levy death duties, we must encourage, not discourage, its creation. Under socialism death taxes would be barren.

A taxpayer looks at things from a personal or short-time viewpoint. He is interested in his own future. The Government, on the other hand, can afford to reckon on the long run of its more distant future. Perhaps if taxes were levied lightly on the result of a man's own efforts and heavily upon his inherited assets, they would not destroy the initiative to produce and the Government would still get the maximum revenue out of death duties. It has accordingly been suggested that a light tax be levied on what the decedent himself made, a heavier tax on what his father left him, and a still heavier tax on what remained of his grandfather's estate. Such a policy would meet the wishes of those who believe that artificial means are necessary to prevent the continued existence through generations of large fortunes and at the same time it would not penalize the initiative which is characteristic of progress. This is a long-time policy of taxation which is perhaps not within the power of governments clamoring for present revenue.

Returning to the more immediate problem. Death taxes are based entirely upon capital. This capital can be destroyed either by taking it from its owners and using it for maintenance of Government, or what amounts to the same thing, by diminishing its value, or by checking the incentive for its production. That this is actually happening, I think the figures indicate. It is the history of all excessive taxes that they destroy themselves. Take for instance, income taxes in the cases of persons with incomes of over \$200,000 a year,--what may be termed really wealthy taxpayers. In 1916, with a maximum surtax of 13 per cent, there were 2449 taxpayers in this high class. The next year the rates were increased greatly and their number fell to 1672. In 1918 the rates were again increased, and their number went to 1275. In 1919 the rates were slightly reduced, and the reduction was reflected in an increase to 1451 in the number of taxpayers. There being no change in rates for 1920 and 1921, the figures fell to 868 and 535. But in 1922 the total maximum rates went from 73 per cent to 58 per cent, and the number of taxpayers in this class rose to 1097.

Now, the same thing is happening with the Federal estate tax, and can best be shown by the revenue produced. 1921 was the first year which felt the full effect of the increase of rates to a maximum of 25 per cent. Our receipts that year were \$154,000,000,--the most we have ever obtained. But watch the retrogression under the same high tax in the following years; \$139,000,000 in 1922; \$126,000,000 in 1923; and only \$102,000,000 in the fiscal year just closed. It is estimated that the increase from 25 per cent to 40 per cent under the present law will yield but an additional \$12,000,000,

and that in a year or so this increase will be lost and 40 per cent rates will yield no more revenue than was obtained under the 25 per cent rates. Are we not fooling ourselves when we think we can defeat economic laws?

The importance of a scientific basis of taxation to the future welfare of this country cannot be overestimated. The burden of taxes must be lightened. From the Federal Government standpoint we are doing fairly well. Per capita Federal taxes rose from \$32 in 1918 to \$54 in 1920; then commenced to drop, and have been successively \$45, \$32, \$28, \$29 in the last four fiscal years. It is estimated that for the next fiscal year, as the result of tax reduction, the figure will be about \$27, and we may contemplate further reductions. The largest single item of Federal expenditure is interest on the public debt. This item amounted in 1924 to nearly \$1,000,000,000. As the debt is reduced--and we are making very material headway on it--Government expenditures will be cut, and with expenditures, I hope, taxation. So the tendency, so far as the Federal Government is concerned, is for a reduction in the tax burden. With the States and local municipalities exactly the opposite tendency is disclosed. In 1918 their per capita tax was something over \$20. In the next four years it rose to \$27, \$30, \$36, \$38, and later figures will undoubtedly show further increases.

It may be true that the Federal Government can, without great danger to its budget, destroy death taxes as a source of revenue. We have recently abandoned other fields, such as transportation and many of the so-called nuisance taxes, without inconvenience. But with the State and local governments, if this particular source of revenue is destroyed, the situation

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is not so free from difficulty. The estate tax contributed \$102,000,000 of revenue in 1924 to the Federal Government. The total Government receipts from all sources were something over \$4,000,000,000, so the revenue derived from death taxes represented only about $2\frac{1}{2}\%$ of all receipts, and, as a matter of fact, amounts to less than one-quarter of the more than \$400,000,000 tax reduction carried in the Revenue Act of 1924. On the other hand, the State inheritance taxes generally constitute a much larger proportion of the States' revenues, and few States could afford to have the yield from these taxes reduced in amount or destroyed. The States have, therefore, the greater interest in the permanent character of death duties.

Consider the effect of loss of this revenue upon a most important element in the community. The figures of the National Industrial Conference Board show that 16.6 per cent of the farmer's share of the National income is absorbed in taxes, as against 11.9 per cent of the income of all other taxpayers. The farmer as a rule does not pay income taxes, so this large proportion of the farmer's income which goes into taxation represents almost wholly direct property taxes. If there is to be any diminution in the size of the stream available to the States for inheritance taxes, it is obvious that tangible property will have to bear a larger and larger share of the States' expenses, and this burden will be placed on the shoulders of those now least able to bear it. More farms will be taxed into continued unproductivity.

Excessive death taxes, therefore, have the effect, first, of actually using up capital,--instead of 1,000 units to tax there are but 500; second, of decreasing the value of each capital unit,--instead of \$10,000 to

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tax, the same assets are worth but \$5,000; and third, of discouraging the production of more capital,--instead of a normal increase of units to meet increased needs, no more are produced. If we are to have something left to tax, it is high time we begin preserving it. We are now selling our seed grain and will have nothing to sow when next Spring comes.

As between the States, too high inheritance taxes may, perhaps, work themselves out. Already States are bidding for residents expecting to die, just as States have bid for corporation fees by liberal laws. So wealthy men will not continue to live in States where death is too expensive; nor will corporations, organized under the laws of States taxing stockholders unfairly, find willing investors but will incorporate elsewhere. Taxes have become personal by reason of their size, and information about them is widespread. A thousand talk taxes to-day where but one did five years ago. A State, in order to preserve its own revenue, will therefore be reasonable in its exactions. With the Federal Government, however, basing its rates upon some theory of social, not fiscal, policy, we are faced with the gradual extinction of this source of revenue unless Congress too shall come to a scientific, not a political, consideration of a wholly economic question. You can do much to give this problem the attention it must have.

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THE WEEKLY BULLETIN - September 23, 1924

TREASURY DEPARTMENT

FOR RELEASE, FOR PUBLICATION
Tuesday afternoon, Sept. 23, '24

The Bureau of Internal Revenue is pleased to announce that since the rate of refunding 24 per cent of the income tax is individualized and paid to each at the time of filing this year's returns,

SPEECH OF

HONORABLE CHARLES S. DEWEY
Assistant Secretary of the Treasury,
before

The Annual Convention of the Investment Bankers' Association
of America
at
Cleveland, Ohio
September 23, 1924.

When the records of the sixty-five collection districts were checked it was found that approximately 2,200,000 taxpayers had settled their accounts in full when they filed their returns and that more than 1,500,000 individuals had selected the installment plan of payment.

Immediately upon the approval of the new law by President Coolidge, the Bureau of Internal Revenue started upon the stupendous task of reducing the tax liability reported by more than 4,000,000 people. The printing and distribution of the necessary forms was rushed to completion with the greatest possible speed. Instructions were drafted and issued by the Commissioner of Internal Revenue and the information of Internal Revenue collectors in order that all the employees were part of the Internal Revenue Service, which extends to every State and Territory.

Note: For full text of speech see Subject File: Banks and Banking

BUREAU OF INTERNAL REVENUE

FOR IMMEDIATE RELEASE - September 26, 1924.

In a statement issued by the Treasury Department, announcement is made that the Bureau of Internal Revenue is bringing to a close the work of refunding 25 per cent of the income tax to individuals who paid in full at the time of filing this year's returns.

The Revenue Act which was approved June 2, 1924, provided for a 25 per cent reduction of tax on incomes received by individuals during the calendar year 1923. As most income taxpayers filed their returns on or before March 15th and as the new law was not approved until June 2d it became necessary to return to all individual taxpayers who had paid in full, one fourth of the amounts paid. In the cases of those who selected the installment plan of paying it was necessary to credit them with one fourth of the tax reported in their returns.

When the records of the sixty five Collectors were examined it was found that more than 2,200,000 taxpayers had settled their accounts in full when they filed their returns and that more than 1,900,000 individuals had selected the installment plan of payment.

Immediately upon the approval of the new law by President Coolidge, the Bureau of Internal Revenue started work on the stupendous task of reducing the tax liability reported by more than 4,000,000 people. The printing and distribution of the necessary forms was rushed to completion with the greatest possible speed.

Detailed instructions were drafted and issued by the Commissioner of Internal Revenue for the information of Internal Revenue Collectors in order that all the intricate machinery of the Internal Revenue Service, which extends to every state and

possessio and concerted manner, with any effect.

in any effect. les containing on being received States. Each item



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In connection with these refunds. The checks were simply mailed to the taxpayers and in many instances came as a welcome relief to them. In the case of those who selected the installment plan of paying it was necessary to return to them with one fourth of the tax reported in their returns. In the case of those who selected the installment plan of paying it was necessary to return to them with one fourth of the tax reported in their returns.

Immediately upon the approval of the new law by President Coolidge, the Bureau of Internal Revenue started work on the stupendous task of reducing the tax liability of more than 4,000,000 people. The printing and distribution of the necessary forms was rushed to completion with the greatest possible speed. Instructions were drafted and issued by the Commissioner of Internal Revenue to all Internal Revenue Collectors in order that all the machinery of the Internal Revenue Service, which extends to every state and territory of the United States, might function in a uniform and concerted manner, in view to putting the 25 per cent reduction into immediate effect.

By the first of July the work was under way and the schedules containing thousands of names of taxpayers entitled to the refunds were soon being received daily by the Bureau from Collectors in every part of the United States. Each item

certified for refund was verified in the Bureau and the schedules are returned to the Collectors. The actual drawing of the checks was not required to go to any one place. The checks were simply mailed to the taxpayers and in many instances came as a welcome relief to them. In the case of those who selected the installment plan of paying it was necessary to return to them with one fourth of the tax reported in their returns. In the case of those who selected the installment plan of paying it was necessary to return to them with one fourth of the tax reported in their returns.

1-1/2 million checks have already been mailed and all items have been certified and approved for refund except a few where there are complications or discrepancies in the returns. These few remaining items will soon be disposed of and the mailing of the remaining checks will proceed rapidly. The total number of checks will amount to approximately \$17,000,000.00. The mere signing of 2,200,000 checks in a few weeks time by sixty five Collectors of Internal Revenue, who are allowed by law not more than one assistant, is in itself a task to be contemplated with some concern. Even in the Treasury Department which has paid out billions of dollars annually, the issuance of such a large number of checks in such a short space of time is a unique occurrence.

Where the taxpayers paid in installments it was necessary to credit their accounts with the amounts to which they were entitled. These credits, numbering more than 1,900,000, were also posted to the tax bills which were mailed prior to the September installment.

The enormous task of making reductions in the accounts of more than 4,000,000 persons was accomplished in approximately ninety days. There has never before in the history of the Internal Revenue Service been a refunding operation comparable in volume to the one now being brought to completion. The officials of the Treasury Department express much gratification at the manner in which the employees of the Bureau and the Collectors' offices assailed the task. No order for over time work was issued yet in many offices throughout the country employees relinquished their vacations through the hot summer months and voluntarily worked at night without additional compensation, in order that they might serve the taxpaying public.

The successful outcome of the immense operation demonstrates, as nothing else can, the efficiency and loyalty of the employees of the Treasury Department and this stupendous task takes its place among the big accomplishments of the Government Service.

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE,
Saturday, September 27, 1924.

Mr. Mellon said to-day:

The Democratic candidate for President and the New York World, for political purposes, have renewed an attack on me through the Aluminum Company of America. The original attack made by the World in 1921 was withdrawn after Mr. Bernard M. Baruch, a Democrat and Chairman of the United States War Industries Board during the war, wrote the World as follows:

"I have no desire to defend Mr. Andrew Mellon on any score or against any charge on which he may be properly attacked, and I have a less desire to attempt any defense of his party, from which my views differ so radically, but solely in the interest of fair play, to which I have always found The World devoted, I address this letter to you to make complete one phase of the record upon which you have touched (both editorially and in your news columns) concerning Mr. Mellon's war activities, which were aspersed because of his connection with the Standard Steel Car Company.

"Whatever may be the truth regarding that matter, as an act of justice let me say that Mr. Mellon deserves high commendation for the attitude he assumed toward the Government when he could be and was of service.

"As head of the War Industries Board I had reason to know that just previous to our entrance into the war the army and navy were extremely anxious to obtain a large amount of aluminum, which was scarce and which had advanced to exceedingly high prices. The Aluminum Company of America, through its President, Mr. Davis, acting under Mr. Mellon, voluntarily offered the Government to supply all of its needs at any price the Government saw fit to pay.

"Further, the Mellon Institute of Industrial Research of Pittsburgh and its chief director were placed at the complete disposal of the War Industries Board, free of all charges, and conducted research work of inestimable value to our war programme. In this plan, I have reason to know Mr. Mellon was the leading factor and therefore we should be ready to give him credit as quickly as we are to pass censure.

New York, March 1, 1921.

BERNARD M. BARUCH."

In the present attack, the principal charge is that the tariff has given a monopoly to the Aluminum Company of America. The Aluminum Company of America's principal importance in this country is in the manufacture of aluminum ingots and semi-raw products, and there are many companies making the finished articles. The aluminum ingots constitute the raw material for the aluminum articles which the public buys, and it is the tariff on this product which is of real interest to the people of the country. Whether this tariff is hurting or helping America as a whole can best be determined by considering the price of aluminum in ingots, the price of finished articles which the public buys, the amount of ingot aluminum imported into this country which has been manufactured abroad, and the advantages of the tariff to labor. A comparison of the tariff per pound and the average price per pound in America of aluminum for the past 15 years is as follows:

Year	Tariff on aluminum ingot, Cents per pound	Price to consumers of aluminum ingot, Cents per pound
1910	7	22
1911	7	21
1912	7	21
1913	2	20
1914	2	19
1915	2	26
1916	2	37
1917	2	38
1918	2	33
1919	2	33
1920	2	33
1921	2	27
1922	5	21
1923	5	26
1924	5	28

It is clear that the tariff has had little effect on the price of aluminum. During the 3 years 1910 to 1912 the tariff was 7 cents a pound, which is 2 cents higher than it is to-day, and the average price of aluminum was 21 cents. During the period 1913 to 1921, when the tariff was 2 cents a pound, the average price of aluminum was over 32 cents. During the last 2 years under the present tariff of 5 cents a pound, the average price of aluminum has been 27 cents. The general level of all commodities is now 50 per cent more than what it was in 1913. The price of aluminum, however, is less than 30 per cent higher than in 1913. So aluminum has relatively decreased in price under the present tariff.

Labor cost in the production of an ingot of aluminum is about 90 per cent of the cost. Since 1910 the cost of labor generally has gone up 122 per cent. The 5 cents a pound tariff is less than the increase since 1910 in the cost of labor in each pound. The benefit of the whole tariff, therefore, has gone to labor and not to the manufacturer.

A comparison of the tariff rates and imports into this country of aluminum manufactured abroad, and the percentage of imports to home production, is as follows:

Year	Production of aluminum in U.S. in pounds.	Importations of aluminum into U. S. in pounds	Ratio of importations to domestic production.
1910	34,000,000	12,000,000	35%
1911	37,000,000	6,500,000	18%
1912	40,000,000	16,000,000	40%
1913	46,000,000	28,000,000	61%
1914	58,000,000	19,000,000	33%
1919	128,000,000	14,000,000	11%
1920	138,000,000	39,000,000	21%
1921	64,000,000	33,500,000	62%
1922	74,000,000	44,000,000	60%
1923	129,000,000	43,000,000	33%

Eliminating the war period, when there could be no imports into this country, it is apparent from these figures that the tariff has never prevented importation of a large proportion of the total aluminum consumed in this country. In addition, scrap aluminum, constituting at least a third of the metal used, is entirely beyond the control of the manufacturer of aluminum ingots. No monopoly in the aluminum industry exists.

It has been suggested by the New York World that the tariff was imposed to permit exorbitant prices to be obtained on the finished article. If such a charge were true, one would naturally expect that with the change in tariff from 2 cents a pound under the Democratic Administration to 5 cents a pound under the Republican Administration there would have been a sharp increase in prices to the public. Taking two standard articles of general use by the housewife, a sixquart preserving kettle and a two-quart double boiler, near the close of the Wilson Administration, with a 2-cent tariff on aluminum, the prices of

these articles were \$2.90 and \$4.05. They are to-day \$1.65 and \$2.50. Since 1913 the price of aluminum articles has increased less than 10 per cent; prices generally of all articles in this period increased over 50 per cent.

The conclusions which must be drawn from a survey of the correct facts are these:

The price of pig aluminum to-day is much lower, considering relative prices, with a 5-cent a pound tariff than it was in 1914 with a 2-cent a pound tariff. In spite of the tariff, imports of aluminum into this country are very large, amounting to 55 per cent in 1922 and 35 per cent in 1923.

The increase in the cost of labor per pound of aluminum over the past 15 years is more than the present tariff rate of 5 cents a pound.

The price of aluminum articles to the public is very much less to-day than it was during Wilson's Administration under the Democratic tariff.

Had the tariff not been in effect, the 35,000 people in the aluminum industry would be without jobs, or would have to work for much lower wages.

When the Democratic candidate and his supporting papers have to use misrepresentation, it must be clear to the public that their cause is in desperate straights.

SPEECH OF
HON. GARRARD B. WINSTON,
THE UNDER SECRETARY OF THE TREASURY,
from
STATION WCAP
Washington, D. C.

Friday evening, October 3, 1924.

We have heard much in the partisan debates in Congress and in the equally inaccurate statements in the campaign that the Mellon plan of tax reduction was cast into the wilderness and a different, a better and a finer plan was, through the wisdom of the true patriot, adopted. First, let it be understood that had not Secretary Mellon proposed tax reduction and had not President Coolidge given him full support, taxes would not have been reduced this year at all. I have yet to hear of any member of House or Senate who contemplated introducing a bill to reduce taxation in the session before a Presidential election. The prospect of being able to dispose of a large surplus revenue where it would do the most political good was too alluring to create interest in the prosaic method of wasting this surplus by relieving the people of their tax burden. It was only long after Secretary Mellon proposed tax reduction and submitted a complete bill, and it was seen that the public recognized and demanded their rights, that we heard of the Garner plan or the Simmons plan. The Administration forced tax reduction.

You may roughly divide the changes made by the Revenue Act of 1924 into administrative, structural, and political. The administrative changes involve principally the smoothing out of the machinery of the law and the creation of the Board of Tax Appeals. The structural changes include the release of taxpayers from technical restraints upon the free use of their property so long as no real income results, and at the same time a closing up of many of the avenues through which taxes have been lawfully avoided in the past. To this last there is a limit. To close all possible ways of tax avoidance would be to tie up legitimate business so it could not move at all and stop dealings in

property such as trading farm lands. It would be the putting of a whole people in prison to prevent future crime. There must be reasonable freedom, for income taxes reflect promptly varying degrees of prosperity within the country and more Government revenue can be obtained when business is prosperous than when it languishes. We must not starve the goose whose golden eggs we want.

So far as the administrative and structural changes embodied in the Revenue Act of 1924 are concerned, the recommendations of Mr. Mellon were with few unimportant exceptions adopted by Congress and are now the law.

There is meant by the political features of the act high income tax rates, failure to restrict tax-exempt securities, and the increased inheritance taxes. It was on these subjects that partisan influence prevailed over intelligent, economic consideration of an economic subject.

The principal controversy was on the surtax rates, which are the progressive taxes in addition to the normal tax laid upon incomes over a certain figure. The Treasury had recommended a 25 per cent maximum and Congress adopted a 40 per cent maximum. The controlling factor in the mind of the Treasury was the determination of a surtax rate which would bring in the most revenue to the Government with the least disturbance to legitimate business, and consequently a lower price level to all the people. Because Congress refused to limit the flow of tax-exempt securities; because we have an intricate system of corporate organization under the laws of forty-eight different states beyond the control of Congress, making it possible to prevent the realization of taxable income; because we cannot stop the gaps of tax avoidance and still have prosperity, and because capital is free to flow where it is not taxed, for these reasons high

surtaxes are unenforceable. It is idle to consider them either as a continuing source of Government revenue or as punishment to the extremely wealthy who may have large incomes. It is the belief of the Treasury that more money with which to run the Government can be obtained from reasonable surtax rates than from excessively high rates; that the maintenance of excessive rates tends to destroy the very source from which this Government revenue is to come; and that a continuance of the policy of such rates will ultimately compel the Government to resort to higher taxes on moderate or small incomes to make up the loss it will sustain on high incomes .

Two examples of taxes under the Treasury rates and under the law as passed by Congress bring out clearly the differences between the Treasury and Congress.

A single person with a salary of \$25 per week would pay $4\frac{1}{2}$ cents a week less under the present rates than under the Treasury rates - less than the cost of a Sunday paper. Yet the loss of revenue to the Government from incomes in about this class by this small difference would be around \$5,000,000 a year. A family man with a salary of \$5,000 a year would pay $7\frac{1}{4}$ cents a week less under the present rates than under the Treasury rates. Does any one believe that such a taxpayer would prefer to save one cent a day in direct tax and pay in the increased price of every living expense for himself and family the tax passed on to him through an economically unsound basis of taxation? He would save a cent at the cost of a dollar. The great majority of the people would save nothing and pay the increased cost. It was this President Coolidge had reference to when he said in his statement to the Congress -

"Of the 110,000,000 people in this country, less than 4,000,000 pay income taxes directly. The remaining 106,000,000 who pay no such direct taxes are given no relief from what they pay indirectly in everything they buy. They, too, must have tax reduction."

It is tax reform, not tax reduction alone, which is now required.

The arguments for such reform may be restated. High surtaxes defeat the very purpose for which they are ostensibly imposed. In time they dry up the source from which they are to be collected, while a reduction in these high surtaxes results in the creation of more taxable income and, therefore, a larger source upon which the Government can draw. It is by the freeing of capital for productive business under a reasonable surtax that more revenue can be collected at a lower rate than at a higher rate. It is on this principal that the Ford Company continues to cut down the price of its car. The preliminary figures of incomes earned in 1922 and taxed in 1923, have just been compiled, and give a forceful illustration of the truth of this economic proposition. The maximum tax in 1921 was 73 per cent; in 1922 it was reduced to 58 per cent; in 1922 also for the first time capital gains were taxed at 12½ per cent instead of at the regular surtax rates. Under the reduced rates there was \$365,000,000 of income reported in 1922 from those having incomes over \$300,000 a year, as against only \$153,000,000 in 1921. In other words, the reduced rates brought more taxable income. This is the immediate result. Incomes of this class will rapidly decline again until a reasonable surtax rate is established. Witness total incomes in this class of nearly a billion dollars in 1917 under moderate surtaxes, three times the 1922 incomes five years later.

With reference to capital gains, the case is striking. The number of taxpayers with incomes of \$300,000 increased from 246 to 537, and of these 165 would not be in this class were it not for the realization of capital gains. Prior to the insertion of the capital gains section in the law, those who had investments did not sell, property was tied up, and the Government collected

little from this source. When the rate of tax was reduced to $1.2\frac{1}{2}$ per cent the Government opened up a source of revenue which in that one year yielded over \$31,000,000 in taxes.

Coming now to the inheritance taxes, the maximum rate was increased from 25 to 40 per cent. That the effect of the old high rate of 25 per cent was actually destroying revenue can best be illustrated by what the Government has received from estate taxes since 1921. Year by year receipts have dropped steadily from \$154,000,000 to \$102,000,000, a loss in revenue of one-third in but four years. During these years wealth must have been increasing and receipts should have increased too - not decreased.

A continuation of the trend thus disclosed, with an acceleration by reason of the increase in the maximum rate from 25 to 40 per cent, will soon eliminate this source of revenue and with it the revenue that the states now receive from the same source and which constitutes generally a larger proportion of their receipts than the amount received by the Federal Government from estate taxes. Again the effect of this loss of revenue will be to compel the Federal Government and the states, principally the states, to seek their revenue elsewhere. With the states this means higher direct taxation, the greater part of which is taxes upon land. This is real hardship to the farmer who now pays in taxes a larger proportion of his income than taxpayers generally and can ill afford an increase of those direct taxes which constitute almost all of his burden.

The difference between a political and an economic settlement of taxes is this. The politician pretends to lower the tax upon small incomes and to

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heap the tax upon the high incomes. He says that he will make the wealthy pay the taxes. At the same time he refuses to block the door of tax-exempt securities, through which the wealthy are invited by him to escape. As a result, the politician shrinks the revenue which the Government should receive from those in the higher brackets, adds on to those who pay no income tax directly a large burden in the shape of increased prices, and ultimately will force the Government, in order that it may obtain the revenue with which to live, to tax more heavily those with small incomes. Through his efforts to punish the wealthy, who with the help given them by the same politician are quite capable of taking care of themselves, the rod of the politician descends upon the backs of those very people whom he boasts he is protecting. An economic consideration of the income tax means the establishment of rates which the traffice will bear, which will not drive the wealthy to means of avoidance, thus diminishing the Government revenue, and which will not add unduly to the cost of business and the inevitable increase in the price level which all must pay.

These are two conflicting principles, political and economic. Upon which principle should taxes be based; which should control the Treasury of the United States?

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE
October 16, 1924.

Secretary Mellon to-day announced a reorganization in the general administration of the Bureau of Engraving and Printing. Two additional Assistant Directors have been appointed to assist the Director. The work of the Bureau has been divided into three groups, each group to be under the supervision of an Assistant Director. The reorganization, which will become effective on October 16, 1924, is the result of a study made jointly by Major Kirby, Director of the Bureau, and a committee of experts designated by the Secretary. It is expected that the reorganization will have the effect of increasing production and generally strengthening the morale. The new Assistant Directors are Mr. John J. Deviny, former Superintendent of Work, and Mr. Clark R. Long, former Assistant Chief of the Division of Public Debt Accounts and Audit, Public Debt Service. The trio of Assistant Directors is completed by Mr. Paul E. Twyman, who was appointed Assistant Director in February.

TREASURY DEPARTMENT

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For release in morning papers,
Thursday, October 23, 1924.

STATEMENT BY SECRETARY MELLON

Secretary Mellon today announced that he has authorized the Federal Reserve Banks on and after Thursday, October 23, 1924, and until further notice, to redeem in cash before December 15, 1924, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury certificates of indebtedness of Series TD-1924, dated December 15, 1923, and Series TD2-1924, dated June 16, 1924, both maturing December 15, 1924.

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE,
Thursday, October 23, 1924.

In connection with the opening in the Collector's office of each district of the list showing the amount of income tax paid by each person, in accordance with the provisions of Section 257(b) of the Revenue Act of 1924, the Treasury desires to call the attention of all persons to the provisions of Section 3167 of the Revised Statutes which provides in part:

" * * * and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any income return, or any part thereof or source of income, profits, losses, or expenditures appearing in any income return; and any offense against the foregoing provision shall be a misdemeanor and be punished by a fine not exceeding \$1,000 or by imprisonment not exceeding one year, or both, at the discretion of the court; * * * "

Mr. Mellon said to-day:

My attention has been directed to an editorial in the New York World charging partisan purpose in the compliance by the Treasury with the mandatory provisions of an Act of Congress. The amendment to the Revenue Act of 1924 added to the provision under the former law which made open to inspection names of taxpayers, the requirement that there also be open to inspection the amount of tax paid, and in due course when the information was available it was opened to inspection. Presumably Congress in reenacting specifically in the same Act the prohibition against printing or publishing a part of a return, intended to have both provisions effective. Inspection where reason for it existed and not newspaper publication solely to satisfy idle public curiosity. The World sees fit to ignore the penal statute against printing or publishing and such action is alone responsible for just what it pretends to condemn - partisanism. The Treasury had no alternative and criticism would rightly have been made had it not complied with law.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Wednesday, October 29, 1924.

SPEECH OF
HON. ANDREW W. MELLON,
SECRETARY OF THE TREASURY,
ON
CONSTRUCTIVE GOVERNMENT

from
STATION WRC
Washington, D. C.

Tuesday evening, October 28, 1924.

The prosperity of the country and the happiness of its people depend primarily upon the soundness of its own government. It is true that we may from time to time be drawn into world conflicts and suffer from world illnesses, but if we keep our own body politic strong, if we do not dissipate our reserves, we can avoid much of the consequences and soon return to sound conditions. Such indeed has been our experience succeeding the dislocations caused by the World War.

Whatever may be said about the necessity of inflation to finance the war, a continuation of this policy by the administration then in power after the war had ended was inexcusable and disastrous. You will recall the enormous increase in prices, and the unhealthy over-expansion and over-production which was then encouraged. Our house was not put in order and we suffered accordingly.

Over four years ago it became apparent that we would have to pay the penalty for this unsoundness, and the country experienced one of the most precipitant declines in prices, production and trade in its history. The movement began early in 1920, when prices turned downward and continued for somewhat over a year. Indeed while its course had nearly run by March of 1921, the momentum was so great that deflation was not completely checked until three or four months later, or about the middle of that year. When this Administration took office wholesale prices generally had dropped nearly one half and the index of prices of farm products showed an even greater decline. This meant that farm products worth a dollar in January, 1920, were worth only fifty cents in March, 1921.

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The consequence was disorganization of industry and agriculture. Business profits then turned into losses; factories began to close; unemployment increased at a rapid rate; land values were cut in half in many of the agricultural districts; the farmer who had bought land and the laborer who had bought a home were unable to meet their obligations; the banks were loaded with frozen loans; mortgages were foreclosed; and the whole economic structure had to be readjusted to meet new conditions.

The incoming Administration took hold and sought a way out. While economic conditions cannot be changed overnight, still a government moving with intelligence can give economic forces freedom and help the country to cure itself.

This has been done in the past three years. A budget control of Federal Government expenditures was introduced and expenditures cut from $6\frac{1}{2}$ billion dollars in 1920 to $3\frac{1}{2}$ billion dollars in the year just closed, a saving of nearly one-half. Taxes were reduced, and when the present law is in full effect the total yearly Federal tax collection will probably aggregate a billion and a half dollars less than would have been collected from the taxpayers if the rate of 1920 had remained in effect. In 1920 Federal taxes collected amounted to \$54 for every man, woman and child in the United States; next year they should be but \$27, a cut of exactly one-half in the per capita tax burden - no mean accomplishment. The War Finance Corporation of the Government loaned nearly 300 million dollars for agriculture and live stock purposes. The Federal and Joint Stock Land Banks increased their loans from 400 million dollars to one billion 450 million dollars.

or over three-fold. The Federal Intermediate Credit Banks were created and have advanced 50 million dollars. At the President's request, the Agricultural Finance Corporation, with entirely private capital, has assisted in restoring the country banking situation in the northwest and is now turning its attention to aiding the farmer to diversify.

During the past two years or more prices have been comparatively stable, thus removing the demoralizing influence of rapid price changes on business generally. Farm prices have nearly completely recovered, if we apply the true test of their purchasing power in other commodities, that is how much in other commodities a bushel of wheat will buy. The relative purchasing power of the four crops, corn, wheat, oats and barley, which in 1921 was less than two-thirds of its real value, is now higher than in the last pre-war year. The maladjustment between agricultural prices and other prices is being removed and the farmer restored to his proper status in the economic system. With respect to credit, the combined total of the country's bank deposits is greater than ever before in our history. At the same time reserves are unusually high, frozen loans have been almost completely liquidated, and our banking and credit structure was never in a stronger position and more able to support continued business and industrial expansion. With the Federal Reserve System and the new credit instrumentalities set up during this Administration, every legitimate credit need of both agriculture and industry can be readily supplied at a more reasonable rate of interest. There is not, and need not be at any time, a shortage of either credit or currency to support expanding business and trade. The Government, and through it, the

taxpayer, have benefited also from this improvement. Three years ago the Treasury floated loans at $5\frac{1}{2}$ per cent, whereas the last two borrowings in June and September of this year bore interest rates of but $2\frac{3}{4}$ per cent, or just one-half, making a vast saving on the interest burden of the Government.

It has taken time to effect the necessary adjustments in prices and productions, for the old obligations had to be met, losses written off and a new beginning made. Without spectacular innovations in government, without confusion or disturbance, but through common sense, sound administration and hard work, these adjustments have now been made. Both banking and business conditions are in a thoroughly strong position and the country has been put back on a basis where it is now ready to enter upon a renewal of such a period of healthy agriculture and industry as followed the defeat of Bryan and his theories nearly 30 years ago.

Not only have we improved our own condition, but we have materially assisted those countries with whom we must associate and whose prosperity is linked up with ours. Two years ago Mr. Hughes, Secretary of State, made the suggestion which finally developed into the commission of experts under the leadership of General Dawes. The plan worked out by this commission has been adopted by the interested nations. The Dawes plan is not a proposal, but now an accomplished fact; not talk, but action. This, in my opinion, is one of the most important forward steps ever taken in international cooperation, and the service to the world is inestimable. One of its effects has been the growth of a new mental attitude and outlook

on the part of Europe. Upon the German people themselves the actual burden of reparations is not so great or so disheartening as the uncertainty under which they have labored. Already a certain sense of relief and something of the old-time industrial vigor and thrift are pervading that country, and there exists a wholesome air of confidence that their obligations can be met and the country restored to its former industrial progress.

The result of the inauguration of the plan should be a growing market for American products and a stimulus to our own industry. With the full recovery of Germany and other European countries, it is possible that keener competition may be felt in certain lines which may necessitate some gradual readjustments here, but the general effect of a prosperous world can only mean the broadening of our markets and opportunities and a quickening of our own economic development.

True progress comes from construction, not destruction. It is easy to tear down, but it is difficult to build up. A nation is but the aggregate of its inhabitants, and if its policies are unsound, if its expenditures are extravagant, if its institutions are weak, it is the people who have to pay. As an illustration - take the case of Italy, when the socialists became powerful immediately after the war, Responsible party government ceased, control rested in combinations of blocs, each working under cover for its own selfish motive. Her industry was disrupted by strikes, her prosperity disappeared, and her credit ceased to exist. Accompanying the unwise experiment came the usual unemployment and suffering of the common people. A strong hand has since come in and reestablished the Italian Government

upon sound principles and government by party, not by bargain. Steps have been taken to abandon government operation of railroads and to cut taxes, and the budget this year will be practically balanced. Italy has been an excellent illustration that economic fallacies must be paid for and the cost be met by the whole people. It cannot be shunted to some one else or to only a part of the nation. When common sense was restored all the people benefited, and we see that land again under happy conditions. In Russia the experiment brought destruction final and complete. No trade, no industry, no agriculture, no religion, - a return to barbarism. The millenium was promised to the Russian peasant; he has received tyranny, starvation and death.

In our country we have avoided false gods in the past. You will recall that we escaped trial of that principal plank of a former Democratic platform which maintained that the unlimited coinage of silver in the ratio of 16 to 1 was the sole means by which we might be saved. But new theories are being continually presented, and we should, therefore, analyze the political promises of today. So when a candidate proposes to cut the revenue from tariff and taxes, which are the two usual sources of government receipts, he should explain where he will find three billion dollars to run the Government. When another candidate proposes to embark the Government in railroad and water power ownership; to increase wages; to decrease freight rates; to increase prices; to decrease cost of living; and to indulge generally in an orgy of spending, let him submit the details of his budget. I am sure no Secretary of the Treasury could make it balance. It is the people who must pay for this spending since the Government has only what it gets from them. Therefore,

before we burn down the house we now all live in, we should at least be permitted to see the plans of the promised dwelling.

I have little sympathy with quacks. Our ills, as they arise from time to time, should be cured not by the incantation of a witch-doctor, but by the application of well tried economic principles and the intelligence and initiative of the American people. Our position today, at home and abroad, is unsurpassed. Our good wages, ample employment, better agriculture, and strong credit, call for no change in administration, but for common sense to hold and fully to enjoy these advantages.

STATEMENT BY SECRETARY MELLON

Secretary Mellon to-day announced that he has called for redemption and payment on February 2, 1925, United States 4 per cent bonds of the Loan of 1925, dated February 1, 1895, and that such bonds will cease to bear interest on that date. In order to facilitate redemption holders are urged to present their bonds well in advance of February 2, 1925, so as to insure prompt payment when due. This is particularly important with respect to registered bonds, as payment cannot be made until registration shall have been discharged by the Treasury Department, Division of Loans and Currency.

The text of the official circular follows:

REDEMPTION OF THE 4 PER CENT BONDS OF THE LOAN OF 1925

1924.
Department Circular No. 346.

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, October 15, 1924.

Public Debt.

TO HOLDERS OF 4 PER CENT BONDS OF THE LOAN OF 1925 AND OTHERS CONCERNED:

Public notice is hereby given that United States 4 per cent bonds of the Loan of 1925, dated February 1, 1895, issued under authority of the Act of Congress approved July 14, 1870, as amended by the Act approved January 20, 1871, and by the Act of Congress approved January 14, 1875, are called for redemption and payment on February 2, 1925, and will cease to bear interest on that date.

1. COUPON BONDS. - Four per cent bonds of 1925 in coupon form should be presented and surrendered for redemption to the Treasurer of the United States, at Washington, or to any Federal Reserve Bank or branch.

The bonds must be delivered at the expense and risk of the holder, and should be accompanied by appropriate written advice (see Form P. D. 900 hereto attached). The final interest coupons which will become payable on February 1, 1925, should be detached for collection in regular course before the bonds are presented for redemption. One day's additional interest accruing on such coupon bonds on February 2, 1925, will be covered by payments to be made simultaneously with the payments on account of principal.

2. REGISTERED BONDS. - Four per cent bonds of 1925 in registered form should be assigned by the registered payees or assigns thereof to "The Secretary of the Treasury for redemption," in accordance with the general regulations of the Treasury Department governing assignments, and thereafter should be presented and surrendered for redemption to the Treasury Department, Division of Loans and Currency, Washington, or to any Federal Reserve Bank or branch. The bonds must be delivered at the expense and risk of the holder, and should be accompanied by appropriate written advice (see Form P.D. 901 hereto attached). If assignment for redemption is made by the registered owner, payment of principal and interest will be made to the registered owner at his last address of record, unless written instructions to the contrary are received from the registered owner. If assignment for redemption is made by an assignee holding under proper assignment from the registered owner, payment of principal and interest will be made to such assignee at the address specified in the form of advice. Assignments in blank, or

other assignments having similar effect, will also be recognized, and in that event payment will be made to the person surrendering the bonds for redemption, since under such assignments the bonds become in effect payable to bearer. In case it is desired to have payment made to some one other than the registered owner, without intermediate assignment, the bonds may be assigned to "The Secretary of the Treasury for redemption for account of - - - - -"; but
 (Here insert name and address of payee desired.)

assignments in this form must be completed before acknowledgment and not left in blank. The transfer books for such registered bonds will not close prior to February 2, 1925, and the interest accruing for the quarter year ending February 1, 1925, together with one day's additional interest accruing on February 2, 1925, will be covered by payments to be made simultaneously with the payments on account of principal. Separate checks for interest to February 1, 1925, will not be issued.

3. BONDS HELD BY TREASURER OF THE UNITED STATES IN TRUST. - Registered 4 per cent bonds of 1925 on deposit with the Treasurer of the United States to secure circulating notes of national banks, or to secure deposits of public money or postal savings funds, may be redeemed upon assignment as follows:

(a) If deposited to secure circulating notes of national banks, the board of directors of the national bank concerned should, by appropriate resolution, authorize the Treasurer of the United States to assign such bonds to "The Secretary of the Treasury for redemption." The resolution

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should further authorize the withdrawal by the Comptroller of the Currency of the bonds from the custody of the Treasurer of the United States and the substitution of a like amount of other United States bonds bearing the circulation privilege, or the deposit of the proceeds of redemption for the retirement of the outstanding circulating notes secured by such bonds. A certified copy of such resolution and the Treasurer's receipt for the bonds on deposit, together with the bonds, if any, to be substituted, should be forwarded to the Comptroller of the Currency, Treasury Department, Washington.

(b) If deposited to secure deposits of public money or postal savings funds the board of directors of the bank or trust company concerned should, by appropriate resolution, authorize the Treasurer of the United States to assign such bonds to "The Secretary of the Treasury for redemption." The resolution should further authorize the withdrawal of the bonds from the custody of the Treasurer of the United States and the substitution of a like amount of other acceptable collateral. A certified copy of such resolution, together with the Treasurer's receipt for the bonds on deposit, should be forwarded either (1) to the Treasurer of the United States, Division of Securities, Washington, if the bonds are held to secure deposits of public money, or (2) to the Director of Postal Savings, Washington, if the bonds are held to secure postal savings funds. In either case if other collateral is to be deposited, such collateral should be forwarded direct to the Treasurer of the United States, Division of Securities, Washington.

(c) The Treasurer of the United States will forward appropriate resolution forms to each bank or trust company having 4 per cent bonds of 1925 on deposit as security for the above accounts.

4. PRESENTATION PRIOR TO FEBRUARY 2, 1925. - In order to facilitate redemption of outstanding 4 per cent bonds of 1925, any of the bonds may be presented and surrendered in the manner herein prescribed, at any time in advance of February 2, 1925, for payment on that date, and holders are urged to present their bonds well in advance so as to insure prompt payment when due. This is particularly important with respect to registered bonds, for payment can not be made until registration shall have been discharged by the Treasury Department, Division of Loans and Currency.

5. MISCELLANEOUS. - Any further information which may be desired as to the payment or redemption of said bonds may be obtained from the Treasury Department, Division of Loans and Currency, Washington, or from any Federal Reserve Bank or branch. The Secretary of the Treasury may at any time or from time to time prescribe supplemental or amendatory provisions governing the matters covered by this circular.

A. W. MELLON,
Secretary of the Treasury.

TREASURY DEPARTMENT
Division of Loans and Currency
Form P. D. 900. Ed. 8000. Oct. 15, 1924

FORM OF ADVICE TO ACCOMPANY 4 PER CENT BONDS OF THE LOAN OF
1925 IN COUPON FORM PRESENTED FOR REDEMPTION

To The Treasurer of the United States, Washington, D.C.:
or
The Federal Reserve Bank of _____:

Pursuant to the provisions of Treasury Department Circular No. 346, dated October 15, 1924, the undersigned presents and surrenders herewith for redemption on February 2, 1925, \$_____, face amount, of 4 per cent bonds of the Loan of 1925 in coupon form, with all coupons detached, as follows:

Number of bonds	Denomination	Serial numbers of bonds	Face Amount
_____	\$50	_____	_____
_____	100	_____	_____
_____	500	_____	_____
_____	1,000	_____	_____
Total			

and requests that remittance covering payment therefor be forwarded to the undersigned at the address indicated below.

(Signature) _____

(Address in full) _____

(Date) _____

Note 1. - Coupon bonds must be delivered to the Treasurer of the United States, Washington, D.C., or to any Federal Reserve Bank or branch, at the expense and risk of the holder.

Note 2. - Final Coupon due February 1, 1925, should be detached by holders of bonds and collected in regular course. One day's additional interest, due February 2, 1925, will be paid simultaneously with payment of the principal amount. The decimal for computing such one day's interest on \$1,000 face amount of coupon bonds is \$0.11235955 (interest for one day in 89 day period).

TREASURY DEPARTMENT
Division of Loans and Currency
Form P. D. 901. Ed. 8000. Oct. 15, 1924.

FORM OF ADVICE TO ACCOMPANY 4 PER CENT BONDS OF THE LOAN OF 1925 IN
REGISTERED FORM PRESENTED FOR REDEMPTION

To the Treasury Department, Division of Loans and Currency, Washington, D.C.:

or
The Federal Reserve Bank of _____:

Pursuant to the provisions of Treasury Department Circular No. 346 dated October 15, 1924, the undersigned presents and surrenders herewith for redemption on February 2, 1925, \$_____, face amount, of 4 per cent bonds of the Loan of 1925 in registered form, inscribed in the name of _____ and duly assigned to "The Secretary of the Treasury for Redemption," as follows:

Number of bonds:	Denomination :	Serial numbers of bonds :	Face amount
_____	\$50	_____	_____
_____	100	_____	_____
_____	500	_____	_____
_____	1,000	_____	_____
_____	5,000	_____	_____
_____	10,000	_____	_____
Total	:	:	_____

and requests that remittance covering payment therefor be forwarded to the undersigned at the address indicated below.

(Signature) _____

(Address in full) _____

(Date) _____

Note 1. - Registered bonds must be assigned, in accordance with Treasury Department regulations governing assignments generally, to "The Secretary of the Treasury for redemption," and must be delivered to the Treasury Department, Division of Loans and Currency, Washington, D.C., or to any Federal Reserve Bank or branch at the expense and risk of the holder.

Note 2. - The usual check for interest due February 1, 1925, will not be issued. Interest for quarter year ending February 1, 1925, plus one day's additional interest due February 2, 1925, will be paid simultaneously with payment of the principal amount. The decimal for computing such interest on \$1,000 face amount of registered bonds is \$10.11235955 (one quarter year's interest plus interest for one day in 89 day period.)

There was signed Friday afternoon at the Treasury an agreement providing for the refunding of the Polish debt to the United States. This indebtedness represents obligations received in connection with the sale of surplus supplies by the Secretary of War and the Secretary of the Navy, relief supplies furnished by the American Relief Administration, the sale of flour for relief purposes by the United States Grain Corporation, and services rendered by the United States Shipping Board Emergency Fleet Corporation.

The agreement was signed on behalf of the Government of the Republic of Poland by Dr. Wladyslaw Wroblewski, the envoy extraordinary and minister plenipotentiary at Washington, and on behalf of the United States by the Secretary of the Treasury as Chairman of the World War Foreign Debt Commission. The agreement was approved by the President.

The amount of the indebtedness funded is \$178,560,000, computed as follows:

Principal amount of obligations to be funded	\$159,666,972.39
Interest accrued and unpaid thereon to December 15, 1922, at the rate of $4\frac{1}{2}$ per cent per annum.....	<u>18,898,053.60</u>
Total principal and interest accrued and unpaid as of December 15, 1922	178,565,025.99
To be paid in cash by Poland November 14, 1924	<u>5,025.99</u>
Total indebtedness to be funded into bonds	\$178,560,000.00

The basis of the settlement is substantially the same as that of the settlement made by the United States with Great Britain, except for a provision under which Poland shall have the option to liquidate amounts due under the agreement prior to 1930 in part by certain semi-annual payments aggregating \$10,000,000, the balance in bonds of Poland similar in terms

to those originally issued.

The \$178,560,000 principal amount of the bonds of Poland to be issued under the refunding agreement mature serially over a period of 62 years and bear interest at the rate of 3 per cent per annum up to December 15, 1932, and at the rate of $3\frac{1}{2}$ per cent per annum thereafter.

The agreement will be submitted to Congress for its approval. It is subject also to the approval of the President and Council of Ministers of Poland.

The agreement with Poland is the fifth funding agreement concluded by the World War Foreign Debt Commission since its creation on February 9, 1922. Agreements have already been concluded and approved by Congress with Great Britain, Finland and Hungary. The agreement made with Lithuania on September 22, 1924, will be submitted to Congress at its next session.

Legation of Poland,
2640 16th Street,
Washington, D. C.

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FOR RELEASE MORNING PAPERS
November 15, 1984.

STATEMENT BY POLISH MINISTER, WLADYSLAW WROBLEWSKI, ON OCCASION
OF SIGNING OF DEBT REFUNDING AGREEMENT WITH U.S.

The funding of its American debt is an essential part of the work of economic and financial rehabilitation of Poland. The Government of Poland - irrespective of men or parties - realizes that a full rehabilitation means fulfilling financial obligations as well as balancing the State budget. Thus if any special credit is to be given to Poland, it would be on account of the seeming rashness shown by Prime Minister Grabski (who is also in charge of the Polish Treasury) in taking the initiative in asking the U. S. Government for debt funding negotiations within five months of the stopping of currency inflation, and only six weeks after establishing a new currency on gold parity basis. It may be seen that Poland has refunded its American debt at the earliest practicable moment.

Of course the basically strong and healthy organism which Poland is deserves credit for its pace of recovery which has broken all records. It was left at the end of 1918 without one ounce of gold, swamped with Russian rubles, German marks, Austrian crowns. Poland was not permitted to rest like other countries involved in the Great War until two years later when it finally repelled in the fall of 1920 the Bolshevist menace from Poland and Europe. During the next three years it had to wrestle with domestic economic troubles of all kinds. From these Poland has emerged in 1924 with a budget balanced by taxes, with State railways operating on a paying basis, and

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with a new currency which from the beginning has maintained its gold parity without a trace of weakening. Poland's new currency, the zloty, is quoted at par in the world's markets because it is covered up to 80% by gold and gold assets, chiefly American dollars.

The public debt of Poland, of which its American debt constitutes a large part, when viewed in comparison with the public debts of other European states is small. The total State debt amounts to the equivalent of but about \$15. per capita and the total sum is but slightly in excess of the Polish Government's revenues for 1935.

TREASURY DEPARTMENT

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For release in morning papers,
Wednesday, November 26, 1924.

STATEMENT BY SECRETARY MELLON

Secretary Mellon today announced that he has authorized the Treasurer of the United States and the Federal Reserve Banks on and after this date to redeem in cash before February 2, 1925, at the holders' option, at par and accrued interest to date of such optional redemption, the four per cent bonds of the Loan of 1925, dated February 1, 1895, and called for redemption February 2, 1925.

STATEMENT BY SECRETARY MELLON.

The Treasury is to-day announcing its December financing, which takes the form of an offering of 4 per cent Treasury bonds of 1944-54. The bonds will be dated and bear interest from December 15, 1924, maturing December 15, 1954, and redeemable at the option of the United States on and after December 15, 1944, on four months' notice of redemption. The offering is for \$200,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional bonds to the extent that Third Liberty Loan 4½ per cent bonds, maturing September 15, 1928, Treasury notes of Series A-1925, and Treasury certificates of indebtedness of Series TM-1925, both maturing March 15, 1925, are tendered in payment. Treasury certificates of indebtedness of Series TD and TD2-1924, maturing December 15, 1924, will also be accepted in payment, but are considered part of the cash offering.

The cash offering will be restricted to the necessary cash requirements to carry the Treasury until the March financing period, but the exchange feature of the offer permits the use of securities maturing in March and Third Liberty Loan bonds to acquire the new bonds, and it is expected that the holders of the present securities will to a large extent avail themselves of their rights. This is the first offering of a long-term Government bond since the issuance in October of 1922 of the Treasury 4½ per cent bonds of 1947-52, which are now quoted on the market at a very substantial premium, and the banks and the investing public generally should welcome this opportunity to participate in a long-term Treasury issue. The application of March maturities or Third Liberty Loan bonds in payment for the new Treasury bonds will in part relieve the somewhat heavy financing otherwise necessary in March, 1925, and

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on the maturity of the Third Liberties in September, 1928. Such exchanges mean no withdrawal of funds from the investment market, but merely a change in the character of the investment from short to long-term.

The extent to which Government obligations in the hands of the public have been reduced is remarkable. In the five and one-half years since June 30, 1919, the public debt has decreased from \$25,484,506,160.05 to \$21,241,535,138.28, a total reduction of \$4,242,971,021.77. This reduction has been effected, first, out of the sinking fund, foreign repayments and other similar items, the total of which for the current fiscal year is estimated at \$471,806,401, and which items are chargeable against the ordinary Government expenditures before the budget will balance; second, from reduction in the working balances; and, third, from surplus.

Through the orderly and continuous reduction in our national debt out of the sinking fund and other items, upon which the public rely, Treasury obligations should increase in value. Their supply is rapidly decreasing and the demand for such a type of investment has increased.

No further Government financing is expected until next March.

The official text of the offering follows:

The Secretary of the Treasury invites subscriptions, at par and accrued interest, from the people of the United States, for four per cent Treasury bonds of 1944-54, of an issue of gold bonds of the United States authorized by the Act of Congress approved September 24, 1917, as amended. The amount of the offering will be \$200,000,000, or thereabouts, with the right reserved to the Secretary of the Treasury to allot additional bonds to the extent that Third Liberty Loan $4\frac{1}{4}$ per cent bonds, Treasury notes of Series A-1925, or Treasury certificates of indebtedness of Series TM-1925, are tendered in payment.

DESCRIPTION OF BONDS

The bonds will be dated December 15, 1924, and will bear interest from that date at the rate of four per cent per annum payable June 15 and December 15 in each year on a semi-annual basis. The bonds will mature December 15, 1954, but may be redeemed at the option of the United States on and after December 15, 1944, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease. The principal and interest of the bonds will be payable in United States gold coin of the present standard of value.

Bearer bonds with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, and \$10,000. Bonds registered as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000. Provision will be made for the interchange of

bonds of different denominations and of coupon and registered bonds and for the transfer of registered bonds, without charge by the United States, under rules and regulations prescribed by the Secretary of the Treasury.

The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The bonds will be acceptable to secure deposits of public moneys, but do not bear the circulation privilege and are not entitled to any privilege of conversion.

APPLICATION, ALLOTMENT, AND PAYMENT

Applications will be received at the Federal Reserve Banks, as fiscal agents of the United States. Banking institutions generally will handle applications for subscribers, but only the Federal Reserve Banks are authorized to act as official agencies.

The right is reserved to reject any subscription and to allot less than the amount of bonds applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced

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allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final.

Payment at par and accrued interest for any bonds allotted must be made on or before December 15, 1924, or on later allotment. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district, except upon subscriptions for which Third Liberty Loan $4\frac{1}{4}$ per cent bonds, Treasury notes of Series A-1925, or Treasury certificates of indebtedness of Series TM-1925 are tendered in payment. Treasury notes of Series A-1925, maturing March 15, 1925 (with coupon dated March 15, 1925, attached), Treasury certificates of indebtedness of ^{Series} ID and TD2-1924, maturing December 15, 1924 (with coupon dated December 15, 1924, detached), and Series TM-1925, maturing March 15, 1925 (with coupon dated March 15, 1925, attached), and Third Liberty Loan $4\frac{1}{4}$ per cent bonds, will be accepted at the Federal Reserve Banks at par, with an adjustment of accrued interest, as of December 15, 1924, in payment for any Treasury bonds of 1944-54 now offered which shall be subscribed for and allotted. Third Liberty Loan $4\frac{1}{4}$ per cent bonds in coupon form must have all unmatured coupons attached, and if in registered form must be duly assigned to the Secretary of the Treasury for redemption, in accordance with the general regulations of the Treasury Department governing assignments.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments thereon on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts. Allotment notices will be

sent out promptly upon allotment, and the basis of allotment will be publicly announced.

FURTHER DETAILS

Bonds will be delivered after allotment and payment. Pending delivery of the definitive bonds, Federal Reserve Banks may issue interim receipts.

Further details may be announced by the Secretary of the Treasury from time to time, information as to which may be obtained from the Treasury Department, Division of Loans and Currency, Washington, D. C., or from any Federal Reserve Bank.

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE,
Thursday, Dec. 4, 1924.

The Secretary of the Treasury announced to-day that the subscriptions for which cash and certificates maturing December 15, 1924, are tendered in payment for the new 4 per cent Treasury bonds, 1944-54, already exceed \$500,000,000. Since the Treasury desires only to obtain cash to the extent of \$200,000,000, or thereabouts, the Treasury will close the subscriptions for which cash and certificates maturing December 15, 1924, are tendered in payment at the close of business to-day. Any subscriptions received by Federal Reserve Banks by ten o'clock Saturday and mailed before midnight Thursday, December 4, will be deemed to have been presented before the books closed. The exchange subscriptions for which Treasury $4\frac{3}{4}$ per cent notes maturing March 15, 1925, Treasury 4 per cent certificates maturing March 15, 1925, and Third Liberty Loan $4\frac{1}{4}$ per cent bonds are tendered in payment will remain open until further notice. Since allotments on these exchanges will be made in full, holders of these securities will have the opportunity to effect exchange and acquire the new Treasury 4 per cent bonds.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
Saturday, Dec. 6, 1924.

The Secretary of the Treasury announced to-day that subscriptions for the issue of Treasury 4 per cent bonds of 1944-54 for which cash or certificates of indebtedness maturing December 15, 1924, were tendered in payment closed at the close of business on Thursday, December 4th. Reports from the Federal Reserve Banks indicate a very heavy over-subscription. Since the Treasury requires only about \$200,000,000 in cash to carry it through to the March financing, the Treasury has made allotments on these subscriptions as follows: All subscriptions of \$1000 and under will be allotted in full. Subscriptions in excess of \$1000 but not exceeding \$10,000 will be allotted 65 per cent, with a minimum of \$1000. All cash subscriptions in excess of \$10,000 have been declined.

Subscriptions for which Treasury certificates maturing March 15, 1925, Treasury notes maturing March 15, 1925, and Third Liberty Loan bonds are tendered in payment, remain open, and until further notice these subscriptions will be allotted in full. This gives the opportunity to the public to acquire the new bonds through the exercise of the exchange privilege.

Treasury Department

FOR RELEASE, MORNING PAPERS,
Wednesday, December 10, 1924.

Speech of

Hon. Garrard B. Winston

The Undersecretary of the Treasury

before

27th Annual Meeting of

Illinois Manufacturers Association

Chicago, December 9, 1924.

Government finance is not magic. With the exception that the figures used sometimes contain more ciphers than one is ordinarily accustomed to meet, the same principles of experience, common sense and judgment apply. The Treasury is like any other large business. We have certain expenditures to meet each year, and to cover these expenditures we have the prospects of certain receipts. Since the matter I am discussing tonight refers to future policies, and not to the past, the figures I shall use are the estimates for the coming fiscal year of the Government, commencing July 1, 1925, and ending June 30, 1926. Roughly, our total expenditures for that year are estimated at \$3,267,000,000, made up of general expenditures of \$1,705,000,000, other expenditures of \$247,000,000, interest of \$830,000,000, and debt retirement of \$485,000,000. The general expenditures have been cut \$250,000,000 since 1923, and are now down substantially to bedrock. It is doubtful whether a further substantial cut can be made in these expenditures without seriously crippling the ordinary operations of the Government. The other expenditures are not subject to much change, except such as would affect both sides of the profit and loss statement. Interest on the debt, which is the largest single item of Government expense, will gradually fall off as our debt is reduced. In part this is met by increase in the sinking fund. The charges for debt reduction are principally the sinking fund of \$323,000,000 and \$160,000,000 of foreign repayments, which latter come in as receipts and go out as expenditures, again wash transactions. We cannot expect reduction in these items. I think it

can be safely said, therefore, that we should not rely upon any material decrease in the total of governmental expenditures. On the contrary, if Congress commits this country to extraordinary expenditures, tax reduction may become impossible. We cannot embark the Federal Government upon extended programs of education, good roads, bonuses and many other projects which properly belong to the States, and keep expenses down. Further economy may be unable to aid, further extravagance will prevent the relief we are seeking.

Turning to the side of receipts, Customs is estimated to provide \$535,000,000, the income tax, both corporate and individual, \$1,710,000,000; miscellaneous internal revenue taxes \$891,000,000, and miscellaneous receipts \$505,000,000, a total for the year of \$3,641,000,000. The difference between receipts and expenditures for the fiscal year 1926 is \$374,000,000. This difference is the surplus, and is affected by a change in either of the two figures. An increase in expenditures will decrease this surplus; so, too, it will be lessened by a decrease in receipts. It is upon this surplus that tax reduction depends.

Coming now to the particular question which interests you, that of income taxes, there is a feature in our Government accounting which requires a little explanation. Income tax payments, except in special cases, are based upon income earned in the previous calendar year. For example, if the tax should be made effective upon income earned in the calendar year 1925, the tax would not be collected until the calendar year 1926. This calendar year is one-half in the Government's fiscal year 1926, ending June 30th of that year, and one-half in the next fiscal year, so a reduction in income taxes effective January 1, 1925,

would lower governmental revenue only in the last half of the fiscal year 1926, and, of course, in the succeeding fiscal years. It is for this reason that we need not concern ourselves with the surplus estimated for the fiscal year ending June 30, 1925, which is some \$67,000,000, but we should deal with the much larger surplus of \$374,000,000 estimated for the fiscal year ending June 30, 1926, and with the prospects for future years.

Based upon the rates in the present law, the income tax is estimated to bring in \$1,710,000,000 in the fiscal year 1926. The accuracy of this estimate depends upon the revenue to be derived in part from income earned in this calendar year, and in part from income earned next calendar year, and is, therefore, properly denominated an estimate. This estimate is not wholly a matter of opinion. We have recently begun to keep records of the earnings of the large corporations as reported from time to time during the current year, and from the relationship between earnings and the amount of income reported for taxation in the past we can plot a curve which gives a fair check on our opinion for the future. By the time the first installment of 1925 income tax is paid in March, we know with reasonable accuracy what our entire receipts from this tax will be during that calendar year. By March next, therefore, we can establish the correctness of one-half of our estimate. The balance depends upon the business character of the year 1925. I feel convinced that especially with reasonable prospects of tax reform, this year will be prosperous, and if the country prospers the Treasury shares its prosperity. So I have confidence in the estimates of the very substantial surplus of \$374,000,000 being realized in the fiscal year 1926; provided,-- and I cannot lay too much emphasis upon this proviso--that no extraordinary expenditures are incurred by the Congress.

We can break up the estimate of \$1,710,000,000 for income taxes into its constituent parts: back taxes are estimated at \$150,000,000, corporation income taxes at \$875,000,000, and individual income taxes at \$685,000,000. While the new law, in changing procedure within the Department, has slowed down the collection of back taxes, the amount of these taxes is not affected by any tax reduction, since it is based on previous laws and the slowing down has already been taken into account in our estimates. No change in the law is contemplated with respect to corporate income taxes. This leaves the figure of \$685,000,000 of personal income taxes. Assuming that we should consider available to reform the personal income taxes one-half of the \$374,000,000 estimated surplus available for 1926, \$187,000,000, will the application of this part of the surplus put our tax system upon a sound basis?

Before suggesting a possible plan of tax reform, we should consider the defect in the present law which requires remedy. Our present law is wrong principally because its burdens are disproportionate. It seeks to make the wealthy pay. It does nothing of the kind. The burden is borne not by those with wealth, but by those endeavoring to make wealth, the producers. Nothing has been more clearly shown by the recent publication of individual income tax payments than the unfairness of those payments as between individuals. It is the professional man, the man making his fortune, the man initiating new projects successfully, the man keeping in business or adventuring on new businesses, who pays. The reasons for this inequality have been frequently presented. For wealth that has been accumulated, means are available to avoid taxes; for wealth in the making, there is no escape from the tax gatherer.

Let us look at some of the many ways of avoidance and see what, if any, checks to their use are or can be presented. We have the duly legalized investment in tax-exempt securities. The Congress has repeatedly refused to make taxable State and municipal securities, and if it did, there are now some \$13,000,000,000 securities outstanding which would be unaffected by a Constitutional amendment. We have the right on the part of the man with investments to elect to realize losses and not to realize gains. Parenthetically, I believe it is demonstrable that the theory of considering capital gains when realized as income, with the necessary logical accompaniment of deductions from income for capital losses, amortization, depletion and depreciation, has resulted in large loss of revenue to the Government. We would probably have had more revenue if we had considered neither investment gains nor losses in income. A change in our theory of income would remedy this, but it would be a step which cannot be taken without very careful consideration of its effect upon future governmental revenue. There is a splitting up of incomes by a man of wealth so that less income appears in the high brackets. This is a voluntary act, giving a result similar to the community property law of some States, which, as you know, makes the wife owner of one-half of her husband's income, and thus saves the pair of them in surtaxes sums which in the aggregate are very large. The Congress declined to consider the recommendations of the Treasury that taxpayers in community property States be put upon an equality with the rest of the country, but it did, on its own initiative, adopt the gift tax.

There can be no better illustration of the folly of trying to override business common sense by legislation than this enactment. Under the statute, upon a sale or exchange any difference in value is arbitrarily called a gift. If I buy a stock from you for \$3,000 and it is only worth \$1,000, under the statute I have made you a gift of \$2,000 upon which I must pay a tax if I am over the exemption. The worse the bargain I have made, the greater tax I have to pay. Yet, apparently, if a father should pay his son \$100,000 to sing to him and the son should carry out his part of the contract, there is a valid consideration, no sale or exchange and no gift. Then there is investment abroad. Provided the taxpayer receives no income from a corporation abroad, he cannot be reached, and his corporation is not within American jurisdiction. Suppose I were a wealthy man and wished to reduce my taxable income. I might buy a newspaper, as in many cases operating at a loss. It is now worth, say, \$100,000. I put \$50,000 a year for five years into its development and with that money get it on a paying basis and worth, say, \$350,000. I deduct the \$50,000 a year from my income and thereby force the government to pay nearly half of my investment. A poor man, however brilliant, could not compete with me. In addition, there are many ways of using our intricate system of corporate law to prevent the realization of taxable income. I venture to say it is impossible to stop tax avoidance and still keep our industry and business living things which will yield revenue to the Treasury. They must live, for you cannot tax income where it cannot be earned.

Under the advice of a clever lawyer means of avoidance are infinite in variety, but they all depend upon the possession of existing wealth. They are not available either to the man of moderate income or to the man making his fortune, be it large or small. The resulting shifting of the tax burden is clearly shown in our statistics. The higher surtax brackets contain year by year a smaller proportion of the total income reported. Not that there are not as many large fortunes as before, but these fortunes have been driven to ways of avoiding a taxable income. I need mention but a few figures to illustrate my meaning: In 1916, with a maximum tax of 15 per cent, incomes reported in excess of \$100,000 were 29.47 per cent of the total income reported; in 1921, with a maximum tax of 73 per cent, this figure had fallen to 2.37 per cent; in 1922, the last year available, when the maximum tax was reduced to 58 per cent, the proportion rose to 4.18 per cent. In other words, the large incomes have ceased to bear their proportion of the tax, and Government revenue from this source is rapidly declining. It is the purpose of the graduated income tax to obtain revenue from these higher brackets, but unless some reform is made in the law the income tax will have to be raised on the moderate incomes and applied to smaller incomes by lowering the exemptions. We must have revenue. As Secretary Mellon recently said, there must be more economic taxes on the large incomes or more taxes on the small incomes.

What is the solution? The tax laws are to raise revenue, not simply to appear on the statute books. If a system of rates is clearly ineffective, is harmful, is deterrent to initiative, it should be changed.

The problem should be looked at as any one of you manufacturers here would consider his own sales policy. If you were putting a

new article on the market you might charge a very high price showing a large profit per article, but if the price is too high you will have few or no sales; you might, on the other extreme, charge a very low price and although your sales were large, you would not cover the cost of your goods. Either policy would be vain. Somewhere between these two figures you would fix your price. The exact price you might not be able to determine accurately, but at least you would try and get as close to it as you could. As formerly was said by the railroads, the proper rate is what the traffic will bear, that is, the highest rate that would move the most freight. It is the same with income taxes. We have put our rates too high; there are too many other goods that people can buy, too many other ways of moving their freight, so that they do not buy our goods in quantity or use our railroad.

When Secretary Mellon over a year ago wrote the Chairman of the Ways and Means Committee of the House the letter suggesting legislation in accordance with what subsequently became known as the Mellon Plan, he did not set forth simply a reduction in rates, but a comprehensive program involving twelve different features. This was a program of reform in taxation, not simply a means of using up Government surplus. The plan, however, was seized upon for political purposes, and instead of a comprehensive plan having related parts, there emerged in the Revenue Act of 1924 a series of changes in rates up and down and isolated provisions to reach tax avoidance. This was not reform; this was not a plan.

In the same law Congress raised the estate tax rates to a maximum of 40 per cent, a rate of capital tax almost grotesque. The effect of such rates will be in time to lower capital values and increase, therefore, the cost of new capital which must compete with the rate on old capital. Already there is agitation among the States because of this invasion by the Federal Government into a field which the States consider their own. I shall not consider this feature of the Act, and bring it up now simply as an illustration of the political atmosphere in which a revenue bill was considered. Like the surtax rates, estate tax rates will have to be reformed.

In his original recommendation Mr. Mellon suggested 25 per cent as the maximum surtax. This was not done upon the theory that this maximum was ideal; he has stated elsewhere that 12 or 15 per cent was more nearly the rate which in the long run would produce the most revenue to the Government. At the time of his letter to Mr. Green, however, there were other elements of his plan which reduced Government revenue. All features of the plan had to be taken care of out of the surplus then in sight and surtax reduction in the first year before its effect in stimulating income subject to tax could be fully felt, could have allotted to it but a portion of the total probable reduction. The Treasury did not wish to show a deficit, although it would be made up in subsequent years. The cut in surtaxes to the ideal figure was not then recommended. We deal now with a new surplus after many of the losses in revenue contemplated in the Mellon plan have been taken into account. We can now more nearly approach the figure of ultimate greatest revenue with least interference with our prosperity.

Coming back/^{now} to our figure of \$374,000,000 estimated surplus for 1936 and a margin available of, say, \$187,000,000, to reform the individual income taxes, let me suggest to you a possible series of rates within our

margin. Assuming that we should reduce the normal tax, which has been cut this year from 8 per cent to 6 per cent, a further 1 per cent, making it where it is now 6 per cent 5 per cent; assuming that we should take the surtax rates in the present law up to 14 per cent and should run them from that point to 20 per cent, at, say, \$75,000, and make this the maximum, what would be the effect upon our revenue? This is a maximum total normal and surtax of 25%. The estimated revenue under the present rates from individual income tax for 1926 is \$685,000,000. Under the rates I have suggested, the revenue would be \$560,000,000 a loss in revenue the first year of \$125,000,000. In 1927 it is estimated that under the present rates the revenue would be \$673,000,000. Under the rates I have suggested, this revenue would be \$596,000,000, a loss of \$77,000,000. Over one-third of the loss would thus be made up in the second year. Such a loss would be well within our estimated margin of \$187,000,000, and there would be ample left out of the surplus of \$374,000,000 for 1926 to take care of adjustments in other taxes. We need fear a deficit for neither 1926 nor subsequent years.

What would be the result of such rates? Our present law is ineffective because it encourages, even demands, avoidance. All forms of tax avoidance are inconvenient, but the rates are now so high that it is worth while to go to this inconvenience, however great. If the rates are made reasonable, the inconvenience outweighs the tax. The expense and trouble of finding means to prevent the imposition of a high tax are no longer worth while if the tax is low. One would walk a long way round to avoid a bog, but straight across if the path were only a bit rough. Under

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reasonable rates, we may expect, then, more people will have incomes subject to taxation, and, therefore, in the long run more revenue can be had out of lower rates than out of too high rates.

The most striking example of the truth of this statement is our experience in 1922 with the capital gains section. You will recall that prior to that year capital gains were taxed at the regular surtax rates. In 1922 a flat rate of $12\frac{1}{2}$ per cent was imposed on capital gains. Between these two years the number of taxpayers with incomes in excess of \$300,000 increased from 246 to 537, and of this number 165 got into this privileged class by the realization of capital gains. Prior to the insertion of the capital gains section in the law, investments did not change hands; property was tied up; and the Government collected little revenue from this source. When the tax rate was reduced to $12\frac{1}{2}$ per cent, however, what you are accustomed to call sales resistance disappeared, and the Government made a profit of \$31,000,000 on this tax alone. Obviously, it was as much to the advantage of the Government to decrease the rate as it was to the investor to have the rate decreased. The Treasury would rather see business move and revenue come in than to keep artificial rates in the law and strangle business.

With the rates I have suggested the tax-exempt security question disappears. We eliminate the evil immediately. The use by the wealthy of tax-exempt securities depends entirely on the artificial value put on those securities by high surtaxes. This is a present from the Federal Government to the States and municipalities. It encourages municipal extravagance and assists in increasing the already high local taxes. Under the present rates,

to a man with large income a $4\frac{1}{2}$ per cent tax-exempt security is the equivalent of an $8\frac{1}{2}$ per cent taxable investment. Under the rates I have suggested, the $4\frac{1}{2}$ per cent tax-exempt security is the equivalent of only a 6 per cent taxable investment. In normal times an investor can expect to get 6 per cent, and it would no longer pay to hold tax-exempt securities. Reasonable rates of tax would encourage productive investment of large fortunes, the initiation of new projects, and a healthier and better tone to our entire economic structure.

I have mentioned specific figures and specific rates of tax to show to you more clearly what is practicable from the Treasury's standpoint in the near future. Tax reduction depends upon surplus. It is not likely that further surplus can be created by further reduction in expenditures. In fact, the most serious threat to tax reduction is the possibility of the authorization of new extraordinary expenditures by the Congress. Our ability to reduce taxes lies in maintaining the high figure of our receipts, which in turn depend upon the prosperity of the country. If we can get our taxes upon a sound basis, we will assure this prosperity for many years to come, and will, therefore, be able to obtain more revenue out of the sound taxes than out of the present uneconomic rates, should they be continued.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
MONDAY, DECEMBER 15, 1934.

The Secretary of the Treasury announced that the total cash subscriptions for the Treasury 4 per cent bonds of 1944-54 amounted to over \$1,400,000,000, of which about \$325,000,000 were subscriptions for \$10,000 or less. In accordance with the Treasury's announced intention that the cash offering would be restricted to around \$200,000,000, cash subscriptions were closed December 4, 1934, but all subscriptions in the mail before midnight, December 4th and received by Federal Reserve Banks by 10 A.M., December 6th, were treated as being presented before the closing of the books.

The two elements controlling the method of allotting cash subscriptions were (1) the cash requirements of the Treasury until its next probable time of financing, in March, 1935, and (2) the Treasury's desire to give preference to subscribers for small amounts. Accordingly, the allotment for cash subscriptions was on the following basis: cash subscriptions in the amount of \$1,000 or less were allotted in full; cash subscriptions for amounts over \$1,000 and up to and including \$10,000 were allotted 65 per cent, with a minimum of \$1,000. Cash subscriptions for amounts over \$10,000 were declined. On this basis, the allotment on cash subscriptions will be \$224,513,500.

Subscriptions for which 4 per cent Treasury certificates of indebtedness maturing March 15th next, $4\frac{3}{4}$ per cent Treasury notes maturing March 15th, and Third Liberty Loan $4\frac{1}{4}$ per cent bonds are tendered in payment, and which will be

allotted in full, now total about \$500,000,000. These exchange subscriptions will be closed on Saturday, December 20th. Exchange subscriptions which were in the mail or otherwise in transit before midnight, December 20th, will, however, be accepted. Interest on such exchange subscriptions will be adjusted as of December 15, 1924.

It is expected that the definitive bonds will be ready for delivery on December 15th.

TREASURY DEPARTMENT

IMMEDIATE RELEASE.
December 15, 1924.

The Treasury today received payments from the following foreign governments on account of their funded indebtedness due the United States:

GREAT BRITAIN:

The fourth semi-annual payment of interest and the second annual instalment of principal on the funded indebtedness of the Government of Great Britain due the United States under the terms of the debt settlement approved by the Act of February 28, 1923. The total payment amounted to \$91,655,000, of which \$68,655,000 was for interest and \$23,000,000 for principal, and as authorized by the terms of the settlement was made in obligations of the United States which were accepted at par and accrued interest with a cash adjustment. The obligations were \$2,770,000, face amount, of $4\frac{1}{4}\%$ Treasury certificates of indebtedness Series T D 1924, \$6,730,000, face amount, of $2\frac{3}{4}\%$ Treasury certificates of indebtedness Series T D 2, 1924, \$81,450,000, face amount, of $2\frac{3}{4}\%$ Treasury certificates of indebtedness Series T S 1925, the accrued interest being \$563,062.49, and the cash adjustment \$141,937.51.

FINLAND:

The fourth semi-annual payment of interest and the second annual instalment of principal on the funded indebtedness of the Government of the Republic of Finland due the United States under the terms of the debt settlement approved by the Act of March 12, 1924. The total payment amounted to \$179,325, of which \$134,325 was for interest and \$45,000 for principal. The payment was made in cash.

HUNGARY:

The second semi-annual payment of interest except that part which is funded, and the first annual instalment of principal on the funded indebtedness of the Government of Hungary due the United States under the terms of the debt settlement approved by the Act of May 23, 1924. The total payment amounted to \$24,433.14, of which \$14,833.14 was ^{for} interest and \$9,600 was for principal. The remainder of the interest will be funded in accordance with the option given the Government of Hungary in the debt settlement agreement. The payment was made in cash.

LITHUANIA:

The first semi-annual payment of interest on the funded indebtedness of the Republic of Lithuania due the United States, under the terms of the debt settlement dated September 22, 1924, subject to the approval of Congress. The total payment: amounted to \$90,450, which was made in cash.

The obligations of the United States accepted in payment have been canceled and retired and the public debt reduced accordingly.

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Bureau of Internal Revenue.

For immediate release, December 16.

With reference to the recent newspaper statements by Senator Couzens in connection with the hearings before his committee criticizing the allowance for amortization in certain income tax cases, David H. Blair, Commissioner of Internal Revenue, said today:

"During the war the great industries in this country, in most instances at the direct request of some Government agency, installed large plant facilities for the production of articles contributing to the prosecution of the war. In many cases the industry was assured by the Government agency before it began construction that it would be made whole after the war. War prices had to be paid. When the war did end, these facilities in large part were no longer necessary to the peace-time requirements of the industry. The Revenue Act of 1918, passed immediately after the armistice, provided for the amortization of these facilities, that is, for a credit to the industry of the difference between the war cost and the post-war value of the facilities to the industry. Necessarily, a determination of the amount of amortization required detailed examination by engineers of the actual physical properties, which has taken much time; for example, the amortization due the United States Steel Corporation, the largest industry involved, has not yet been finally determined in the Bureau of Internal Revenue, and in the ordinary course considerable time must elapse before the tax of this corporation is finally adjusted.

"The law requires that the taxpayer be given a reasonable allowance for amortization. What constitutes a reasonable allowance is in large part a question of judgment which must be submitted to and determined by the officers of the Bureau of Internal Revenue to whose decision this matter is left by the law. On questions as complicated as these, men may honestly differ as to what constitutes in every case a reasonable allowance, and it frequently happens within the Bureau itself that there is a sharp conflict of opinion. Under such circumstances it is not surprising that the special committee investigating the Bureau of Internal Revenue may express disagreement with some determination of judgment as to the reasonableness of a particular amortization allowance.

"The public should bear in mind, first, that there is no provision for amortization in the present law, but the amortization of the cost of war facilities is entirely a war measure and once settled will not arise again; second, these war questions should be finally closed so that the country may know where it stands and, third, the determination of a reasonable allowance for amortization as required by the law is a matter of judgment. An honest attempt has been made to exercise this discretion with due regard to the law and regulations. The Bureau of Internal Revenue does not claim infallibility, but I think its employees have accomplished much under the very difficult conditions resulting from post-war adjustment."

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Thursday, December 18, 1924.

When Secretary Mellon's attention was called to news dispatches quoting Treasury officials as having stated that no change in the Federal Reserve discount rate was contemplated, he authorized the following statement:

The only basis of these news dispatches is a remark made by me today that I had not heard that the discount rate would be changed. It is not generally understood that the rates of discounts of the Federal Reserve Banks are established by the Boards of Directors of the respective Federal Reserve Banks, subject to review and determination by the Federal Reserve Board. . No statement can be made by the Treasury, therefore, which forecasts the action of the Directors of the Federal Reserve Banks, or the approval or disapproval of the Federal Reserve Board.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Monday, December 22, 1924.

The Secretary of the Treasury announced to-day that exchange subscriptions for the new Treasury 4 per cent bonds of 1944-54 closed Saturday, December 20, 1924. As previously announced, the cash subscriptions were closed December 4th. The total subscriptions, both cash and exchanges, will aggregate nearly \$2,000,000,000. The final figures are not yet completed, but the total issue of new bonds will be something over \$750,000,000. The retirement of the Government securities maturing March 15th, next, presented in exchange for the new bonds, has successfully relieved the Treasury of the burden of excessively heavy financing next March, although it is expected some additional financing will still be necessary at that period. Of the exchanges received, over \$91,000,000 were Third Liberty Loan $4\frac{1}{4}$ per cent bonds, and some \$435,000,000 were Treasury $4\frac{3}{4}$ per cent notes and Treasury 4 per cent certificates maturing March 15, 1925. These exchanges will mean a saving to the Government in interest for the three months' period to March 15, 1925, of over \$550,000, and for the remaining three and a half years' life of the Third Liberty Loan bonds a further saving of nearly \$800,000.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
December 22, 1924.

Secretary Mellon to-day stated --

The Congress did not renew the permission given by the Joint Resolution of the last session to Major Wallace W. Kirby to act as Director of the Bureau of Engraving and Printing without resigning his commission as Major in the United States Army. Major Kirby, whose father before him had been in the Army, was unwilling to give up his profession, and the directorship became vacant. The Secretary also announced that he had appointed Mr. Alvin Williams Hall as Director. Mr. Hall has been head of the Planning Unit at the Bureau and knows its operations, having been assigned to this position by the United States Bureau of Efficiency some two years ago. Major Kirby, with Mr. Hall's assistance, has helped to complete the economies in the Bureau made possible by the legislation sponsored by Chairman Madden of the Appropriations Committee, and to restore the former good morale in the organization. The Treasury is sorry to part with Major Kirby, but believes that Mr. Hall will prove a capable successor.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Wednesday, December 24, 1924.

The Secretary of the Treasury today announced the detail figures of the subscriptions received and allotted for the recent offering of 4 per cent Treasury bonds of 1944-54. The attached tabulated statement shows the subscriptions and allotments by the several Federal Reserve districts as of the close of business December 22, 1924.

Exchange subscriptions which were in transit to Federal Reserve Banks Saturday, December 20, and not received by close of business December 22, 1924, are not included, and the figures are, therefore, subject to some slight increase due to belated receipts.

SUBSCRIPTIONS AND ALLOTMENTS -- 4% TREASURY BONDS OF 1944-54.

Federal Reserve District.	Total amount of subscriptions received.	CASH SUBSCRIPTIONS (a)		EXCHANGE SUBSCRIPTION (Allotted in full)			Total amount of Exchange subscriptions (b)	Total amount of 4% Treasury bonds of 1944-54 allotted.
		Total amount of cash subscriptions received.	Total amount of cash subscriptions allotted.	4% Treasury notes, Series A-1925, maturing March 15, 1925, tendered in payment.	4% Treasury certificates of indebtedness, Series TM-1925, maturing March 15, 1925, tendered in payment.	Third Liberty Loan 4 1/4% bonds tendered in payment.		
Boston	\$ 170,604,900	\$ 148,872,500	\$ 31,508,100	\$ 11,849,600	\$ 5,291,500	\$ 4,591,300	\$ 21,732,400	\$ 53,240,500
New York	865,327,100	517,497,800	46,050,500	165,302,600	112,082,500	70,444,200	347,829,300	393,879,800
Philadelphia	150,272,900	125,121,200	20,144,000	18,183,400	5,147,500	1,820,800	25,151,700	45,295,700
Cleveland	163,899,600	135,633,900	17,650,900	13,737,700	9,673,000	4,855,000	28,265,700	45,916,600
Richmond	43,686,500	40,709,700	6,245,800	1,518,200	1,025,000	433,600	2,976,800	9,222,600
Atlanta	30,415,300	28,805,000	5,368,500	501,100	619,500	489,700	1,610,300	6,978,800
Chicago	210,644,000	164,820,100	53,356,300	31,142,900	11,062,500	3,618,500	45,823,900	99,180,200
St. Louis	74,872,100	70,509,100	16,228,700	1,507,200	1,675,000	1,180,800	4,363,000	20,591,700
Minneapolis	37,205,300	29,988,300	7,820,300	2,081,000	4,619,500	516,500	7,217,000	15,037,300
Kansas City	68,592,250	54,403,300	2,916,550	10,138,400	2,680,500	1,370,050	14,188,950	17,105,500
Dallas	54,585,100	44,185,150	3,335,550	4,121,900	5,104,000	1,174,050	10,399,950	13,735,500
San Francisco	121,004,200	99,984,500	13,888,300	10,079,200	9,542,500	1,398,000	21,019,700	34,908,000
Treasury	1,651,300			267,700	76,500	1,307,100	1,651,300	1,651,300
T O T A L	\$1,992,760,550	\$1,460,530,550	\$224,513,500	\$270,430,900	\$168,599,500	\$ 93,199,600	\$532,230,000	\$756,743,500

(a) Cash subscriptions were allotted on the following basis:
 Cash subscriptions in amounts of \$1000 and under were allotted in full.
 Cash subscriptions in amounts over \$1000, and up to and including \$10,000, were allotted 65 per cent.
 Cash subscriptions for amounts over \$10,000 were rejected.

(b) While the subscription books closed on December 20, 1924, items in transit at midnight on that date will be accepted. The total allotment is subject, therefore, to some slight increase as these transit items are received.

TREASURY DEPARTMENT

FOR RELEASE, Morning Papers,
Wednesday, December 31, 1924.

STATEMENT BY SECRETARY MELLON.

The Secretary of the Treasury announced that the privilege of converting First Liberty Loan Converted 4 per cent bonds of 1932-47, and Second Liberty Loan 4 per cent bonds of 1927-42 into $4\frac{1}{4}$ per cent Liberty bonds will terminate at the close of business June 30, 1925, and thereafter may not be exercised.

The conversion privilege with respect to such bonds arose May 9, 1918, and expired November 9, 1919, but was extended on March 7, 1919, by the Secretary of the Treasury under the authority conferred by Section 5 of the Victory Liberty Loan Act, to such date as might be fixed by the Secretary of the Treasury on six months' public notice.

Although the privilege has remained open for over six years and public notice has been called thereto from time to time holders of about \$33,000,000 of bonds have not yet availed themselves of the privilege of conversion.

TREASURY DEPARTMENT

FOR RELEASE, AFTERNOON PAPERS,
Friday, January 2, 1925.

The Secretary of the Treasury to-day made the following statement:

The Adjusted Compensation Act provides for an appropriation on the first of January in each year to the Adjusted Service Certificate Fund of an amount, based upon the American Experience Table of Mortality, which, if kept invested at 4 per cent compounded annually, would be sufficient to pay the face value of the adjusted service certificates upon their maturity in twenty years or upon prior death of the veteran. The Secretary of the Treasury is authorized to invest and reinvest the moneys in the fund in interest-bearing obligations of the United States, and to sell these obligations for the purposes of the fund.

In order that the fund shall be sufficient to meet the payments in accordance with the plan outlined by the Act, it is necessary that the moneys be invested when received and kept invested until payments out of the fund are required. No purpose is gained by the investment of the fund in securities returning more than 4 per cent compounded annually, since this would simply mean an accumulation in the fund of more money than was necessary to meet payments. On the other hand, if less than 4 per cent compounded annually is received, the fund will be insufficient to meet all payments to become due. There are no Government securities in the hands of the public bearing interest payable annually (as distinguished from semi-annually) and none which give the exact return of 4 per cent annually on their market price. During each year the fund will be drawn upon to pay certificates matured on account of death, and this continuous liability will require almost daily realization

of cash, which can only be obtained by the sale or redemption of securities in the fund. The greater part of the fund will remain intact until the maturity of the certificates at the expiration of twenty years, at which time cash will have to be realized. Since the securities then in the fund will probably not be suited to existing market conditions, the likely solution at that time will be for the Treasury to redeem the securities in the fund with the proceeds of new securities which will meet the market then existing. It is apparent, therefore, that the purchase for the fund of any of the present outstanding Government securities will not meet the exact requirements of the fund and will probably be unsatisfactory for sale when on maturity of the certificates the major fiscal operation to provide cash must be undertaken.

If the Treasury were in the Government bond market on the first of January in each year to buy \$100,000,000 of its securities, the purchases could not be made in one day, nor could such a large order be filled without unduly increasing the market price which the fund would have to pay. If, also, the Treasury in the course of the year was required to sell securities to provide the fund with cash, the tendency would then be to depress Government securities on the market. So if the practice of buying and selling on the open market were used, the Treasury would be continually purchasing on a high market and selling on a low market.

The \$100,000,000 called for by the Adjusted Compensation Act for January 1, 1925, was authorized by the deficiency appropriation bill signed December 5, 1924. The Secretary of the Treasury has invested this sum in \$50,000,000 par amount five-year special Treasury notes,

dated January 1, 1925, and payable January 1, 1930, and in \$50,000,000 par amount special Treasury certificates of indebtedness, payable one year from date, with right in each case of certain prior redemptions. Both securities call for interest at 4 per cent per annum, payable annually, or on the prior redemption of the security. It is expected that these special certificates of indebtedness will be redeemed from time to time during the year to provide the fund with cash with which to meet current obligations; that any such certificates remaining unredeemed at the expiration of the year will be refunded into other certificates or into notes; and that at the maturity of the notes, they will be refunded into securities of similar tenor until payments become due on the maturity of the Adjusted Service Certificates some twenty years later.

This method of handling the Adjusted Service Certificate fund has the following advantages:

1. The securities exactly fit the actuarial requirements which are by law made the basis for fixing the appropriations for the fund.

2. The bond market is not disturbed by a purchase of a very large block of securities early in January and by a subsequent continuous pressure for the sale of securities to provide cash for the fund throughout the year, the effect of which would be buying on a high market and selling on a low market.

3. Commissions to brokers on the purchase and sale of Government securities are saved.

4. It is not necessary to borrow on December 15th (the usual financing day nearest January 1st) additional cash and carry this cash.

with a consequent loss of interest, until it can be invested in Government securities on the market after the first of the year when the appropriation becomes available.

5. Cash demands of the fund can be immediately satisfied by the redemption by the Treasury of the special certificates of indebtedness and the whole plan has great flexibility.

6. When the Adjusted Service Certificates mature about 1944, the Treasury will be in position to do the necessary financing to meet the conditions then existing, without being compelled to sell a lot of miscellaneous Government securities perhaps unsuited to the market and to the Treasury's program.

The working of this plan can best be illustrated by its first operation. On December 15, 1924, the Treasury, in addition to any money to purchase investments for the fund, required \$225,000,000 to carry it through to the next financing period in March, 1925, and sold for cash about \$225,000,000 of its 4 per cent bonds of 1944-54. As of January 1, 1925, the Treasury sold to the fund \$100,000,000 of its special notes and special certificates of indebtedness, making total sales in December and January of \$325,000,000 of Government obligations. This was the plan actually used. Had the other method of applying the appropriation to the purchase of securities in the open market been adopted, the Treasury would have had to sell for cash \$325,000,000 of its bonds on December 15, 1924, and consequently would have lost the interest on \$100,000,000 from December 15th until the securities for the fund could be bought on the market after January 1, 1925. There is, as will be noted, no difference in the final amount of public debt incurred between the plan of selling special securities

direct to the fund and the plan of using the fund to buy securities in the market. In either case the fund would hold \$100,000,000 of Government obligations and there would be \$100,000,000 less of such obligations in the hands of the general public. It seems quite clear, therefore, that the sale of the special securities direct was the only feasible way of handling the investment required by the Congress.

TREASURY DEPARTMENT.

FOR IMMEDIATE RELEASE,
January 5, 1925.

The War Finance Corporation today, with the approval of the Secretary of the Treasury, canceled and retired \$499,000,000 of its capital stock. The outstanding \$1,000,000 of capital stock, together with available funds from the gradual repayment of loans, will be sufficient to take care of all requirements in connection with the Corporation's outstanding business. The power of the Corporation to make new advances expired on December 31, 1924, and the reduction in the capital stock does not involve any change in the Corporation's policy with respect to outstanding loans, for it still has authority under existing law to grant renewals or extensions of such loans and to incur necessary expenditures in protecting its collateral.

The reduction in the Corporation's capital stock was made in accordance with Section 15 of Title I of the War Finance Corporation Act, as amended, which provides that, beginning January 1, 1925, the Corporation shall proceed to liquidate its assets and wind up its affairs. It was accomplished by the execution and delivery of a check for \$499,000,000, drawn by the War Finance Corporation on its account with the Treasurer of the United States and payable to the Treasurer of the United States. As the funds of the Corporation are kept on deposit with the Treasurer of the United States, the transaction involved a book transfer of funds and did not, therefore, change the cash balance in the Treasury.

The formalities incident to the cancellation of the stock were concluded at a meeting of the Board of Directors of the War Finance Corporation today in the office of the Secretary of the Treasury, who is ex-officio Chairman of the Corporation's Board of Directors.

TREASURY DEPARTMENT.

FOR IMMEDIATE RELEASE,
Tuesday, January 27, 1925.

The Secretary of the Treasury today made the following announcement in connection with Community Property in California:

There is attached hereto copy of the opinion of Attorney General Stone, dated October 9, 1924, to the effect that under the law of California the interest acquired in Community Property by the husband or wife upon the death of the other spouse was not subject to the Federal Estate Tax. Attorney General Stone expressly limits his opinion to the estate tax and expresses no opinion with respect to the principles which govern taxation of income derived from Community Property. After conference with Attorney General Stone, he wrote the Treasury a letter, copy of which letter is attached, in which he stated that the Treasury should be left free to litigate the question of income tax if in its judgment the public interest would be served by a judicial determination of it.

It is the judgment of the Treasury that public interest requires a final determination of the right of the husband and wife each to return separately one-half of the community income. In coming to this decision, the Treasury is not unmindful of the fact that in States other than California having Community Property laws, the practice of permitting, for example, the wife to file a return for one-half of her husband's earnings and the husband to file a return for the other one-half of his earnings has been authorized by Treasury regulations. It is felt, however, that there is grave doubt of the legality of these regulations since the husband has complete control of the Community Income and may dispose of

It as he sees fit during his lifetime without the consent of his wife. It is obviously a somewhat strained construction to consider that the husband has received only one-half of his earnings for income tax purposes although he controls for practical purposes the whole.

Since the surtax is graduated, the right to split the income between two people is a great advantage to the taxpayer. For example, under the present law the surtax on a net income of \$100,000 is \$17,020, whereas the surtax on two incomes of \$50,000 each is but \$7,080, a saving of nearly \$10,000 of tax. It is estimated that the probable amount of taxes, with interest, which the Treasury may have to refund to California taxpayers in the event it should be finally held that the husband and wife can each separately return one-half of the Community Income, will be over \$77,000,000. While it is thoroughly appreciated that the mere size of the refund should not control if there is no doubt it is legally due, nevertheless the amount involved shows the importance to the country of having a decision by the court of last resort on this question of law, about which there is still great uncertainty. If the court should rule in favor of the California taxpayer, he would receive back any overpayment, with interest, and would, therefore, suffer no irreparable damage. On the other hand, refund can only be made to the California taxpayer out of the taxes collected from citizens of other states, who under the laws of their particular states do not possess the valuable privilege claimed by the California taxpayer. In fairness to the country as a whole, it is the judgment of the Treasury that the

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taxpayers of other states should have their day in court. Only in this manner can the scales be held true between all taxpayers whatever the state of their residence.

In cooperation with the Attorney General, the Treasury will endeavor to obtain a decision from the Supreme Court of the United States decisive of the question involved, and every effort will be made to expedite the case selected for the test. In the meantime, no change in the regulations with respect to the filing of income tax returns by California taxpayers is contemplated, but returns should be filed and taxes will be collected upon the basis now existing.

In compliance with the opinion of the Attorney General, that the interest acquired in Community Property by the husband or wife upon the death of the other spouse in California was not subject to Federal Estate Tax, all pending estate taxes will be determined and refunds for such taxes illegally collected will be made. The estimated amount of refunds required on the estate tax is approximately \$3,000,000.

OFFICE OF THE ATTORNEY GENERAL
Washington, D. C.

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January 27, 1925.

Honorable Andrew Mellon,

The Secretary of the Treasury.

My dear Mr. Secretary:

In reply to your inquiry

I have to say that my opinion of October 9th relating to Community Property in California treats only of the incidence of estate tax upon the wife's share of such community property of which she assumes possession at her husband's death. In no way does it touch upon the question as to whether the husband and wife may make separate returns of the income from their community estate. That phase of the matter is therefore as open as it ever was in California and you are free to litigate it by appropriate legal proceedings.

In view of the large amount involved and the uncertainty in which this phase of the matter now stands you should, in my opinion, be left free to litigate the question if, in your judgment, the public interest would be served by a judicial determination of it. In any such litigation, argument that the same rule must apply to California because it has been applied in other States will, of course be advanced because of the several years acquiescence to this view by your Department. If, however, you decide to litigate this point with respect to income from community property in California, this Department will render you such assistance in the litigation as you may desire from the United States Attorney's Office or any branch of the Department of Justice, and it will do everything possible to bring such litigation to a speedy conclusion.

Sincerely yours,

Signed) HARLAN STONE

Attorney General.

DEPARTMENT OF JUSTICE
WASHINGTON

OPINION OF ATTORNEY GENERAL.

October 9, 1924.

My dear Mr. Secretary:

On March 8, 1924, the Attorney General rendered an opinion to the Secretary of the Treasury with respect to the application of the Federal Estate Tax Law to Community Property under the laws of California upon the death of either spouse. In that opinion the history of the law of Community Property, as disclosed by the Statute Law and judicial decisions, in the State of California was reviewed at length and the conclusion was reached that the interest acquired in the Community Property by the husband or wife upon the death of the other spouse was not subject to Federal Estate Tax in accordance with the decision of the Circuit Court of Appeals for the 9th Circuit in Blum v. Wardell, 276 Fed. 226.

On the 27th day of May, 1924, the Attorney General, in response to a request of the Secretary of the Treasury, recalled this opinion for further consideration and review. The precise question under consideration was decided in the case of Blum v. Wardell, supra. This case arose under the Revenue Act of September 8, 1916 (39 Stat. 756) as amended in 1917 imposing a tax on the transfer of the net estate of a decedent. The amendment of 1917 affected only the rate of tax. Section 202

of the Act of 1916 provided that the value of the gross estate of the decedent should be determined by including the value, at the time of his death, of all property, real or personal, tangible or intangible, wherever situated:

"(a) to the extent of the interest therein of the decedent at the time of his death, which, after his death, is subject to the payment of the charges against his estate and the expenses of its administration, and is subject to distribution as part of his estate. * * *"

Section 203 provided that, for the purpose of the tax, the value of the net estate should be determined by making certain deductions, including such other charges against the Estate as are allowed by the laws of the jurisdiction, whether within or without the United States.

In this case Moses Blum had died leaving a widow who, under the Community Property Law of California, was entitled to one-half of the community property. The portion to which the widow was entitled had been taxed under the provisions of the Estate Tax Law and the suit was brought to recover from the Collector of Internal Revenue the amount of that tax. The District Court sustained the contention of the plaintiff that her interest in the Community Property was not subject to tax (270 Fed. 309) and the Circuit Court of Appeals affirmed the District Court (276 Fed. 226); the decision of the Circuit Court of Appeals being rendered on October 24, 1921.

On January 20, 1922 the Solicitor General filed in the Supreme Court a petition for Certiorari which that court denied on March 26, 1922. Under the provisions of the Judicial Code, a decision by the Circuit Court of Appeals is final in cases of this class unless the Supreme Court grants Certiorari.

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On April 7, 1922, the Solicitor General made a motion in the Supreme Court to revoke the order denying the petition for Certiorari and to allow the petition to remain unacted upon until the Supreme Court of California had decided the case of Roberts v. Weymeyer, 218 Pac. 22, then pending before it. The theory of that motion was that the Supreme Court of California, in deciding Roberts v. Weymeyer, had before it a question involving the nature of the interest of the wife in Community Property and that in the event of a decision by that Court upon this point of California law, favorable to the contentions of the Government in Blum v. Wardell, grounds would exist for a reconsideration of the petition in that case for a Writ of Certiorari. That motion remained pending in the Supreme Court until after the decision of the Supreme Court of California in Roberts v. Weymeyer when in October, 1923, it was withdrawn by the Solicitor General. In his motion for leave to withdraw the motion, the Solicitor General distinctly intimated that in another case and in a more usual method of procedure, the United States might raise the question at issue if so advised.

We thus have a situation wherein the precise question passed upon by the Attorney General in his opinion of March 8, 1924 has been litigated in the Federal Courts to final judgment. The Government has exhausted its resources in that litigation to secure a judicial review of the question and that question has been finally judicially determined, so far as that litigation is concerned, adversely to the contentions of the Government.

In making this statement, I do not accept as valid the suggestion frequently made in connection with this case, that

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the Supreme Court of the United States, by denying the petition for Writ of Certiorari, affirmed the decision of the Court below or passed upon the merits of the question. It is well settled that a denial of a petition for a Writ of Certiorari does not involve any judicial review of the merits of the case in which the petition for a Writ is denied, and is not an affirmance of the determination of the Court below; Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U. S. 251. The decision in Blum v. Wardell by the Circuit Court of Appeals, however, now represents the law on this subject, and it is the duty of the Government, as well as a private individual, to bow to the decision of the court in that case, unless it appears that reasonable grounds exist fairly justifying relitigation of this question de novo. This question, as now presented, must be considered and decided dispassionately, to quote the language of Attorney General Cushing, (6 op. A.G., 334):

"from the standpoint of a public officer, acting judicially, under all the solemn responsibilities of conscience and of legal obligation."

The question having been thoroughly litigated, the Government having had the fullest opportunity to present its view of the law and the facts, having carried the case to the Court of Last Resort and the rule upheld by the final judgment in the case having remained undisturbed for nearly three years, the Government would, in my opinion, be justified in reopening this litigation in a new case with its consequent burden to citizens and taxpayers, only upon the basis of new facts or a new interpretation of the rules of Community Property Law in California unknown or not available to the Court at the time of the original litigation, on which reasonable hope for a successful issue could be predicated.

It may be conceded that questions of title to property and the incidents thereof, questions of devise, inheritance and succession are questions primarily of State law, and that when those questions arise in a Federal Court, the law of the State should be followed. It must also be conceded, however, that when those questions arise in a Federal Court, that Court has the same right and duty to decide them as it has to decide any other questions which arise in a case. This would include the right and duty to decide what the State law is; how it relates to the issues under consideration and whether it is in conflict with any law of the United States. In passing upon questions of State law of this type, it is the duty of the Federal Court to refer to the Statutes and decisions of the State for the purpose of ascertaining what the law of the State is, and ordinarily Federal courts follow and apply the State law as defined by the judicial decisions of the State courts. Where, however, those decisions are in conflict or do not clearly define and state the rule of State law involved, it is still the duty of the Federal Court to make its own determination as to what the State law is.

In determining the incidence of a Federal tax, it is entitled to form its own judgment of the legal nature and character of the subject of the tax, although this subject matter is the creation of State law. Neither State courts nor legislatures by giving that subject matter a particular name or by the use of some form of words can take away from the Federal Court the duty to consider its real nature. (See Iowa Loan & Trust Co. v. Fairweather, 252 Fed. 605; C.O. & G. Co. v. Harrison, 235 U.S. 292.)

When, therefore, the case of Blum v. Wardell came before the Federal Court, that Court had power to determine what the law of California was with respect to the interest of a widow in the Community Property upon the dissolution of the community by death and having ascertained the nature and character of that interest, it was its duty to determine whether that interest was to be included in the value of the husband's gross estate for purposes of taxation; whether it was subject to payment of charges against his estate and the expenses of administration; whether it was subject to distribution as a part of his estate; whether it could be deducted from the value of the gross estate as a charge against the estate allowed by the laws of the jurisdiction and all other questions necessary to a determination of the ultimate question whether the taxes which had been paid to the Collector should be repaid to the executors of the decedent.

The decision in that case was a decision squarely upon the merits after full argument and after mature and careful deliberation and as shown by the opinion of the District Court and the opinion of the Court of Appeals, including the dissenting opinion.

The sole basis for the controversy between the Government and the taxpayer in Blum v. Wardell was the confusion existing in the judicial decisions of the courts of California as to the nature of community property and particularly the interest of the surviving widow. As was indicated in the opinion of March 8, 1924, one line of judicial opinions of the courts of California has asserted that the property and ownership in community property was in the husband and that the wife took only by inheritance, and that her interest therein was a mere expectancy

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like that of the heir at common law. In the other line of judicial opinions it has asserted, with equal vigor, that the interest of the wife in community property was a vested interest; that as survivor of the husband she takes by right of her ownership in the community property and not by inheritance, and that the legal relationship of the husband to the wife's interest was merely that of one vested with a power of disposition of that interest. It is quite clear that if either of these two diverse lines of definition of this legal relationship be literally accepted, such acceptances would be a sufficient basis for the determination of the question here under consideration. If the widow takes by virtue of her ownership in community property which is held by the community subject only to the power of disposition of the husband, obviously the estate tax has no application. If, on the other hand, she takes only as heir of her husband, then equally obviously the interest passing to the widow by inheritance, is subject to estate taxes.

In view of the extensive review of the California Statutes and decisions in the opinion of March 8th, it will not be necessary to refer to this aspect of the matter further. It suffices to say that the Court in Blum v. Wardell accepted the view that the interest of the wife in community property is a vested property interest for which there is ample support in one group of decisions of the California courts, and which view is fortified by the series of Statutes in that state limiting the husband's power of disposition of the community property. The Court in Blum v. Wardell also regarded the California Statute

of 1917 (Statutes 1917, page 880) as manifestly a clear legislative recognition that the wife did not take as an heir but had an interest in the nature of a vested property interest, passing over, however, the difficulty of interpreting the California Statute (whose application was limited by its terms to the purpose of the Act in levying a tax upon inheritances under the State law) so as to give it efficacy in the application of the Federal Estate Tax, and ignoring a possible constitutional obstacle to declaring that the vested interest of the husband had become, by statutory fiat a vested interest of the wife. But the court further supported its decision by the view of the United States Supreme Court as to the nature of the wife's interest in community property in Arnett v. Reade, 220 U.S. 311.

We therefore have a case where the Federal Court made its determination of the question of State law despite a recognized conflict of authority in the State Courts, supporting its determination by an interpretation of the State Statute and by reference to the general principles of jurisprudence applied to the doctrine of community property as declared by the Supreme Court of the United States. I know of no basis for asking the courts now to review this determination except on the ground that there is some rule or principle of law which the courts, in deciding that case, have overlooked or possibly upon the ground that the California courts have settled their own law by new judicial decisions contrary to the view of the California law expressed by the court in Blum v. Wardell.

There have been two decisions of the California courts

dealing with this subject since the decision in Blum v. Wardell. In Roberts v. Weymeyer, 218 Pac. 22, decided by the Supreme Court of California, after the decision of the Circuit Court of Appeals in Blum v. Wardell, that Court held that real estate acquired by the husband out of community funds accumulated before the adoption of Section 172 (a) of the Civil Code of California (requiring the wife's joinder in a deed to community property) became effective, the requirement of Section 172 (a) did not apply to the husband's conveyance. The court rested its conclusion upon the ground that before the adoption of Section 172 (a), the wife had no vested interest in the community property before dissolution of the community; that the husband was the owner of community property and that the interest of the wife therein was a mere expectancy like that of an heir; that Section 172 (a) could have no application to community property acquired before its enactment, since such application of the Statute would amount to a deprivation of the husband of his property interest in the community, without due process of law.

In Taylor v. Taylor, 218 Pac. 756, the court held, as the California courts had held before, that upon dissolution of the community by divorce, without disposition of the community property in the decree of divorce, the wife is owner of one-half of the community property as tenant in common with the husband.

I leave it to others to reconcile the decisions in these cases. It is sufficient for the purpose of this discussion, to say that neither of them raised, stated or decided any question with respect to the wife's interest in the community property which was not fairly before and fairly presented to the

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court in Blum v. Wardell. Nor do they suggest any aspect of the law of California or any principle of jurisprudence applicable to the law of community property which was not fairly before the court in Blum v. Wardell, both when that case was before the Circuit Court of Appeals, and when petition for a Writ of Certiorari was submitted to the United States Supreme Court. No one therefore can fairly say that these cases add anything, by way of finality, to the discussion which has heretofore been had. If confusion existed before so far as the California decisions are concerned, it is now the more confounded. This fact, however, does not limit in any respect the power and duty of the Federal Court to determine the question of the State law involved. Nor does it give any the less finality to its decision. Where the state decisions are in conflict or not clear as to what the local state law is, the Federal Court may render its own decision and thereafter hold itself bound by its own decision, disregarding later decisions of the State Courts. (See Pease v. Peck, 18 How. 598; Burgess v. Seligman, 107 U.S. 20; Kuhn v. Fairmont Coal Co., 215 U. S. 349; Snare & Triest Co. v. Friedman, 169 Fed. 1.)

The confusion in the decisions of the California courts has undoubtedly arisen from the fact that the courts have been attempting, in their opinions, to apply the terminology of the common law to community property, which embodies a legal concept wholly foreign to the common law, and to which the terminology of the common law cannot be applied with accuracy and precision. In most of the California decisions in which it was asserted that the right of the wife is a mere expectancy or right of inheritance, the same result could have been reached, if the court had rested

its decision upon the view that the wife had a vested interest in the community property subject to a power of disposition vested in the husband. (See Spreckels v. Spreckels, 116 Cal. 339; Estate of Wickersham, 138 Cal. 355; Dargie v. Patterson, 176 Cal. 714.) Whereas in other cases holding that the wife's interest in the community is a vested interest, it seems to be necessary to describe the legal relationship of the husband to the wife's interest as a power of disposition in order to justify the decisions actually rendered. (See Estate of Brix, 181 Cal. 667; Taylor v. Taylor, 218 Pac. 757.) This, however, only suggests that a common law term may be resorted to, to describe the incidents of community property in some aspects, but be wholly inappropriate to describe them for other purposes. This was recognized by the United States Supreme Court in Arnet v. Reade, 220 U.S. 311, at 320. The court, after reviewing the discussion of this subject which "has fed the flame of juridical controversy for many years" said:

"The notion that the husband is the true owner is said to represent the tendency of the French customs, 2 Brissaud, Hist. du Droit, Franc. 1699, n. 1. The notion may have been helped by the subjection of the woman to marital power; 6 Laferriere, Hist. du Droit Franc, 365; Schmidt, Civil Law of Spain and Mexico, Arts. 40, 51; and in this country by confusion between the practical effect of the husband's power and its legal ground, if not by mistranslation of ambiguous words like dominio. See United States v. Castillero, 2 Black 1, 227. However this may be, it is very plain that the wife has a greater interest than the mere possibility of an expectant heir. For it is conceded by the court below and everywhere, we believe, that in one way or another she has a remedy for an alienation made in fraud of her by her husband." (Italics supplied)

It is, I think, apparent that a study of the battle over the use of the descriptive terminology applicable to community

property which has been waged in the California courts for the past fifty years or more, throws only a faint and flickering light on the applicability of the Federal Estate Tax Law to the wife's interest in community property, and that a study of the true character of that interest as it existed in the Spanish Law and as it has been developed in the jurisprudence of the community property states, including California, affords no substantial basis for the hope that a renewal of the litigation on this subject in the Federal Courts would change the result. Whatever view may be held of the propriety and justice of the Government's beginning anew the course of litigation already run in Blum v. Wardell, it must be admitted that reasonable hope of a successful issue is an important consideration in determining whether the Government should bow to the judicial decision which it has invoked.

While not in any sense decisive of the question I have before me, the application of the Federal Estate Tax Law in other community states and the legislative history of the matter are not without weight in determining whether the question should now be reopened. It is conceded that the interest of the surviving wife in community property in some seven other community property states is exempt from the estate tax under laws described by the District Court as "identical" with the State Law of California. (See Blum v. Wardell, 270 Fed. 309, 314). Nothing short of some controlling necessity would, I think, justify the court in upholding the tax in a single state and refusing to apply it to an interest substantially the same in the other community property states, and as we have already seen, the only

justification which could be resorted to for the support of such a result is the confusion arising from the use by the California courts themselves of a terminology not altogether applicable to the interests of husband and wife in community property.

Since the Act of 1916 there have been two general revisions of the Revenue Law; the Revenue Act of November 23, 1921, (ch. 163, 42 Stat. 227) and the recent Act of June 21, 1924. While the Act of 1921 was under consideration I am informed that officials of the Treasury attempted to have a provision inserted making Community Property a part of the gross estate. The Ways and Means Committee refused to accept this proposed amendment. In the Bill which was prepared in the Treasury Department and which as amended became the Act of 1924, there was a provision requiring so-called Joint Income of husband and wife under the Community Property law of California to be returned, for purposes of taxation, as a single income of the husband.

After hearings before the Ways and Means Committee and the submission of extensive briefs in opposition to the proposal, the Committee struck from the Bill the provision for taxing community income as single income and the bill, as enacted, did not set aside or modify the application of the legal rule laid down in Blum v. Wardell. Notwithstanding the fact that there have been two general revisions of the Revenue Act and the question involved in the decision of Blum v. Wardell has been distinctly presented to the legislative branch of the Government, the principle of that decision has been left undisturbed by Congress.

After a full review of the opinion of March 8, 1923, therefore, and a study of the situation presented by the California

decisions including those handed down by the Supreme Court of California since the decision of Blum v. Wardell, and considering those principles which must govern the incidence of a Federal taxing statute upon a subject matter which is the creation of state law, I am unable to find those considerations which would, in my opinion, justify the Government in beginning anew in some other case, a juridical controversy which was litigated to a final conclusion in Blum v. Wardell and in which the Government's position was fully presented. Since the opinion of the Attorney General above referred to was an affirmance of the rule laid down in that case, I am constrained to reestablish and reaffirm that opinion. My action in so doing must be construed as limited to the precise question presented in that opinion as to the incidence of the Federal Estate tax upon the interest of the wife in community property on the death of the husband. I express no opinion with respect to the principles which govern the taxation of income derived from community property.

Respectfully yours,

(Signed) HARLAN F. STONE

Attorney General.

The Honorable,

The Secretary of the Treasury.

TREASURY DEPARTMENT

FOR RELEASE, IN MORNING PAPERS,
Thursday, February 19, 1925.

STATEMENT BY SECRETARY MELLON.

Secretary Mellon to-day announced that he has authorized the Federal Reserve Banks on and after Thursday, February 19, 1925, and until further notice, to redeem in cash before March 15, 1925, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury certificates of indebtedness of Series TM 1925, dated March 15, 1924, and Treasury notes of Series A-1925, dated February 1, 1922, both maturing March 15, 1925.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Saturday, February 21, 1925.

SPEECH OF

SECRETARY OF THE TREASURY
HON. CHARLES S. DEWEY

MADE AT THE
ASSISTANT SECRETARY OF THE TREASURY

THIS MORNING AT
before

THE
NATIONAL CONFERENCE ON INHERITANCE AND ESTATE

ON
TAXATION

WASHINGTON, D. C.
February 20, 1925.

Note:

For full text of speech see Subject File: Taxation *Secretary's Speeches*

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
February 26, 1925.

Secretary Mellon, referring to inquiries made by the press with reference to the Speakership of the House, said this morning that he had at all times consistently refrained from taking any part for or against either Mr. Lengworth or Mr. Madden in their contest. They are both personal friends of his and the relations between each of them and the Treasury has always been of an intimate and entirely harmonious character.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE

Secretary Mellon, in a statement issued on March 3, 1925, in connection with the following statement:

THE SECRETARY OF THE TREASURY TO*DAY RELEASED TO THE PRESS A COPY OF A LETTER ADDRESSED BY HIM UNDER DATE OF MARCH 3, 1925, TO THE PRESIDENT OF THE UNITED STATES, WITH REFERENCE TO A REPORT SUBMITTED TO CONGRESS BY THE SPECIAL COMMITTEE OF CONGRESS APPOINTED TO INVESTIGATE MATTERS RELATING TO GOVERNMENT BONDS.

These matters were previously with the Treasury bonds issued in 1917 and 1918. The Special Committee have nearly all of these temporary bonds and have received by the Treasury from the public and as many had been sold to the public and sold for the purpose of raising money for the Government. It is the first time since the first time and first time when the Treasury bonds were issued in 1917 and 1918.

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Note: For full text of letter see Subject File: U.S. SEC.--General

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Tuesday, March 3, 1925.

Secretary Mellon, supplementing his letter to the President of March 3, 1925, in connection with the alleged duplicate bonds made the following statement:

The report submitted by three members of the Special Committee appointed by the House to investigate the alleged duplicate bonds, makes general charges that might lead the public to believe in the existence of a fraudulent duplication of bonds. That is, that two bonds were issued and the Treasury was only paid for one. Not a single item of specific evidence of such duplication has been found in nearly four years of investigation and not one is mentioned in the majority report. The report mentions duplicate numbers; that is, two bonds of the same number. This frequently occurs through mechanical or clerical errors, but numbers are no proof of fraud. Of course, if the United States received pay for two bonds bearing the same number there is no duplication of debt. Yet the existence of two bonds with the same number is all the majority of the Committee have for their sensational charges.

These charges deal principally with the temporary bonds issued in 1917 and 1918. In the higher denominations nearly all of these temporary bonds have been received by the Treasury from the public and if there had been two bonds issued and only one paid for our records would now show this fact. Of the First 4's, First $4\frac{1}{4}$'s and First-Second $4\frac{1}{2}$'s, the Treasury records show the delivery of 26,200 pieces of \$5000 denomination each, aggregating

\$131,000,000, and 21,000 pieces of \$10,000 denomination each, aggregating \$210,000,000. All of these bonds have been received, and not one extra bond has come in. Of the Second 4's, 100,000 pieces of the \$5000 denomination, aggregating \$500,000,000, were delivered and all have been received with the exception of 5, for which there are 5 numbers available on the Register's records. Of the same issue of bonds of the \$10,000 denomination, 84,000 pieces, aggregating \$840,000,000, were delivered and all have been received except one bond, for which there is one number available on our records. Of the Second 4 $\frac{1}{2}$'s, 60,500 pieces of \$5000 denomination, aggregating \$302,500,000, were delivered and all have been received except 4, for which there are 4 numbers available on our records. With the same issue of \$10,000 denomination, 63,500 pieces, aggregating \$635,000,000, were delivered of which there is one bond outstanding and one open number available on our records. With the Third 4 $\frac{1}{2}$'s, 51,000 pieces of \$5000 denomination, aggregating \$255,000,000, were delivered and there are only 9 bonds outstanding and 9 numbers available on our records. With the 54,000 pieces of \$10,000 denomination bonds of the same issue, aggregating \$540,000,000 every bond is in, each number is exhausted, and no extra bonds have been received. Of the Fourth 4 $\frac{1}{2}$'s, 135,000 pieces of \$5000 denomination, aggregating \$675,000,000, were delivered. 28 bonds are outstanding and there are 28 numbers available. With the same issue of \$10,000 denomination, 126,000 pieces, aggregating

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\$1,260,000,000, were delivered and there are 24 bonds outstanding and 24 available numbers. Taking these denominations of all issues of temporary bonds, the total number of pieces of \$5000 denomination delivered is 372,700, aggregating \$1,863,500,000, there are 46 bonds remaining outstanding and 46 numbers remaining available on our records, and of the \$10,000 denomination of 348,500 pieces delivered, aggregating \$3,485,000,000, there are 26 bonds remaining outstanding and 26 numbers remaining available on our records.

As to the temporary bonds, which are made the basis of the principal charges of Brewer, not only has no evidence of fraud been produced to the Committee, but actual retirements of the bonds of higher denominations show that there was no duplication of the debt. When in the course of time more of the bonds of the smaller denominations are received, the Treasury has every reason to believe that similar proof of no duplication of debt will be available.

The Committee, through the insistence of the majority who signed the report, conducted its investigation, lasting nearly a year, principally in secret sessions. The Treasury was not given the opportunity either to cross-examine Brewer on his charges or even to see a copy of the testimony taken at the secret sessions upon which the majority must have acted. Testimony which will not stand cross-examination nor the light of day is indeed unusual evidence upon which to base charges calculated to affect the integrity of the national debt. Further comment is unnecessary.

Statement by Secretary Mellon.

The Treasury is to-day announcing its March financing, which takes the form of a combined offering of 9 months Treasury certificates of indebtedness and 4 per cent Treasury bonds. The certificates are offered at par, and are dated and bear interest from March 16, 1925, at 3 per cent, and mature December 15, 1925. The bonds are an additional issue of the 4 per cent Treasury Bonds of 1944-54, dated and bearing interest from December 15, 1924, maturing December 15, 1954, and redeemable at the option of the United States on and after December 15, 1944. The bonds are offered at 100½ and accrued interest from December 15, 1924. The combined offering is for \$450,000,000 or thereabouts.

About \$560,000,000 of Treasury certificates of indebtedness and Treasury notes become payable on March 16, 1925. There will also be interest payments on the public debt in March, April, and May, totaling slightly over \$300,000,000.

The present offering is intended, with the balances already on hand and the March tax receipts, to cover the Treasury's further cash requirements until June, when further financing will be necessary.

The text of the official circulars follow:

FOUR PER CENT TREASURY BONDS OF 1944-54

Additional Issue.

The Secretary of the Treasury invites subscriptions, at 100½ and accrued interest, from the people of the United States, for an additional amount of four per cent Treasury bonds of 1944-54, of an issue of gold bonds of the United States authorized by the Act of Congress approved September 24, 1917, as amended.

The bonds now offered will be a part of the series of four per cent Treasury bonds of 1944-54 issued pursuant to Department Circular No. 349, dated December 3, 1924, as amended, are identical in all respects therewith and will be freely interchangeable. Such bonds will be dated December 15, 1924, and will bear interest from that date at the rate of four per cent per annum payable June 15 and December 15 in each year on a semi-annual basis. The bonds will mature December 15, 1954, but may be redeemed at the option of the United States on and after December 15, 1944, in whole or in part, at par and accrued interest, on any interest day or days, on four months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease. The principal and interest of the bonds will be payable in United States gold coin of the present standard of value.

Bearer bonds with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. Bonds registered as to principal and interest will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000.

Provision will be made for the interchange of bonds of different denominations, and of coupon and registered bonds and for the transfer of registered bonds, without charge by the United States, under rules and regulations prescribed by the Secretary of the Treasury. Coupon bonds delivered on allotment will have the coupons due June 15, 1925, attached. Such coupons will cover six months' interest from December 15, 1924, to June 15, 1925. Registered bonds delivered on allotment will bear interest from December 15, 1924.

The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The bonds will be acceptable to secure deposits of public moneys, but do not bear the circulation privilege and are not entitled to any privilege of conversion.

Applications will be received at the Federal Reserve Banks, as fiscal agents of the United States. Banking institutions generally will handle applications for subscribers, but only the Federal Reserve Banks are

authorized to act as ~~official agencies~~.

The right is reserved to reject any subscription and to allot less than the amount of bonds applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final.

Payment at 100 $\frac{1}{2}$ and accrued interest from December 15, 1924, for any bonds allotted must be made on or before March 16, 1925, or on later allotment. Any qualified depository will be permitted to make payment by credit for bonds allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury notes of Series A-1925, maturing March 15, 1925, and Treasury certificates of indebtedness of Series TM-1925, maturing March 15, 1925, will be accepted at par, at the Federal Reserve Banks, to be applied in part payment for any Treasury bonds of 1944-54 now offered which shall be subscribed for and allotted.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments thereon on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts. Allotment notices will be sent out promptly upon allotment, and the basis of allotment will be publicly announced.

Bonds will be delivered after allotment and payment. Pending delivery of the definitive bonds, Federal Reserve Banks may issue interim receipts.

Further details may be announced by the Secretary of the Treasury from time to time, information as to which may be obtained from the Treasury Department, Division of Loans and Currency, Washington, D. C., or from any Federal Reserve Bank.

THREE PER CENT TREASURY CERTIFICATES OF INDEBTEDNESS
SERIES TD-1925

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TD-1925, dated and bearing interest from March 16, 1925, payable December 15, 1925, with interest at the rate of three per cent per annum, payable on a semiannual basis.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached payable June 15, 1925, and December 15, 1925.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the

Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before March 16, 1925, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury notes of Series A-1925, maturing March 15, 1925, and Treasury certificates of indebtedness of Series TM-1925, maturing March 15, 1925, will be accepted at par, in payment for any certificates of the Series TD-1925 now offered which shall be subscribed for and allotted, with an adjustment of the interest accrued, if any, on the certificates of Series TD-1925 so paid for.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

TREASURY DEPARTMENT.

FOR IMMEDIATE RELEASE,
March 9, 1925.

Secretary of the Treasury Mellon to-day made the following statement:

Recent newspaper articles in connection with the Couzens Committee investigation of the Internal Revenue Bureau illustrated the distortion which may accompany publicity. It is intimated that the Government refunded to the Atlantic, Gulf, and West Indies Steamship Corporation \$7,282,460, that is, that the Treasury had the money and gave it back. This is not correct.

The Department ascertained that the taxpayer was liable for an additional tax of \$9,083,033, plus a penalty for fraud of \$830,808, a total of \$9,913,841. The property of the taxpayer was subject to mortgage liens which were legally prior to the claim of the Government. From an examination of the financial condition of the taxpayer by auditors of the Treasury, it appeared there were not sufficient free assets to pay the tax and penalty. An insistence of our strict legal claim would inevitably have put the company into bankruptcy, in which proceeding any payment to the United States would have been jeopardized and perhaps rendered entirely valueless. The company offered to settle for \$1,000,000 cash. The Department investigation showed that \$1,280,000 was as much as the company could probably raise from its bankers and pay the Government and still avoid bankruptcy proceedings. This taxpayer also had a judgment against the Shipping Board of \$1,351,000, which the Department insisted must be satisfied by the taxpayer as well as the cash demanded

by the Department met. In other words, the United States received in compromise \$1,280,000 in cash and settlement of a valid judgment against another branch of the Government, a total of \$2,631,000.

The situation was, therefore, similar to any other compromise between a creditor and a debtor having many debts and few assets. The creditor took what it thought the debtor could pay. If the United States had insisted on its strict legal rights it might well have got nothing. This is an application in government of proper business principles familiar to every one and is no occasion for criticism.

Speaking of myself personally, I have never had any interest whatsoever in the Atlantic, Gulf, and West Indies Steamship Corporation or any of its affiliated or subsidiary companies, nor was I acquainted with any of its officers.

As to the other taxpayer mentioned Sunday, it is sufficient to say that the case is still in process of adjustment and whatever tax is legally due will be assessed.

FOR IMMEDIATE RELEASE
Monday, March 9, 1925.

TREASURY DEPARTMENT

Secretary of the Treasury Mellon said today:-

With reference to published statements of the attorney for the Couzens Committee appearing in to-day's morning papers in connection with the copper valuations, the situation is this.

In 1919 the returns of the copper companies for 1917 and 1918 had not been audited and this audit could not be completed until some valuation of these properties was made for purposes of depletion and invested capital. Commissioner Roper employed Mr. L. C. Gratton, who had been for nine years in Geological Survey work in connection with copper and who was then professor at Harvard University. Mr. Gratton fixed the valuation of the copper properties, subject to verifications as to certain details, which were subsequently obtained. The valuation was approved by Commissioner Roper in 1920. Taxes for 1917 and 1918 were assessed and paid by the companies on the basis of these valuations and the companies were informed that the valuations were final.

In 1922 a question as to the reasonableness of these valuations which if continued would affect future taxes was raised in the Bureau and it was determined to revalue all copper properties. This revaluation was subsequently concluded and will be the basis used from 1919 on for determining taxes.

The original valuation for 1917 and 1918 was made by competent authorities and was an honest expression of judgment. The taxpayers had considered their taxes for 1917 and 1918 closed and arranged their finances accordingly. To reopen them at this late date would

have upset an entire industry. The Department, therefore, took the position that the 1917 and 1918 taxes having been finally settled and paid, it would not extend the revaluation to these years, but would commence with the year 1919, for which year and subsequent years taxes had not yet been determined. It was felt that the Department should not substitute its present judgment for the honest judgment of those officials of the prior administration who were formerly in authority in the Treasury and who had finally closed the cases for 1917 and 1918.

It is the failure to reopen these old cases decided in 1920 which is the occasion for the criticism by the Couzens Committee.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Monday, March 9, 1925.

With reference to Senator Couzens' taxes Secretary Mellon said tonight:

Last week the Treasury received by mail from a responsible person a memorandum, copy of which is attached, from which it appeared that the valuation of Ford stock used by the minority stockholders who sold out to Mr. Ford in 1919, was not correct and that additional taxes were due from these stockholders. The facts stated in the memorandum could not be accepted by the Bureau without further investigation. The statute of limitations, unless waived, would bar an additional tax against Senator Couzens on Friday, March 13, 1925, now but four days away. Waivers of the other minority stockholders for 1919 are on file in the Bureau. As is customary in such cases the Commissioner of Internal Revenue asked Senator Couzens to waive the running of the statute in his case also, to give the Treasury opportunity to investigate the facts. The asking and granting of such waivers by other taxpayers are quite usual. I am informed that in a speech made in the Senate this afternoon Senator Couzens stated he would not sign a waiver. In order to protect the interests of the United States it will probably be necessary to make an arbitrary assessment, but before this assessment is levied Senator Couzens, as any other taxpayer, will be given every opportunity he may desire to present the facts to the Bureau.

The only question between the Treasury and Senator Couzens with respect to his 1919 taxes is whether the proper amount of tax had been collected. If the valuation used in determining his tax is proper, investigation will undoubtedly so disclose. If there is a tax due the United States it should be collected.

Memorandum

re

Over-appraisal of 1913 value of Ford Motor Co. "minority stock"

in an advance appraisal made by the Bureau of Internal Revenue in 1919,

resulting in a large under-assessment of income- and sur- taxes March 15, 1920.

1. In the summer of 1919, following a court decision in a minority stockholders' suit requiring the Ford Motor Co. (contrary to the previous low-dividend policy of its majority shareholder, Mr. Henry Ford), to pay dividends proportionate to its earnings, Mr. Ford offered to buy out all the minority shareholders of the company at a price of \$12,500 per share. These minority holders owned 41% of the 20,000 shares of the company's stock, Mr. Ford holding the remainder.
2. The minority shareholders agreed to sell out at this price, provided the Treasury could be induced to state in advance a figure, satisfactory to them, at which it would appraise the market value of their stock as at March, 1913. They could then take that amount into their accounts free of tax: their taxable profit would be the difference between that figure and the selling price.
3. The Treasury was accordingly procured contrary to its rule in such cases to make the advance appraisal desired. In the absence of actual sales in 1913, its statisticians proceeded to make sundry computations and estimates, and shortly it fixed the 1913 market value of the stock at approximately \$9,000 per share (\$8,900), nearly three-quarters of the 1919 value established by the offer of \$12,500 mentioned. Thereupon the trade was closed and Mr. Ford paid the price stated, in cash.
4. It will be instructive to compare the artificial figure of \$9,000 for 1913, with the true value for 1919 disclosed by the actual sale for \$12,500. For the latter was tangible, an actual transaction for cash money between men dealing at arm's length; but the former was a mere estimate or guess. From the actual sale we may learn what the estimate ought to have been.
5. For we can take the volume of business and the net earning power of the company in 1919, and see their relation to the 1919 selling price of the stock whose purchase conveyed 41% thereof. We then can apply this index or ratio to the volume of business and the net earning power in 1913. The result will be a stock value for 1913 which, being directly related to the 1919 actual selling price by the same formula, will probably be not far off from the truth. And if any corrections are required because of changed conditions of special kind, it will then be simple to make them.

6. Proceeding thus, it appears that the Ford Motor Co. produced 165,000 cars in 1913; and in 1919, 850,000 cars, five times as many - Poor's Manual publishes the figures. Passing from physical to financial results, the comparison is not dissimilar. In 1913 the Company's annual profits were reaching the twenty five million dollar class; and in 1919, the hundred million dollar level, which is four to one. But the true growth in market value of the stock was greater. For in 1913 the Company had been on its feet barely six years and had made really large profits, ten millions or more, only two years. But by 1919 it had a dozen years of unparalleled growth behind it; it had become an institution, whose stability and continuity were assured. In fact, the prospective future growth was greater in 1919 than it had been in 1913. Consider also the enormous growth of the steady and exceedingly profitable business in repair parts. In the meantime, there had been no change in the issue of capital stock, which stood at 20,000 shares as before. The earning power per share thus rose from \$1,250. per share per annum in 1913, to \$5,000. per share per annum in 1919.

7. That is to say, the 1919 selling price of \$12,500 per share was $2\frac{1}{2}$ times the 1919 earning power of \$5,000 per share. On the same basis the 1913 earning power of \$1,250 per share discloses a market value of \$3,125 per share.

8. This last figure is however too high. For it does not allow any discount for (1) the relatively unproven condition of the Company in 1913, or again for (2) the difference in the expectation of dividends to be paid, in 1913, and in 1919. It is elementary, that the market value of stock in the hands of minority shareholders is adversely affected by a small-dividend policy on the part of the majority in control. So in 1919, the actual sale reflects the bulge in the value of the stock due to the victory of the minority shareholders in the litigation before mentioned; whereas in 1913 the minority faced a period of low dividends. In view of these considerations, if the stock in 1919 was worth \$12,500 a share, its market value per share in 1913 cannot fairly be placed above one-fifth of that figure, which is \$2,500. This is high, rather than low.

9. Let us nevertheless call it \$2,500 and proceed to compute the difference in taxable profits resulting to the minority on 8,200 shares sold, thus:

1913 market value of 8,200 shares sold in 1919 for		<u>\$112,400,000</u>
As appraised by Treasury in 1919,	\$8,900 per share	72,980,000
By comparison with actual in 1919,	<u>2,500</u> " "	<u>20,500,000</u>
Over-appraisal, free of tax,	\$6,400 " "	\$ 52,480,000
That is:		
Tax was paid on \$112,400,000 minus \$72,980,000 or on		<u>\$ 39,420,000</u>
Should have been \$112,400,000 minus \$20,500,000 or on		<u>\$ 91,900,000</u>

The resulting underpayment of taxes by all minority shareholders together is around \$35,000,000. The corresponding underpayment by the largest individual minority shareholder, who was Mr. James Couzens (now Senator Couzens) of Detroit, would be about \$10,000,000 to \$11,000,000.

10. But we may say, if the Treasury hadn't fixed the 1913 figure too high, the 1919 sale wouldn't have gone through. There are two answers to this. The first is, that it might have, for the shareholders might have concluded it was better to get what they could into tax-exempt securities at once rather than pay taxes on their future dividends. The other answer is, What if it hadn't gone through? Mr. Ford might have been disappointed, and the Treasury would not have at that time taken in the \$20,000,000 or so that it actually collected in taxes on the understated profits of the sale instead of getting a larger sum later on the future dividends. But such considerations do not justify Mr. Ford as one party, Mr. Couzens and his fellow minority-stockholders as another party, and the Bureau of Internal Revenue as the third party, in making a three-cornered deal based on an appraised 1913 market value of Ford Motor stock manufactured for the occasion. Or if not made to order, then worked out by clerks inexperienced in large transactions, from whom the 1919 sale-price was sedulously concealed. The vast extra-legal authority which public officers became used to wielding during the war, and the ingrained habit of the Bureau of Internal Revenue to assess taxes to suit themselves (ordinarily with little regard to the taxpayers' proofs that they should be less), these things may explain, or even perhaps excuse, this sort of taxation by special ukase. But they do not justify it, and the unjustified actions of public officials do not bind their successors in office. And, after the special pleaders have all been heard, this fact remains: these stockholders owe the Treasury \$35,000,000 which the Treasury should proceed to collect from them.

11. The present Treasury officials should be informed of the facts set forth above in order that they may corroborate (or disprove) them from the files of their predecessors. If the facts prove to be as stated, prompt attention will be necessary, as but a short time remains (before the statute of limitations runs out) for the Treasury to start action to recover the unpaid taxes, with interest and penalties, if any. And such action will accomplish far more than the collection of sundry millions of tax-money, for it will serve notice on wealth and influence that these things can't be done - or if they appear to get done, they won't stay done.

See next page for notes on product and income.

Notes

1. Ford Motor Co. product of cars, by years; from Poor's Manual of Industrials, 1917, and Poor's and Moody's 1924; 1923 corrected, and 1924, and 1925 estimated, from data derived from automobile trade sources; all, to nearest round figures:

1925	1,800,000 cars	1913	164,500 cars
24	1,800,000 "	12	68,500 "
23	2,000,000 "	11	34,500 "
22	1,350,000 "	10	18,700 "
21	1,090,000 "	1909	10,600 "
20	1,145,000 "	8	6,400 "
1919	850,000 "	7	8,800 "
18	706,000 "	6	1,600 "
17	735,000 "	5	1,700 "
16	533,000 "	1904	1,700 "
15	308,000 "		
1914	248,000 "		

2. Net income of Ford Motor Co.: published figures scattered and not always reliable; accurate figures should be taken from the Bureau's files. The figure of income before, rather than after, income and profits-taxes is the controlling factor in making comparative evaluations of the stock for 1913 and 1919, because the taxes had already been cut in two before the summer of 1919 and it was then manifest that they would soon be further greatly reduced, as in fact happened.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Thursday, March 12, 1925.

The Secretary of the Treasury announced to-day that subscriptions for the additional issue of 4 per cent Treasury bonds of 1944-54, offered at 100½, and for the issue of Treasury certificates of indebtedness, offered at par, dated March 16, 1925, Series TD-1925, 3 per cent, maturing December 15, 1925, closed at the close of business on Tuesday, March 10, 1925. The reports received from the twelve Federal Reserve Banks show that for the combined offering of bonds and certificates the total subscriptions aggregate over \$747,000,000, subscriptions for the additional issue of 4 per cent Treasury bonds aggregating about \$382,000,000, and subscriptions for the 3 per cent certificates aggregating about \$365,000,000. Of the \$365,000,000 subscribed for the new Treasury certificates, about \$271,000,000 represented cash subscriptions, payment for the remaining \$94,000,000 of subscriptions being tendered in Treasury notes of Series A-1925, maturing March 15, 1925, or Treasury certificates of Series TM-1925, maturing March 15, 1925.

The Treasury has made allotments on subscriptions for the bonds and certificates as follows:

Subscriptions for Treasury certificates of Series TD-1925:-

All exchange subscriptions were allotted in full, and all cash subscriptions in amounts not exceeding \$1,000 for any one subscriber were likewise allotted in full. Allotments on other subscriptions for certificates were made as follows: Cash subscriptions in amounts over \$1,000, but not exceeding \$10,000, were allotted 70 per cent, but not less than \$1,000 on any one subscription; cash subscriptions in amounts over \$10,000, but not exceeding \$50,000, were allotted 60 per cent,

but not less than \$7,000 on any one subscription; cash subscriptions in amounts over \$50,000, but not exceeding \$100,000, were allotted 50 per cent, but not less than \$30,000 on any one subscription; cash subscriptions in amounts over \$100,000, but not exceeding \$500,000, were allotted 40 per cent, but not less than \$50,000 on any one subscription; cash subscriptions in amounts over \$500,000, but not exceeding \$1,000,000, were allotted 30 per cent, but not less than \$200,000 on any one subscription, and cash subscriptions in amounts exceeding \$1,000,000 were allotted 20 per cent, but not less than \$300,000 on any one subscription.

Subscriptions for 4 per cent Treasury bonds of 1944-54:-

Subscriptions for Treasury bonds for which part payment was tendered in Treasury certificates or Treasury notes maturing March 15, 1925, were not given preferred allotment, but such subscriptions, as well as all cash subscriptions for Treasury bonds, were allotted as follows:

All subscriptions in amounts not exceeding \$10,000 for any one subscriber were allotted in full. Subscriptions in amounts over \$10,000, but not exceeding \$50,000, were allotted 80 per cent, but not less than \$10,000 on any one subscription; subscriptions in amounts over \$50,000, but not exceeding \$100,000, were allotted 70 per cent, but not less than \$40,000 on any one subscription; subscriptions in amounts over \$100,000, but not exceeding \$500,000, were allotted 60 per cent, but not less than \$70,000 on any one subscription; subscriptions in amounts over \$500,000, but not exceeding \$1,000,000, were allotted 50 per cent, but not less than \$300,000 on any one subscription; and subscriptions in amounts over \$1,000,000 were allotted 40 per cent, but not less than \$500,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

The Secretary of the Treasury to-day announced the detail figures of the subscriptions received and allotted for the recent offering of an additional issue of 4 per cent Treasury bonds of 1944-54, and 3 per cent Treasury certificates of indebtedness of Series TD-1925. Subscriptions for the additional offering of Treasury bonds aggregated \$382,326,400, and the total of such subscriptions allotted was \$290,154,700.

Subscriptions for 3 per cent certificates of indebtedness of Series TD-1925, aggregated \$365,230,000, and the total of such subscriptions allotted was \$219,462,400.

The subscriptions and allotments were divided among the several Federal Reserve districts as follows:

Additional Offering of 4 per cent Treasury Bonds of 1944-54.

<u>Federal Reserve District.</u>	<u>Total sub- scriptions received.</u>	<u>Total sub- scriptions allotted.</u>
Boston	\$ 26,880,800	\$ 21,529,900
New York	94,608,500	54,436,700
Philadelphia	55,706,200	42,206,900
Cleveland	45,659,700	32,195,600
Richmond	15,061,100	12,599,300
Atlanta	17,216,600	14,877,100
Chicago	51,177,300	48,361,700
St. Louis	25,155,600	22,036,800
Minneapolis	8,944,200	7,667,500
Kansas City	9,629,800	8,275,000
Dallas	10,084,000	8,135,000
San Francisco	22,202,600	17,833,200
T O T A L	\$382,326,400	\$290,154,700

3 per cent Certificates of Indebtedness, Series TD-1925.

<u>Federal Reserve District</u>	<u>Total sub- scriptions received.</u>	<u>Total sub- scriptions allotted.</u>
Boston	\$ 20,046,000	\$ 10,724,000
New York	165,209,500	98,871,000
Philadelphia	25,561,000	11,217,500
Cleveland	31,160,000	15,777,000
Richmond	11,842,000	7,122,500
Atlanta	8,693,500	5,843,500
Chicago	33,314,000	26,862,500
St. Louis	12,875,500	8,322,400
Minneapolis	8,025,500	5,511,000
Kansas City	9,438,500	5,816,000
Dallas	14,544,500	8,454,000
San Francisco	24,520,000	14,941,000
TOTAL	\$ 365,230,000	\$ 219,462,400

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS?
March 18, 1925.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS?
Wednesday, March 18, 1925.

Speech of the
Hon. A. W. Mellon,
Secretary of the Treasury,
at the Dinner of the
Bankers Club of Richmond,
held March 17, 1925, at
Richmond, Virginia.

Bankers Club of Richmond
held March 17, 1925, at
Richmond, Virginia.

Note:

For full text of speech see Subject File: Secretary's speeches
Taxation

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS
Wednesday, March 18, 1925.

Speech of
Hon. Garrard B. Winston,
Undersecretary of the Treasury
at the Dinner of the
Bankers Club of Richmond
held March 17, 1925, at
Richmond, Virginia.

"The method of raising revenue ought not to impede the transaction of business - it ought to encourage it. I am opposed to extremely high rates because they produce little or no revenue; because they are bad for the country; and, finally, because they are wrong."

This is the language of a Republican President upon his inauguration two weeks ago. Now I would like to read you what a Democratic President, Mr. Wilson, said in a message to Congress in 1919:

"The Congress might well consider whether the higher rates of income and profits taxes can in peace times be effectively productive of revenue, and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency. There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures and produce industrial stagnation with consequent unemployment and other attendant evils."

What President Coolidge said is not a Republican doctrine. What President Wilson said is not a Democratic doctrine. Both are merely the truth. This truth is not an attribute of any one party, but is the possession of all men who have studied this question without partisanship. For taxation is an economic, not a political question. And we do well if we approach the subject exclusively from an economic or a business standpoint.

It is the province of Government to raise, by way of taxation, whatever, and only whatever, may be necessary to carry on the activities of the Government and to pay its debts. We should not raise more revenue than we need. To do so

puts a wholly unnecessary burden on the country. On the other hand, certainly we do not wish to operate the Treasury with a deficit. This way leads to destruction. So much we are all agreed upon. It is the method of raising the revenue which has been the subject of political controversy.

Upon first impression it might appear that the Government is free to use any method of taxation it may desire. Its citizens live here; their property is located here, and neither they nor their property can elude the long arm of the Government. So, it would seem that a nation could take all of the earnings of its citizens or all of their property should it so desire. But it does not work out that way. We have recently seen Russia try this experiment. There the Soviet Government proposed to appropriate the banks, the factories, and all instrumentalities of trade and commerce. To a superficial observer, wealth was there for the seizing, and it had yielded ample revenues to the earlier Governments. To the economists of Moscow it seemed only necessary to enact laws to convert this wealth from private to public ownership; yet, when the State reached out to grasp this wealth, it disappeared into thin air and left in the hand nothing but a few tangible objects, such as gold and jewels which are easily transported to other countries where they continued to have a realizable value. Wealth in Russia ceased to exist. The experiment failed.

This instance may seem extreme, but the principle that you cannot appropriate more than a certain amount of a citizens earnings or property, - and taxation is but appropriation by the State, - continues true. The difference between unsound taxation and the Russian experiment is simply a question of de-

gree. To illustrate: If property passed from a decedent to his heirs on an average of once in every twenty years, and if in twenty years a man could not support himself and his family and accumulate before his death as much as his ancestors had paid in inheritance taxes, - that is, restore what the State had appropriated, - ultimately inheritance taxes would exhaust the capital in the country and there would be nothing left to tax. If income tax rates are placed so high that capital in productive business no longer gives a net return commensurate with the risk, capital will go out of productive business, lie idle, go abroad, go into tax-exempt securities, or find other ways of avoiding the tax. So here, too, we have an exhaustion of the source from which the tax is to be derived and the ultimate failure of the tax to produce revenue. Again, if income tax rates are so excessive that a man of ability finds he must work more than three days a week for the Government and has but three days for himself, he will become discouraged and decide that the result is not worth the effort; less income will be produced; and, again, less will be realized from the tax. Last week a letter came to the Treasury from a small farmer in Michigan. He owned a few acres which in 1913 were assessed at \$900 and on which a tax of \$13 was levied. In 1924, the assessed value had been increased to \$3200 and the tax raised to \$123, but the farm failed to produce any more. His taxes exceeded the rental value of the land and more than the net earnings of the property were taken by the State. The farm was abandoned and now produces no tax.

These are instances of how in our own country by unscientific methods of taxation we may in some cases actually destroy the very earnings or property which it should be the principal interest of a government to preserve

and foster. It is only upon these earnings and property of its citizens that a government can continue to live at all. When it reaches the limits of what is known as its taxable capacity a nation has begun to die.

That taxable capacity is measured by the difference between its total quantity of production and its total quantity of consumption. In other words, it is the surplus, the amount which constitutes its savings or its increase in capital values. If the Government appropriates in the form of taxes too large a part of this surplus, one or more of three things happen: The quantity of consumption is cut down, which means a lowering of the standard of living; or capital accumulations for extensions, improvements and new undertakings must diminish, resulting in a slowing up of progress and lessening eventually of taxable revenue; or thirdly, a slackening of effort on the part of the citizen will take place when too large a part of his earnings are taken in taxes. These eventualities spell disaster, so that we must be careful in fixing the rates of tax, not to encroach too far on the limits of taxable capacity.

There is a golden mean, if we can find it. In railroading, this point is found to be the highest rate at which the greatest volume of traffic will move. If that rate is exceeded, the volume of traffic declines; if too low a rate is fixed, the volume of traffic increases but the margin of profit declines. In business this point is the highest price at which the greatest amount of goods can be sold at the greatest aggregate profit.

So it is with taxes. Governments, no less than business and industry, must pay the penalty when they violate economic laws. If taxes are raised

too high, a country will slowly but surely destroy itself. It will use for daily consumption the seed corn on which its future life depends, and the spirit of initiative and adventure in its people will finally disappear. If taxes are too low, the country may continue to exist, but its government will be unable to function efficiently or to carry on the improvements which are necessary to the normal healthy development of its people.

I have talked of taxation. Let me show you how exactly principles of taxation parallel business. You gentlemen, I understand, are for a large part, bankers. Assuming that here in Richmond there were no other facilities for borrowing money than the banks now in this city, and that the banks should, in agreement with each other, proceed to raise the interest rates which they charge for loans from 5 to 8, to 12 per cent. The borrowers have no other facilities for procuring funds. For a time the borrowers might meet the interest rates; ultimately, however, the banks would find that one customer would get along with less money; that another customer would quit business; that another customer would go bankrupt; that the cost of money was reflected in prices, and that buying by the people generally was curtailed. In a year or so, instead of Richmond being the prosperous city it is, industry would be dead and the banks would die with it. With the thought that they could make more money out of higher charges, the banks had increased their interest rates; the rates, however, were economically unsound, and instead of increasing their profits, the banks destroyed all profit. It is exactly this situation which is pre-

sented to the Treasury when too high rates of tax are put upon our statute books; and it makes very little difference in this regard whether the excessive rates are on income, on inheritance, or on any other source of revenue.

The reaction to excessive taxation in a community is reflected in several ways. Among certain peoples taxes considered too high are simply not paid. The tax is there, the taxpayer is there, but through concealment or fraud the Government is deprived of its expected revenue. The tax is illegally evaded. In the United States, we do not so much evade excessive taxes as, with the ingenuity characteristic of us, we take advantage of the many ways offered to avoid taxation; that is, legally to escape taxation. The effort in taxation, therefore, should not be to assess a tax which in the first year of its enforcement would raise the most money, but to find that tax which will continue to raise money over a period of years. This is but the application of business ideas to taxation since the principle that excessive taxation does not pay the Government as a matter of dollars and cents, has been frequently demonstrated by statistics of income. Invariably, with an excessive tax, its yield has fallen off year by year, and each time the rate is reduced the reduction is reflect in an increase of taxable income. Once the ideally proper rate is found, taxes at that rate will probably result in as much revenue to the Government in the long run, year in and year out, as the present excessive rates.

This all brings us back to the original proposition that, while the Government may seem to have the power to fix its taxation rates at will, in reality it is bound by the same economic laws as any other business. If the Treasury is to be assured of a continuance of sources of revenue, our citizens must prosper; and, if they are to prosper, the appropriation by the state of their earnings and property must be based upon economically sound principles.

I do not say to you that it is within our power to fix with mathematical certainty the exact surtax rates which will yield the most revenue to the Treasury with the least disturbance to business. I think we can, however, demonstrate the upper limits beyond which no rate can go and be economically sound. A situation which is, I am sure, quite familiar to all of you is the relative attraction to a man with high income of a taxable and a tax-exempt investment. Usually the tax-exempt investment is a municipal bond and the risk of loss is small. On the other hand, a taxable investment can be instanced by a productive business which involves some risk for which the investor demands an additional income return. I think we may assume that the weight given by the average investor to this risk is about 2 per cent. Taxes aside, we would then treat a $4\frac{1}{2}$ per cent, absolutely safe investment, as the equivalent of a $6\frac{1}{2}$ per cent investment where there was an element of risk. Under our present maximum income tax rates, the productive business must show a gross return of 12 per cent to be the equivalent, tax and normal risk considered, of a $4\frac{1}{2}$ per cent tax-exempt bond. Now no

business, however successful, can insure a gross return of 12 per cent on the investment. If the maximum rates of normal and surtax were cut to a 20 per cent total, a $4\frac{1}{2}$ per cent tax-exempt security would stand on an equality, tax and risk considered, with an 8 per cent productive investment. Now, the difference between an 8 and a 12 per cent gross return is the difference between reasonable assurance of safety and speculative risk; the first will attract a conservative investor, the latter repel him.

If we figure a tax-exempt bond against a taxable bond of assured equal security, a $4\frac{1}{2}$ per cent tax-exempt at the present tax rates is the equivalent of an $8\frac{1}{3}$ per cent taxable. There are no bonds of sound security yielding $8\frac{1}{3}$ per cent. Capital will flow to the tax-exempts. On the other hand, with the total normal and surtax of 20 per cent a taxable security need yield but a little over $5\frac{1}{2}$ per cent to be the equivalent in net return to the $4\frac{1}{2}$ per cent municipal. With such surtax rates as now exist in our law is there any wonder that tax-exempt securities outstanding exceed thirteen billion dollars and are increasing at over a billion dollars a year?

This point at which it will be more profitable to a taxpayer to put capital into productive business instead of into tax-exempt securities is susceptible, as you see, to nearly mathematical establishment. Where, however, we consider the other effects of excessive rates of tax, and approach in a particular field to the point of taxable capacity, proof cannot be mathematical, but must be drawn from experience. Often, I feel sure, there come to your notice in your capacity as bankers cases where a particular improvement is not made or a par-

ticular business is not started, because after deducting taxes the risk exceeds the value of the expected return. Many of you, too, probably know men who have dropped their active business, spend their winters in Florida and their summers abroad, because on account of taxes what they are permitted to retain under present tax rates is not worth to them the labor which they must give to acquire it. They prefer golf to the further development of the country.

The cumulative effect on capital and industry of this distortion of normal business brought about solely by excessive rates of taxation must in time disastrously affect our future. Let me give you just one more example. You may have heard recently of the value of stock in the Ford Motor Car Company and its phenomenal growth. Success of the Ford Company does not mean simply that Mr. Ford and his son have grown more wealthy. It means employment to tens of thousands of men and women who thus earn their living; that mines, forests, railroads and vessels are brought into use; that the public has received an efficient and inexpensive means of transportation; that the farm is in touch with the city; and the work with this office; that we export in large quantities to Europe, to Asia, to Africa, to Australia. Yet does any one stop to figure what may be the effect upon this organization if its owners should die tomorrow and Federal and State death duties be paid out of the principal assets of the decedents' estates - capital stock of the company itself? The value involved is so large and its ownership so

centered that it is conceivable that the collection of inheritance taxes may check if not destroy that unity of policy which has created and expanded that industry and thus prevent its future prosperity. Of what avail, then, is it to any government if it collects 100 million dollars once in estate taxes and destroys a source of income upon which it can rely for revenue year after year?

So out of our experience we are able to say that any tax rate, income or estate, the burden of which either directly or indirectly seriously disturbs business, distorts investments, or prevents the growth of industry, is inherently unsound and should be reformed.

We are to-day in the middle of the period for the payment of the first installment of income taxes based on 1924 income. We have, of course, our estimates of revenue, but until the figures of this March are in we have no check upon our estimates. No one can tell with absolute accuracy how much profit was made in this country last year and it is the profits of our citizens which makes the income tax productive. While we feel, then, that the margin of surplus will be ample for the two principal reforms necessary in our present system - a lowering of the maximum surtax rates and a radical decrease in rates or the elimination from the field of the Federal estate tax - still it is not until this month closes that a detailed program, involving not only these reforms but other tax reductions, can be made with assurance. The Treasury's recommendations under the statute are made to Congress, and pending the assembling of the Ways and Means Committee in October it would not be appropriate now to set forth a definite program. We can assure you, however, that the changes outlined in the resolutions which I understand have been adopted at other tax conferences

resolutions which I understand have been adopted at other tax conferences throughout Virginia and the South are in accordance with sound taxation, are within the revenue requirements of the Treasury, and their incorporation into law will establish our system upon a satisfactory, permanent basis which will insure that in the future the Government will have the revenue it needs and business and individual initiative will not continue to be unduly hampered or checked. In other words these changes are within the taxable capacity of the country and at the same time will produce sufficient revenue to run the Government. They thus accomplish the object of taxation.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Tuesday, March 24, 1925.

The Secretary of the Treasury said to-day:

It is with regret that the Treasury loses Mr. Hartson as Solicitor of Internal Revenue, a position he has held since January 1, 1923. His resignation was presented on February 6, 1925, but at the request of the Commissioner of Internal Revenue its effective date was withheld until April 1st. The statement appearing in the press to-day that Mr. Hartson's resignation had some connection with the assessment of additional taxes against Senator Couzens is without foundation. Mr. Hartson expects to resume the practice of law in Washington in association with Mr. Frank J. Hogan.

The Secretary of the Treasury has recommended to the President the appointment of Mr. A. W. Gregg to fill the vacancy created by Mr. Hartson's resignation. Mr. Gregg has been with the Bureau of Internal Revenue for four years and has represented the Treasury before both the Ways and Means Committee of the House and the Finance Committee of the Senate in all hearings in connection with the Revenue Act of 1924. He is thoroughly familiar with the income tax laws and practice within the Bureau.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
March 28, 1925.

With reference to the statement of Senator Couzens appearing in the papers this morning, Undersecretary of the Treasury Winston, in the absence of Secretary Mellon, said:

Whether or not Senator Couzens is liable for additional taxes, will be determined by the Board of Tax Appeals, a body created for this purpose by the Congress and independent of the Treasury. Senator Couzens' tax liability differs in no material respect from that of any other taxpayer, and, therefore, requires no present comment.

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE,
Wednesday, April 1, 1925.

Acting Secretary of the Treasury Winston to-day made the following statement in connection with the resignation of Mr. Wadsworth as Assistant Secretary:

In view of the resignation of Assistant Secretary Wadsworth and the appointment of Lincoln C. Andrews as Assistant Secretary it became desirable to make some changes in the internal arrangement within the Treasury Department in order to have a somewhat more logical division of the various Treasury activities between the Undersecretary and the Assistant Secretaries. Effective April 1, 1925, Undersecretary Winston will have direct charge of Foreign Loans; Assistant Secretary Dewey will take over the Treasurer's Office and the Office of Comptroller of the Currency from the Undersecretary and the Section of Surety Bonds from Assistant Secretary Wadsworth; Assistant Secretary Moss will retain direct charge of Internal Revenue and the Supervising Architect's Office and will take over other duties theretofore handled by Assistant Secretary Wadsworth; Assistant Secretary Andrews will have charge of Customs, Coast Guard, and the Prohibition Unit. - This internal rearrangement does not effect any change in the policy of handling matters within the Department and the Prohibition Unit will continue to act as heretofore through the Commissioner of Internal Revenue as provided by law.

TREASURY DEPARTMENT

FOR RELEASE, AFTERNOON PAPERS,
Wednesday, April 1, 1925.

Secretary of the Treasury Mellon to-day announced the acceptance of the resignation of Assistant Secretary of the Treasury Wadsworth. The letters exchanged follow:

April 1, 1925.

Dear Mr. Secretary:

It is with the greatest regret that I to-day sever my connection with the Treasury Department and end an association of over four years with you as Secretary of the Treasury.

To have had even a small part in the work of your administration has been an opportunity and experience which I shall always value in the highest degree. For your never failing personal kindness and interest I wish to express most sincere gratitude and appreciation.

With cordial good wishes and warmest personal regard, believe me,

Very sincerely yours,

(Signed) ELIOT WADSWORTH

Assistant Secretary.

Hon. Andrew W. Mellon,

Secretary of the Treasury.

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April 1, 1925.

My dear Mr. Wadsworth:

It is with a feeling of very genuine regret that I receive your resignation as Assistant Secretary of the Treasury.

I know at what personal sacrifice you have served your Government, and I cannot let this opportunity pass without expressing to you my sincere appreciation of the services which you have rendered to the Treasury and to me. In your negotiation of a settlement of the army costs, in your handling of the many intricate problems involved in the debts due us from foreign nations and from the railroads, and in general, in your conduct of all matters of which you have had charge, you have shown yourself intelligent, efficient and loyal. Aside from what you have done for the Treasury, is the pleasure which I have had from our personal association together since I began my administration four years ago.

With warm personal regards and best wishes for the future,
I am,

Sincerely yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Honorable Eliot Wadsworth,
Assistant Secretary of the Treasury.

TREASURY DEPARTMENT

NOT TO BE RELEASED UNTIL
2:30 p.m., MAY 5, 1925,
OR UNTIL DELIVERY IS
BEGUN.

Speech of the
Hon. A. W. Mellon,
Secretary of the Treasury,
at the Annual Convention of the
Mississippi Bankers Association,
on
May 5, 1925, at
Jackson, Mississippi.

I am glad of this opportunity to visit the South, where the cause of tax reform has received such strong and valued support. Taxation is a National problem. We cannot afford to view it from a narrow or sectional or partisan angle. It is economic, rather than political, in its appeal; and we should be guided in framing our tax policy by economic and fiscal, rather than political, considerations.

This the Treasury has tried to do. We have tried to view the country as a whole, and to advocate a tax policy which takes into account the needs of the States, as well as the Federal Government.

To me one of the most promising aspects of the whole tax controversy now before the country is the wholesome revival of interest in the division of taxing powers between the Federal and State Governments. A conference on inheritance taxes was held by the National Tax Association at Washington in February, at which President Coolidge spoke and suggested the desirability of having the Federal Government leave to the States the field of inheritance taxes. A nation-wide committee will study this question during the coming months for the purpose of formulating, if possible, a working basis of cooperation among the various States.

The reason given by the President for his recommendation was that the efforts of both State and National Governments to tap the same sources of revenue in levying death taxes have resulted in

overlapping systems of taxation which impose undue burdens upon the taxpayer and at the same time threaten the destruction of certain sources of revenue of comparatively little importance to the Federal Treasury but of great importance to the State Governments. With these views, as expressed by the President, I entirely agree. Inheritance or income taxes, or any other taxes which necessity may require, may be levied either by the National or the State Governments for the purpose of raising necessary revenue or in times of great emergency. But where no pressing necessity for raising revenue exists, as in the case of Federal estate taxes, and particularly where the tax is increasingly ⁱⁿ ineffective /producing revenue and is destructive of capital values merely for the purpose of meeting current expenses and without compensating advantages, it seems to me that the retention of such a tax as a part of the Federal system of taxation is neither economically sound nor financially expedient.

In fixing rates, whether they be normal taxes, or surtaxes, or death taxes, the controlling factor should be the effectiveness of the rates in producing revenue, not only for the year in which they are levied but over a long period of years. We want a tax system which produces revenue. We do not want merely a gesture in taxation. This is the crux of the whole problem. It is the only reason for advocating a reduction of the surtaxes. And it is the reason which has been consistently advanced by the Treasury, not only during my own term of office, but during the administrations

of my distinguished predecessors, Senator Glass and Secretary Houston, both of whom served under a Democratic President.

At his inauguration last March, President Coolidge expressed the views of the present administration in these words:

"The method of raising revenue ought not to impede the transaction of business - it ought to encourage it. I am opposed to extremely high rates because they produce little or no revenue; because they are bad for the country; and, finally, because they are wrong."

Now I would like to read you what a Democratic President, Mr. Wilson, and his Secretary of the Treasury had to say upon this subject. As long ago as 1919, Secretary Glass realized that the surtaxes had passed the point of greatest productivity, and in his annual report to Congress called attention to the situation in the following words:

"The utmost brackets of the surtax have already passed the point of productivity and the only consequence of any further increase would be to drive possessors of these great incomes more and more to place their wealth in the billions of dollars of wholly exempt securities heretofore issued and still being issued by States and municipalities, as well as those heretofore issued by the United States. This process not only destroys a source of revenue to the Federal Government, but tends to withdraw the capital of very rich men from the development of new enterprises and place it at the disposal of State and municipal governments upon terms so easy to them (the cost of exemption from taxation falling more heavily upon the Federal Government) as to stimulate wasteful and nonproductive expenditure by State and municipal governments."

In the same year President Wilson said in a message to

Congress:

"The Congress might well consider whether the higher rates of income and profits taxes can in peace times be effectively productive of revenue, and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency. There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation, with consequent unemployment and other attendant evils."

In the following year even more specific recommendations for a reduction of the surtaxes were made by Secretary Houston; and these principles, so well stated by my Democratic predecessors, have been reiterated in all the recommendations regarding tax reform which the Treasury has made while I have been at its head.

Subsequent events have proved the soundness of these views. We found, as time went on and the taxpayers began to think in terms of business competition and not of war-time patriotism, that excessively high rates of tax, which during the war produced revenue, were becoming less and less effective under peace-time conditions; and it became apparent that our tax system must be brought into accord with sound economic principles, if the country was to continue to prosper and develop as it should.

Statistics clearly supported these views. In the six-year period from 1916 to 1921, the amount of income reported for taxation by taxpayers with incomes of \$300,000 or over, fell from \$1,000,000,000 in 1916 to \$153,000,000 in 1921. In 1916, under a maximum surtax of 13 per cent, the Government collected from this class of taxpayers \$81,000,000 in surtaxes, as compared with \$84,000,000, which it collected in 1921 under a maximum surtax of 65 per cent. Now let us see what

happened when the surtax was reduced. In 1922 when the maximum surtax was lowered from 65 per cent to 50 per cent, the amount of income reported for taxation in the highest brackets increased to \$365,000,000, as compared with \$153,000,000 reported the previous year, and the amount of surtax collected was \$111,000,000 under the lower rate, as compared with \$84,000,000 under the higher rate.

What should we do in the face of a situation like this? It is obvious that we must reform the tax system by lowering the rates to a point that will bring wealth back under taxation and force it to carry its share of the tax burden. Furthermore, tax reform in my opinion involves more than merely saving the productivity of the rates. It implies ultimately the preservation of the income tax itself; and that is a matter which should give us great concern.

The levy of an income tax, at proper rates, is a fair and economically sound means of raising the immense revenues required for the operation of the Government. But the tax must not be levied at rates so high as to hamper business, slacken initiative, distort investment, and encourage avoidance of the tax. If the position of the income tax is to be made secure, we must preserve its essential integrity. We must give to the country a law which closes the most obvious doors of escape from taxation, without at the same time exposing the law to contempt by loading it down with complicated provisions, aimed at but unsuccessful in stopping tax avoidance.

Our present law has many of these defects. It levies rates so high as to encourage tax avoidance. At the same time it is full of complicated provisions which seek to close all the doors of escape. The result is to increase the difficulties of the taxpayers and to induce sometimes a feeling of annoyance and resentment on their part at a law which makes compliance with its provisions so difficult.

In the Revenue Act of 1924, something was accomplished in the way of structural and administrative changes, which seek to simplify and improve the operation of the law and to lessen tax avoidance. There is a practical limit, however, to the efforts which may be made in closing all the holes in the law, by means of which tax payment is evaded. To close all possible avenues of escape would put business in a straitjacket and tie up many legitimate dealings in property. Business must be allowed a reasonable amount of freedom if it is to expand and prosper; and, unless it does expand and prosper, the income tax will prove but a barren source of revenue.

In trying to reform the law, two courses are open to us. One is to deal promptly and effectively with the tax-exempt security problem. There are at the present time over 13 billion dollars of tax-exempt securities in this country, mostly in State and municipal bonds. This amount is increasing at the rate of about a billion dollars a year, so that there is no dearth of non-taxable securities for the man who has a large amount of capital to invest.

The Treasury has frequently recommended to Congress the adoption of a Constitutional amendment, restricting further issues of tax-exempt securities. Personally, I feel that this is the strongest possible test of whether it is really desired to make wealth bear its share of the tax burden. All that is necessary is to close the door and thereby cut off this inviting avenue of escape from taxation. But apparently we cannot count on securing a Constitutional amendment for the present. There is consequently no immediate remedy for the situation within the power of Congress except a readjustment of the surtaxes on a basis that will attract capital back into productive business and keep it from exhausting itself in tax-exempt securities or from taking advantage of the many other methods of investment by which taxes are avoided. This is the second course and the only one now open to us.

We must fix rates which do not encourage tax avoidance. The problem in this connection is to find the point at which it is more profitable for the taxpayer to stay in business and pay his taxes rather than to go to the trouble of avoiding them. We cannot, of course, fix the exact rates with mathematical certainty. But we can determine, with a fair degree of accuracy, the upper limits beyond which no rate can go and be economically sound.

The taxpayer, at least, has no difficulty in fixing this point to his own satisfaction. The man of large income weighs the relative attractiveness of a taxable and a non-taxable bond. The tax-exempt investment is usually a municipal bond; and, while it pays a lower rate of interest, the risk is small. The taxable investment, on the other hand, may be instanced by a business security paying a higher rate of interest but containing the usual element of risk. In computing the prospective yield from any investment, taxes are deducted first. The net yield must then be weighed in the balance with the soundness of the investment.

To a man whose income is subject to the higher brackets of the present law, a taxable investment should yield a return of about 8 per cent to equal the net return of a $4\frac{1}{2}$ per cent tax-exempt security. On the other hand, under a total normal and surtax of 20 per cent, a taxable security yielding slightly more than $5\frac{1}{2}$ per cent would be the equivalent in net return of a $4\frac{1}{2}$ per cent municipal bond. We can see, therefore, that if the surtax rates are reduced to a reasonable figure, the lure of tax-exempt securities will become less appealing and the man of large income will find it advantageous to invest in productive business.

As bankers, I am sure that you know of many improvements which have not been made and of new ventures which have been abandoned solely because, after allowing for taxes and risk, the new undertaking has not seemed worth while. The cumulative effect of thus deflecting capital from its natural outlet must eventually bring about a condition which will have very serious consequences on the future of the country.

I do not need to point out the necessity for assuring a flow of capital into business investments and expansions, particularly in the South whose recent industrial development is one of the noteworthy advances made in this country in recent years. The South, in the past, has been predominantly agricultural. But manufacturing is rapidly competing with agriculture in importance with you as in other parts of the country; and, with the favorable climatic conditions and limitless natural resources at your command, it would seem that nothing could arrest the steady and rapid development of the South. And yet one very importance element is being overlooked which must be taken into consideration if the greatest success is really to be achieved. That is whether capital is willing to invest in new industrial undertakings, involving the usual risk, under a tax system which takes an unduly large share of the profits but makes no allowance for losses sustained in the venture.

The South would seem to have a special interest in tax reform because only under an economically sound system of taxation can you be assured of a steady flow of capital for industrial operations, railroad extensions and other undertakings which the further development of this great section of the country will require. This fact is becoming

thoroughly understood, as is evidenced by resolutions adopted at various tax conferences held recently in Virginia and throughout the South. The recommendations contained in those resolutions, if enacted into law, will establish our tax system on a permanent basis and bring it into accord with sound economic principles. At the same time, they would seem to be within the revenue requirements of the Government; and while it would not be appropriate for me to set forth a definite program until the Treasury can make its recommendations to the Ways and Means Committee next fall in the light of income then available, I feel sure that the margin of surplus will be ample for the most pressing reforms advocated by these resolutions, such as a lowering of the maximum surtax rates and a radical reduction in rates or the elimination of the Federal estate tax.

If our present excessive rates can be reduced and still yield sufficient revenue for the Government's needs - and in all probability lower rates will produce greater revenue than the present ones - and if at the same time by reforming the tax system we can remove influences which threaten to retard our normal, healthy development, then why should we hesitate to do what honesty and intelligence seem to dictate?

The Government can afford to view taxation from the standpoint of a long period of years. A man's outlook, on the other hand, is usually limited to his own lifetime and that of his wife and children. He shapes his affairs accordingly and his investments and undertakings are usually made with a view to what can be most profitably accomplished within a limited period of thirty or forty years. But the State can take a longer view; and, in framing a tax law, it should take into consideration not only the income to be derived during the first year or two of the law's operation but its ultimate effect over a long period of years and on the prosperity of the country as a whole. This is what tax reform really means. And in helping to bring about a better understanding of the principles involved, you are rendering the nation a great and lasting service, for the success or failure of tax reform involves the future welfare and prosperity of the country.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Monday, May 18, 1925.

STATEMENT BY SECRETARY MELLON.

Secretary Mellon announced that he has authorized the Federal Reserve Banks on and after Monday, May 18, 1925, and until further notice, to redeem in cash before June 15, 1925, at the holders' option, at par and accrued interest to date of such optional redemption, Treasury notes of Series C-1925, dated December 15, 1922, maturing June 15, 1925.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
May 21, 1925.

The Chairman of the World War Foreign Debt Commission announced:

Final steps were taken today in connection with the funding of the indebtedness of the Government of the Republic of Poland to the United States. Dr. Wladyslaw Wroblewski, Polish Envoy Extraordinary and Minister Plenipotentiary at Washington, delivered to the Treasury bonds of the Government of the Republic of Poland in the principal amount of \$178,560,000, receiving in exchange the original obligations given by his Government in connection with the sale of surplus supplies by the Secretary of War and the Secretary of the Navy, relief supplies furnished by the American Relief Administration, sale of flour for relief purposes by the United States Grain Corporation and services rendered by the United States Shipping Board, Emergency Fleet Corporation.

The Bill approving the Polish settlement was signed by the President on December 22, 1924. The debt funding agreement has likewise been approved by the Polish Government.

TREASURY DEPARTMENT.

FOR IMMEDIATE RELEASE,
Friday, May 29, 1925.

Secretary of the Treasury said to-day:

On his return from Cuba, where he represented his Government at the inauguration of General Machado, the Belgian Ambassador, after consultation with the Secretary of State, called on the Secretary of the Treasury, and informed Mr. Mellon of the desire of the Belgian Government to initiate, at an early date, negotiations with the Foreign Debt Funding Committee for the definite settlement of the Belgian obligations to America and that the Belgian Government will send over to Washington a committee headed by Mr. Theunis and which will comprise prominent Belgian financiers. Baron de Cartier plans to sail shortly for Belgium to confer with the Belgian Government, and intends to return to Washington with the members of that committee.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Thursday, June 4, 1925.

Washington, June 3.

Mr. Andrews, just returned from the International Conference at El Paso, has to-day received his first report from Admiral Billard on the results of the Coast Guard movement against the rum fleet, and finds it most gratifying. More has been accomplished than could have been anticipated from what was in reality a preliminary skirmish designed to uncover the strength and resources of the enemy. These results not only give us the data on which to plan the real attack, but justify us in continuing our activities in the meantime. We are now in a position to plan for the real battle.

In this connection, Mr. Andrews is most emphatic in insisting that no credit should be given him for the recent operations. He states that when he first called upon Admiral Billard to discuss how to handle the rum fleet, the Admiral laid before him, completely drawn up and ready to be issued, his detailed order for the movement which had been prepared by the Admiral while still under the direction of Mr. Andrew's predecessor, Assistant Secretary of the Treasury Moss. This order was so complete in every detail that not a comma needed to be changed, so whatever success has been accomplished, full credit must be given to the strategy and ability for command shown by the Admiral of the Coast Guard.

TREASURY DEPARTMENT.

FOR RELEASE, *morning papers*,
Monday, June 8, 1925.

STATEMENT BY SECRETARY MELLON.

The Treasury is to-day announcing its June financing, which takes the form of an offering of one year 3 per cent Treasury certificates of indebtedness, dated and bearing interest from June 15, 1925, maturing June 15, 1926. The certificates are tax certificates and the amount of the offering is for \$125,000,000, or thereabouts. The Treasury will accept in payment for the new certificates 4½ per cent Treasury notes of Series C-1925, maturing June 15, 1925, at par, but such subscriptions will not be given preferred allotment.

About \$400,000,000 of Treasury notes become payable on June 15, 1925.

The present offering is intended, with the balances already on hand and the June tax receipts, to cover the Treasury's further cash requirements until September when further financing will be necessary.

The text of the official circular follows:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TJ-1926, dated and bearing interest from June 15, 1925, payable June 15, 1926, with interest at the rate of three per cent per annum, payable semiannually.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached, payable December 15, 1925, and June 15, 1926.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided ^{for} in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure

deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before June 15, 1925, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury notes of Series C-1925, maturing June 15, 1925, will be accepted at par, in payment for any certificates of the Series TJ-1926 now offered which shall be subscribed for and allotted, with an adjustment of the interest accrued, if any, on the certificates of Series TJ-1926 so paid for.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

TREASURY DEPARTMENT.

FOR RELEASE, AFTERNOON PAPERS,
Thursday, June 11, 1925.

Address on Taxation

by

Hon. Garrard B. Winston

The Undersecretary of the Treasury

at

The 30th Annual Convention

of the

National Association of Credit Men

Washington, June 11, 1925.

I venture to say there is no association the members of which are in so close touch with fundamental conditions affecting the prosperity of this country as are you. You must and do study the forces which over a long term of years work for good or ill in business. It is appropriate, therefore, that I should talk to you of one of the most potent of these forces - taxation - and its effect upon credit.

Credit, in a sense of the word applicable to your activities, may be defined as the delivery to-day of goods with the expectation that they will be paid for at some later day. With your knowledge of general conditions, and your information as to the particular individual, you apply your test of credit to each case. In coming to a decision there are two elements which probably are considered in each instance. First, the moral responsibility of the debtor; the belief common to all those honestly engaged in trade that obligations undertaken must be met to the letter. I mean the will to pay. And, second, the capacity to pay. However honest a man may be, however desirous of fulfilling his obligations, his intentions are of no avail if as a matter of hard fact the payment is beyond his power. It is for this last reason that you are interested in the success or failure of those to whom you extend credit and you become, in some respects, a partner in his business. Of the first, the moral element, I need say nothing further. It is the second, the practical element, which I shall discuss.

Capacity to pay is recognized in every reorganization, whether of a nation or of a going business. The question which the Committee of

Experts passed upon and as a suggested answer to which the Dawes' plan was an outcome, was not how much Germany owed, but how much she could pay. The recently published plan to restore the Chicago, Milwaukee and St. Paul Railway Company to its owners is based upon what the road may be expected to earn and the plan calls for a rearrangement of capital to come within this expectation. Bankruptcy, a dividing up of assets among creditors, is a solution based on the same theory. The business world operates with capacity to pay in the forefront and clearly it can be said that you who determine the value of this condition have a peculiar interest in whatever may affect it.

This brings me to where government materially influences the extension of credit. You insist that the manufacturer, the dealer, the merchant shall have a certain margin of profit before you will consider them capable of paying for credit extended. If the margin is large, credit is freely forthcoming; if the margin is narrow, credit is hard to get, and if it is non-existent, continued credit is impossible. This margin, other things remaining equal, may be wiped out by an increase in expenses or by a decrease in receipts. The principal effect of the Government upon this margin is through taxes. In the first instance taxes are an item of expense to the merchant, thus narrowing his margin. Then they take a definite amount of purchasing power from the people, lowering his receipts. If government takes a billion dollars in non-productive taxes, obviously the merchant will have to pay his share of this billion and add it to the cost of conducting his business, and the people as a whole will have a billion dollars less to spend, a part of

which would have gone to the merchant. Every unnecessary dollar used by government is a dollar of wasted wealth and prosperity. So tax reduction simply as reduction is desirable.

Taxation is a necessity. A government must take from the people sufficient money with which properly to conduct its affairs. If this money is economically spent upon objects truly for the benefit and happiness of the people, then taxation is right and should be borne uncomplainingly. But even upon such an assumption, that is, taxation reduced to the essential needs of government, there is still a further important feature which affects the continued prosperity of this country and which is a controlling factor in the success of your clients and, therefore, of the credit which they should receive.

Government has no money of its own. All of its revenue comes from the people by way of taxation. For government to waste is wantonly to destroy. Direct waste may occur in the manner by which and the objects upon which money taken from the people by taxation is spent. Indirectly there is much greater waste, not in spending government revenues which are the money of the people, but in the money the people must give up to provide these revenues to spend. If it costs a taxpayer two dollars so that the government may have one dollar net, then the burden of taxation is two dollars, of which one is wasted. The burden of taxation, therefore, should be considered, not as the amount which the government receives, but the amount which the taxpayer pays. It is here that the character of taxation imposed as distinguished from the amount of taxation collected comes into play. Belief in the necessity of eliminat-

ing this waste by wrong taxation has called forth the Treasury's insistence, irrespective of whether under a Democratic or Republican Administration, that we return now the war is over to an economically sound basis of taxation.

In his speech before the conference on inheritance taxes, held in Washington last February, President Coolidge spoke forcibly on this point and applied it to the existing inheritance tax situation. He showed that those taxes were wasteful in two ways: the mere expenses of ascertaining the tax in certain cases equaled the tax received by the State. In other words, it cost the taxpayer two dollars for the State to get one. And, second, the long-term effect of a capital levy, which is the principal characteristic of inheritance taxes, is ultimately to destroy values and initiative and thus decrease wealth in the hands of taxpayers available for subsequent taxation, that is, the taxpayer loses more than the State receives.

When we come to income taxes we find that excessive rates have a like dynamic effect upon the future production of incomes subject to tax on account of loss of initiative through deprivation of the expectation of adequate reward. I have discussed this feature before and in talking to you to-day I shall confine myself to the waste and consequent lessening of credit generally caused by a taxing system which forces business and investment out of its normal channels and uselessly increases the expenses of business and cost of obtaining capital. This is a wholly unnecessary destruction of the wealth of the nation by which the entire people suffer.

Look for a moment at our present income tax law. Suppose there existed a good level concrete road between Washington and Baltimore, a distance of forty miles, and the Federal Government did not own the surrounding property, but had the power to set up a toll gate outside of Washington and impose tolls, that is, taxes. Rates are fixed unreasonably high. The law exempts Rolls-Royce cars from paying toll. The owners of Rolls-Royces - tax-exempt securities - travel free and these cars, excellent as they are, are made even more desirable to those who can afford to purchase them. Out of this traffic the government makes no revenue. Some powerful cars come to the gate and find that by taking a detour over rough roads they can go round the gate and save the toll. True, the cars lose time and suffer some injury, but the tolls are so high their avoidance justifies the detour. These are the cars of men of wealth who wish to avoid taxation. Again you will note the toll gate produces no revenue. The last class are the trucks. By reason of their weight they must stick to the highway and cannot take the by-roads. The rates of toll make up a large part of the cost of going over the road and so reduce the profit to be made by sending goods from one city to the other that many goods are not shipped, or if they do move they must be sold to the public at higher prices and less are needed. These trucks are the productive businesses of the country. And it is they which pay the tolls and cannot avoid the collector. What is the result of these excessive rates? The advantages of owning Rolls-Royces are emphasized, many cars detour over poor roads with inevitable delay and loss and productive commerce is too heavily

burdened. The government receives in revenue much less than the people in the two cities pay directly and indirectly. It is wasteful taxation.

Our present income tax presents just these discriminations. They are inherent in our system and it does not lie within the power of practical legislation to eliminate them. Repeatedly Congress has refused to reach the abuse of having a type of security the ownership of which works an exemption of taxation. To-day there are in existence over \$13,000,000,000 of tax-exempt securities outstanding and before any Constitutional amendment could possibly be made effective the amount would be over fifteen billion. It would take a long time to whittle down such a block of securities by their payment at maturity so that the amendment would be practically useful to keeping capital in taxable productive channels. Under our complicated dual governments and multiplicity of laws, the means of tax avoidance available to those having wealth are so many that to try to close them all by statute would simply put business in a straight-jacket, and render it unable to move. The holes cannot be closed without making the law so rigid that growth of industry would end. It would be like forbidding motor traffic on the highways to prevent speeding.

You may think that I exaggerate the discrimination which our present tax laws work between a person having wealth and a person making wealth; between the wealthy man with a high-powered car and the man in productive business with his truck. Take a specific case. Suppose the one has five million dollars and the other contemplates a business venture which may produce in a year a profit equal to the wealthy man's annual income.

Note as we go along the relative security of the annual income as compared with the probable uncertainty of the business venture. Invest the five millions in any ordinarily intelligent way. Put a million into tax-exempt securities; two million plus two million borrowed into coal lands, with no intention of working the coal but simply to hold it for its increase in value, say 6 per cent a year. The advantages of the foregoing are the possession of an asset increasing in value and the privilege of cutting down taxable income to the extent interest is paid on the money borrowed. Of the remaining two million half might be put into good bonds and half into sound stocks, which should also increase in market value each year. This is a well distributed safe lot of investments. The actual income would be something as follows: from tax-exempt securities forty thousand dollars; from taxable bonds fifty thousand dollars; from taxable stock seventy thousand dollars. Non-taxable increase of the coal lands would add in value two hundred forty thousand dollars and the non-taxable increase of stocks another sixty thousand dollars. This is a total of four hundred sixty thousand dollars, from which must be deducted as an expense one hundred twenty thousand dollars of interest on the borrowed money. What is the income tax which the wealthy man must pay to his government on an income of three hundred and forty thousand dollars? Nothing. If the producer in his business venture should make a profit of a like amount he would have to pay over one hundred and ten thousand dollars of tax to the government.

We encourage by our excessive income tax rates the unproductive investment of capital and discourage business. Under excessive rates industry cannot function normally but is constantly being forced into wasteful channels. This unnatural diversion yields no revenue to the government, and is costly to industry. Excessive rates cost the taxpayer two dollars; the government gets one and the other is thrown away resulting in a loss to the accumulated wealth of the country upon which alone the continued prosperity of us all depends. It is the economically unsound basis of surtaxes which is alone responsible for this loss.

I have said that with our dual governments, our intricate corporate organizations and our theories of what constitutes income, discrimination is inherent in our income tax law. This is true. A theoretically perfect law is probably not possible. But we can prevent discriminations being unreasonable, a restraint upon conduct of business being undue, a law to collect revenue being a law which wastes more than it collects.

It is not the total amount of taxation which is objectionable but the effect of the unscientific high rates upon the normal play of economic forces. Idle funds in the hands of a rich man are not attracted to a six per cent taxable bond or to an eight per cent investment when a perfectly safe $4\frac{1}{2}$ per cent tax-exempt security yields more net income to him. A man is not interested in risking his money and his energy in a new enterprise where if he wins the government appropriates half his winnings and if he loses he stands the whole of his loss. An investor does not desire productive assets when he can let a property lie idle and its increment in value is not reachable by the tax-collector. All this is wrong. Its effect ultimately is to increase costs and to narrow the margin upon which the credit of business rests.

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If, however, we cut down these tax rates to a reasonable figure, the high differential of a tax-exempt over a taxable investment is brought within proper limits and funds seek normal investment; initiative and new ventures are not so heavily penalized, and we can expect movement ahead; artificial restraints on business, artificial methods of handling industry, no longer are worth while, expense is saved, and we have a greater margin of profit available. This is the solution which is within the power of the country to make, and which I feel confident must ultimately come.

No system of taxation, which forces business into tortuous and unnatural channels, can continue as the permanent policy of this country. We want a highway of taxation which makes it cheaper and quicker for the business man to go straight through to success, rather than to take the long way round in the effort to avoid the Government's toll of excessive taxes. In the end the country will benefit. We have become the greatest nation in the world only because we have given energy and ability free play; and any system of taxation which discourages initiative and penalizes success cannot be the right policy for America.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Friday, June 12, 1925.

Secretary Mellon announced that subscriptions for the issue of Treasury certificates of indebtedness, dated June 15, 1925, Series TJ-1926, 3 per cent, maturing June 15, 1926, closed at the close of business on June 10, 1925. The reports received from the twelve Federal Reserve Banks show that for the offering, which was for \$125,000,000, or thereabouts, total subscriptions aggregate some \$469,000,000. Allotments on subscriptions were made as follows: Subscriptions in amounts not exceeding \$1,000 were allotted in full; subscriptions in amounts over \$1,000 but not exceeding \$10,000 were allotted 40 per cent, but not less than \$1,000 on any one subscription; subscriptions in amounts over \$10,000 but not exceeding \$100,000 were allotted 20 per cent, but not less than \$4,000 on any one subscription; subscriptions in amounts over \$100,000 were allotted 10 per cent, but not less than \$20,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Saturday, June 13, 1925.

Secretary Mellon to-day announced that the total amount of subscriptions received for the issue of 3 per cent Treasury certificates of indebtedness, Series TJ-1926, dated June 15, 1925, maturing June 15, 1926, was \$470,254,000, and that the total of subscriptions allotted was \$124,247,000. As previously announced, all subscriptions in amounts not exceeding \$1,000 were allotted in full, while allotments on subscriptions in amounts over \$1,000 were made on a graduated scale.

The subscriptions and allotments were divided among the several Federal Reserve districts as follows:

<u>Federal Reserve District:</u>	<u>Total Subscriptions Received:</u>	<u>Total Subscriptions Allotted:</u>
Boston	\$ 38,312,000	\$ 10,054,000
New York	131,466,000	18,437,000
Philadelphia	48,436,000	15,100,000
Cleveland	65,817,000	18,283,000
Richmond	20,975,000	4,820,500
Atlanta	22,192,000	8,375,500
Chicago	56,408,500	25,675,500
St. Louis	11,410,000	4,305,500
Minneapolis	12,195,000	3,702,000
Kansas City	8,226,500	2,140,500
Dallas	17,636,000	4,668,000
San Francisco	37,180,000	8,685,500
T O T A L	\$ 470,254,000	\$ 124,247,000

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
June 15, 1925.

The Treasury to-day received payments from the following foreign governments on account of their funded indebtedness due the United States:

GREAT BRITAIN:

The fifth semi-annual payment of interest on the funded indebtedness of the Government of Great Britain due the United States under the terms of the debt settlement approved by the Act of February 28, 1923. The total payment amounted to \$68,310,000, and as authorized by the terms of the settlement was made in obligations of the United States issued since April 6, 1917, which were accepted at par and accrued interest with a cash adjustment. The obligations were \$67,843,500 face amount of 2-3/4% Treasury certificates of indebtedness of Series T S 1925, due September 15, 1925, the accrued interest being \$466,424.06 and the cash adjustment \$75.94.

FINLAND:

The fifth semi-annual payment of interest on the funded indebtedness of the Government of the Republic of Finland due the United States under the terms of the debt settlement approved by the Act of March 12, 1924. The total payment amounted to \$133,650, which was made in cash.

HUNGARY:

The third semi-annual payment of interest, except that part to be funded, on the funded indebtedness of the Government of Hungary due the United States under the terms of the debt settlement approved by the Act of May 23, 1924. The payment amounted to \$14,905.69, which was made in cash. The remainder of the interest will be funded in accordance with the option given the Government

of Hungary in the debt settlement agreement.

LITHUANIA:

The second semi-annual payment of interest, except that part to be funded, and the first annual installment of principal on the funded indebtedness of the Republic of Lithuania due the United States under the terms of the debt settlement approved by the Act of December 22, 1924. The total payment amounted to \$75,225, of which \$45,225 was for interest and \$30,000 was for principal. The remainder of the interest will be funded in accordance with the option given the Government of Lithuania in the debt settlement agreement. The payment was made in cash.

POLAND :

The first payment on account of the funded indebtedness of the Republic of Poland due the United States under the terms of the debt settlement approved by the Act of December 22, 1924. The payment, including \$135,465.68 received January 13, 1925 on account of the June 15 installment, amounted to \$500,000, which was made in cash. The remainder due will be funded in accordance with the option given the Government of Poland in the debt settlement agreement.

The obligations of the United States accepted in connection with the British payment have been cancelled and retired and the public debt reduced accordingly.

Secretary Mellon in announcing the completion of plans for the reorganization of Prohibition enforcement, said:

Assistant Secretary Andrews, having analyzed the situation in prohibition law enforcement, has submitted a plan for reorganization and policy which he has worked out in collaboration with Commissioner Elair of Internal Revenue and Commissioner Haynes of Prohibition Unit, and the heads of his various departments. The plan has met the unqualified approval of the President and of this Department. The change will be started August 1 and the whole plan put into effect as rapidly as conditions warrant.

It is believed the Federal function in Prohibition enforcement is to stop the sources of supply: importation, diversion of legitimately manufactured alcohol, illegitimate manufacture and transportation of alcohol and alcoholic beverages. Federal law enforcement energies will be directed primarily against the bootleg industry in all phases of its operations. Effort will be made to assist and develop local enforcement. The Treasury Department will work in closest possible cooperation with the Department of Justice and its agents, both at headquarters and in the field. All control of alcohol, except the collection of the Federal tax, is made the sole responsibility of the prohibition administrators representing the Commissioner of Internal Revenue.

The plan for reorganization divides the United States proper into 22 Federal Districts bounded exclusively by Federal Judicial District Lines, their size having been determined by the amount of permissive work to be done and the difficulties of enforcement to be met due to local conditions,

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public sentiment, etc. Because of time required for written communication, the Hawaiian Islands and Porto Rico are made each a district by itself.

In each District, a Prohibition Administrator will be appointed, selected for personal fitness and executive and business ability. He will be given full authority and held responsible for the enforcement of the law and for all personnel within his District. His official staff will include a First Assistant directly in charge of permissive work and a Second Assistant in charge of enforcement work, a chemist, and a counsel who will work in close cooperation with United States Attorneys. Agents under the First Assistant will be trained pharmacists and chemists; and under the Second Assistant, trained criminal investigators and detectives.

The plan is a decentralization with view to economy and efficiency, permitting the use of a smaller personnel with higher qualifications. Its disregard of state lines makes it more clearly a Federal organization, not unlike that of the Customs service. The Headquarters in Washington will be largely one for supervision to secure uniformity of policy, standardization, coordination, etc. Its functions will be conducted under the same officers as at present, but their duties will be less administrative and more supervisory. Opportunity will be given for these officers to spend a considerable portion of their time in the field outside of Washington.

TREASURY DEPARTMENT

FOR RELEASE, AFTERNOON PAPERS,
Thursday, June 25, 1925.

Speech

by

David E. Finley

of the

War Loan Staff, Treasury Department

at

The 25th Annual Convention

of the

South Carolina Bankers Association

at

Greenville, South Carolina,

June 25, 1925.

Note:

For full text of speech see Subject File: Secretary's Speeches
Taxation

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Thursday, June 25, 1925.

Secretary Mellon as chairman of the World War Foreign Debt Commission in welcoming the Italian Ambassador Mr. De Martino and Mr. Alberti representing Italy in the negotiations for a settlement of the Italian debt said in part:

"Premier Mussolini, having determined that Italy has reached the stage in her economic restoration when a funding of her debt to America can be undertaken, has acted with his characteristic decision. We have watched Italy emerge from the chaos of war, straighten out her industrial troubles, cut her expenditures, and put her budget in equilibrium, all under the direction of one strong man with sound ideas and the force to make these ideas effective. We in America appreciate constructive action. We do not minimize the difficulty of payment of your external debt, but we know that the only way to settle the question, which unsettled might be a continual disturbance to your financial structure and a source of friction in our cordial relations with you, is to fund the debt now taking into consideration Italy's capacity to pay. You will have, I am sure, the sympathetic consideration of the Debt Commission and of the American people."

The Italian Ambassador replied:

"I am thankful to you, Mr. Chairman, for your kind words. I am glad to be here to discuss a question of such a great interest to our two countries and with such eminent American statesmen.

Premier Mussolini has directed me to begin without delay the negotiations for the settlement of our war debt to the United States.

"His firm and straightforward policy has always been adverse to half-measures and dilatory methods. He has taken into due account the advice repeatedly conveyed to me by members of the American Government. 'The sooner the better' said Secretary Kollogg to me and 'the sooner the better' repeated to me the Secretary of the Treasury Mr. Mellon. Prime Minister Mussolini has also wished to take into consideration the sentiment of the American public opinion which is anxious to have the debt questions settled.

Italy has not forgotten the help you so generously gave her in the critical period of the war by sending your soldiers to fight side by side with ours and by furnishing the means to carry on a battle for a common ideal. Our debt of gratitude will always remain as an element of friendship between our two countries. Nothing must cloud our good understanding and mutual confidence between our two nations, united in the high pursuit of world peace and of civil progress of humanity.

The Italian Government has repeatedly asserted its firm intention to honor its international obligations. This assurance I have given again by order of my Government at the moment of the presentation of my credentials to President Coolidge, who, directs with so much wisdom the course of this great and prosperous Republic and to whom I feel honored to address the expression of my deferential greeting.

But the Italian Government wishes to reach a settlement which it may conscientiously be sure to fulfill and this for the very desire it has to

keep the agreement which will derive from this settlement, between Italy and the United States. We have, therefore, carefully estimated the limits of our capacity to pay. It is obvious that a settlement practically impossible to fulfill or one which might cause disaster to the debtor is not desirable for either of us.

The basic principle of the capacity to pay is admitted - I am sure - by the practical mentality of the American people and is also accepted, as I have been given to understand, by the American Government.

We recognize, I repeat it, our debt toward the United States but we ask that due account be taken of the real conditions, economical and financial, in which Italy finds itself, as well as of our demographic and fiscal pressure, of our national wealth, of the balance of payments and of the commercial balance and we have to adjust to these conditions the amount, form and the time of payments."

A general discussion of the capacity of Italy to pay was had, and the conference adjourned until Tuesday, June 30, 1925 at ten a.m.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Sunday, June 28, 1925.

Address

of

Hon. Garrard B. Winston

The Undersecretary of the Treasury

before

Bankers Association of Maine

at

Bar Harbor, Maine, June 27, 1925.

Note:

For full text of speech see Subject File: Secretary's Speeches

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Tuesday, June 30, 1925.

Chairman Mellon of the World War Foreign Debt Commission, in speaking of the informal conference with the Italian delegation today, said:

Mr. Alberti, Minister Plenipotentiary of Italy, presented further detailed evidence of the pressure of taxation upon Italy and showed how Italy has economized in its Governmental expenditures more than any other nation of Europe and alone of the Allies has actually decreased expenditures for military purposes as compared with before the war. The date of the next meeting will be determined this afternoon.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Wednesday, July 1, 1925.

In reference to the continuance until August of the negotiations for settlement of the Italian debt, Mr. Mellon, Chairman of the Debt Commission, said:

The original understanding between the Debt Commission and the Italian Ambassador, before any discussion took place, was that as soon as the preliminary conversations were had Mr. Alberti would go to Italy to collect the necessary data to disclose Italy's ability to pay. Negotiations have moved without incident and will be resumed when Mr. Alberti returns in August. Intimations in the press that there has been a break are unfounded.

Secretary Mellon made the following announcement in connection with the close of the fiscal year of the Government on June 30:

The net results of the financial operations of the Government covering the fiscal year 1925, are now available through figures reflected in the daily Treasury statement for June 30, 1925. The total ordinary receipts were \$3,780,148,684.42, and the expenditures chargeable against such receipts \$3,529,643,446.09, resulting in a surplus of \$250,505,238.33. This is to be contrasted with a surplus, estimated last October, of about \$67,000,000.

A comparison of estimated and actual receipts in some of the principal items is interesting: Customs receipts were \$547,561,226.11, or within $\frac{1}{2}$ of 1% of the estimate, and miscellaneous internal revenue \$828,638,079.90, which is practically the estimate. Income tax receipts of \$1,760,537,823.68, however, exceeded estimates by \$100,000,000, or 6%. In the other miscellaneous receipts of \$643,411,567, there were also increases, being principally \$34,000,000 on account of railroads; \$2,500,000 from sale of other securities owned by the Government; \$15,000,000 from Army costs receipts; \$3,500,000 from river and harbor improvements; \$6,400,000 from sale of clothing and small stores account, Navy Department; and \$11,500,000 on account of Indian moneys.

The expenditures which also affect the surplus were \$3,529,643,446.09, or a net decrease under the estimate of \$4,440,361.91.

The total gross debt was reduced in the fiscal year by \$734,619,101.59, and on June 30, 1925, was \$20,516,193,887.90. This reduction was effected by (1) \$466,538,113.83 on account of the sinking fund and other debt retirements chargeable against ordinary receipts; (2) by application of the entire surplus of \$250,505,238.33; and (3) \$17,575,749.43 on account of reduction in the General Fund balance below the balance on June 30, 1924. The surplus for the fiscal year 1925, therefore, has already been used in reduction of the debt and is not available for tax reduction. Since tax reduction means a loss of revenue annually, it is only the annual surplus to be expected in future years which is the margin available for tax reduction and should be so used.

In the fiscal year 1925 the regular maturities of the public debt amounted to \$2,307,041,400 at an average annual interest rate of 4.4464% and new issues (exclusive of a small amount of Treasury savings certificates) were floated in the aggregate par amount of \$1,882,167,000 at an average annual interest rate of but 3.5574%. The reduction in annual interest charges on the new issues as compared with the annual interest charges on the same amount at the average interest rate of the maturing issues, was \$16,730,000. Four per cent 20-30 year Treasury bonds were issued during the fiscal year 1925 amounting to \$1,047,088,500 face amount. This long-time financing removes the pressure on the refunding operations which will be necessary in connection with the maturity of the Third Liberty Loan on September 15, 1928. As a result of this and other debt changes in the fiscal year, the short-dated debt (maturing within five years) on June 30, 1925, was \$6,252,000,000 as against \$8,074,000,000

on June 30, 1924.

The plans of the Treasury to make Prohibition enforcement effective are rapidly approaching consummation. The Coast Guard two years ago worked out a building program, which was submitted to Congress and authorized by it in April, 1924. Work was promptly begun, and on June 30th, last, 216 patrol boats and 100 picket boats were built or building. Twenty destroyers belonging to the Navy have been rehabilitated, and the required personnel was enlisted and trained. All but 23 of the patrol boats and all of the picket boats are now in service. The last three of the destroyers went into commission yesterday. Plan of operation had been carefully prepared, and in May, when the boats and trained personnel were available, the plan was successfully put into effect on the Atlantic Coast. As an assistance to the Coast Guard operations, a treaty extending the three-mile limit was made with England and has been followed during the past year by similar treaties with Norway, Sweden, Denmark, Italy, Panama and the Netherlands. Last Fall a treaty to aid in the prevention of liquor smuggling was negotiated with Canada on the North, and similar negotiations have been begun with Mexico on the South. Within the Treasury itself all activities which are related to Prohibition enforcement, being Customs, the Coast Guard and the Prohibition Unit, have been centered under the direction of one Assistant Secretary, and General Lincoln C. Andrews put in charge. A complete reorganization of the Prohibition Unit has been recently announced. It is

believed that as a result of its experience and development the Treasury is to-day better organized and equipped to make the Volstead Act effective.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
SATURDAY, JULY 25, 1935.

Acting Secretary of the Treasury Winston made the following statement to-day:

It has been found more desirable to put the Prohibition reorganization plan previously announced into effect as a whole throughout the country, instead of one District at a time. This modification in plan requires a brief extension of the August 1st date, tentatively given as the date when the plan might become effective, for about thirty days to on or about September 1st, next. The additional time will permit the Department to complete the administrative details so that the machinery may operate smoothly from the start.

The selection of the twenty-four Administrators is a matter of the gravest importance. The Department is giving all recommendations earnest consideration and is making a thorough survey of the field with a view to the selection of the best available material. It is proposed to announce the names of the new Administrators when all, or nearly all, have been selected. Under each Administrator there will be a group head where practicable in every judicial district and located in the same city as the United States Attorney with whom he will cooperate in the enforcement of the law. Under his Administrator the group head will be responsible for enforcement in his District.

Upon the recommendation of Commissioner Blair, who was absent through illness when the Districts were first determined, and solely for administrative reasons, a few changes have been made, and a complete list of these Districts is attached.

There is also attached a copy of letter of instructions to the field personnel, issued by Assistant Secretary Andrews to-day.

TREASURY DEPARTMENT.

FOR IMMEDIATE RELEASE,
July 25, 1925.

TO FIELD OFFICERS OF THE PROHIBITION UNIT:

I wish to explain to the members of the organization what the new organization will mean to them personally. It is the intention of the Department to select from those now in the service the men who will be retained and even promoted in the new organization. These men will be selected for merit only, and in accordance with personal fitness and qualifications for the work we are planning to do. While the process of reorganization is under way, the present organization will continue to function as is.

With the advice of Commissioner Blair , Commissioner Haynes and the heads of the Washington Divisions, the Department will select the 24 District Administrators. These Administrators will then go to their respective districts to study conditions and personnel with a view to selecting such personnel and recommending such organization as the conditions in their respective Districts warrant. These Administrators will be given a free hand in the selection of this personnel inasmuch as they are to be held responsible for law enforcement in their Districts. The existing personnel in the mobile forces will be available for selection by the Administrators.

It is intended that the new organization shall be a clean-cut business organization for the efficient accomplishment of its purpose. Positions and salaries will be such as to afford opportunities for promotion to practically all the personnel and it is intended that regulations will be so designed as to make promotion for merit assured. In

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the future, tenure of office and promotion will be based on personal performance only. In order that every man may fully realize that he owes his appointment in the reorganization solely to his merit the following procedure is ordered:

The present appointment of all unclassified employees will be terminated not later than October 15, 1925, and unless reappointed will end their connection with the service. In the case of prohibition agents and inspectors who may not have been selected for retention any leave which may be due them on October 15, 1925, must have been taken before that date.

In the meantime, selections will be made and the men appointed to their new offices in the organization. These appointments will be made for merit only, and on a distinct understanding that the appointee will hold office so long, and only so long, as his services are satisfactory.

L. C. ANDREWS
Assistant Secretary.

DISTRICT NO.	HEADQUARTERS	TERRITORY, JUDICIAL DISTRICTS.
1	Boston	Maine, New Hampshire, Vermont, Massachusetts and Rhode Island.
2	New York	Southern and Eastern Districts of New York and Connecticut.
3	Buffalo	Western and Northern Districts of New York.
4	Pittsburgh	Western and Middle Districts of Pennsylvania.
5	Philadelphia	Eastern District of Pennsylvania and New Jersey.
6	Baltimore	Maryland, District of Columbia and Delaware.
7	Roanoke	Virginia and West Virginia.
8	Charlotte	Georgia, South Carolina and North Carolina.
9	Tampa	Florida.
10	New Orleans	Louisiana, Mississippi, Alabama and Arkansas.
11	Louisville	Kentucky and Tennessee.
12	Columbus	Ohio and Michigan.
13	Chicago	Illinois, except southern counties of eastern judicial district, Indiana and eastern judicial district of Wisconsin.
14	St. Paul	Minnesota, North Dakota and Western District of Wisconsin.
15	Omaha	Nebraska, Iowa and South Dakota.
16	St. Louis	Missouri, southern counties of eastern judicial district of Illinois and Kansas.
17	Fort Worth	Texas and Oklahoma
18	Denver	Colorado, Utah and New Mexico.
19	Helena	Montana, Idaho and Wyoming.
20	Seattle	Washington, Oregon and Alaska.

DISTRICT NO.	HEADQUARTERS	TERRITORY, JUDICIAL DISTRICTS.
21	San Francisco	Northern District of California and Nevada.
22	Los Angeles	Southern District of California and Arizona.
23	Honolulu	Hawaii
24	San Juan	Porto Rico.

His Excellency Baron de Cartier de Marchienne, the Belgian Ambassador, in opening for Belgium the negotiations for the funding of its indebtedness to the United States, said to the American Debt Commission:

Mr. Chairman,

Gentlemen:

In delegating us to confer with you, the Belgian Government desire to meet an obligation, the fulfilment of which will be made easier by the feelings of friendship existing between two nations which have fought in common for the highest ideals of mankind.

Belgium has not forgotten - nor will she ever forget - the decisive aid of the American Army in the final triumph of the Allies, which, for Belgium, meant the restoration of her liberty and her independence. Invaded and occupied by the enemy, Belgium has always been grateful for the efficient and powerful work of the Commission for Relief in succouring her helpless civilian population. We also know that the restoration of our country would have been long delayed, had it not been for the advances freely granted us by the United States in the critical days which followed the Armistice.

Belgium who did her full duty on August 3rd, 1914, will honor all her just obligations. She would have taken up earlier with you, the problem of an equitable consolidation of her debts but for the non-fulfilment of many solemn pledges given to her people during the war. The situation so created was made even more critical by the fact that, during four years of occupation, Belgium was forced to pay Germany, under the form of war levies in cash and as a result of the imposed use of German currency, a tribute which now amounts to a loss of nearly two billion dollars. We feel sure that you will appreciate this special situation.

You are also aware of the sums which we had to spend to rebuild our devastated regions and to restore our wantonly destroyed factories. We succeeded in this great work, in spite of the many difficulties and bitter disappointments which confronted us, but which we faced with that same spirit we showed in the war.

The adoption and normal functioning of the Dawes plan, although it will give us only a small share of what we were entitled to, and the gradual curtailment of Government expenditures, give, however, Belgium reason to hope that she will succeed in her persevering efforts to place her finances on a sound basis.

You know, Gentlemen, that this hope was only fostered through the levying of crushing post-war taxes, which now so heavily weigh upon our national production.

Belgium glories in her resistance to an unprovoked aggression forced on her in spite of her love of peace and her scrupulous respect for all her international obligations. When her territory was invaded, in violation of long standing treaties, she did not hesitate, under the heroic leadership of her King, to engage all her resources for the defense of her liberty and for the triumph of Right. We Belgians are justly proud of debts thus incurred in the fulfilment of ^{our} duty.

Confident in their moral position and relying on that sense of justice of which the American Nation has given us so many proofs, the Belgian people have delegated us to seek with you an agreement inspired by the recollection of the nature and history of our debts, as well as by the just comprehension of our economic and financial difficulties created by an unjust war of which we were the innocent victims.

Secretary Mellon, Chairman of the American Commission, replied:

During the war we learned high admiration for the courage of Belgium, the nation which at risk of her destruction stood by her treaty obligations, and for the even greater courage of her citizens, a civilian population under the military heel of occupation, steadfast in their patriotism. Feelings such as these do not change. Friends and allies we have been and will remain.

We saw your struggles in the war. We know also that your problems did not end with the peace treaty, but that the years since the Armistice have been for you difficult beyond anything in your experience. Your nation, living by trade, had first to restore its means of trade so that its people might continue to exist before it could even take up questions with its neighbors. Nor are we unmindful that there remains much you will wish yet to do in the adjustment of your finances and the stabilization of your currency and that your future plans will be affected by any agreement which may be reached here. On your part you will not undertake what you feel you cannot fulfil. On our part we will not ask you to do the impossible. So you may rest assured that with the feelings America has for you and the appreciation which we have of your difficulties, your position will have the most sympathetic and friendly consideration by our commission.

The funding of your debt to us within your capacity to pay means far more than the mere payment by you and the receipt by us of a certain number of dollars each year. It is a recognition of the integrity of international obligations and the settlement of a question which might disturb the long friendship of our two nations. To accomplish these results is worthy of our every effort.

In you gentlemen here Belgium has sent its representative men with power to negotiate. The question before us is of narrow compass. There are but two parties to our negotiations. Politics, local or international, are not

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involved. We sit here reasonable men around a table. Under such conditions we will soon learn each others' viewpoints, determine the true facts governing the situation, and should reach an agreement fair to your country and to ours.

On behalf of the World War Foreign Debt Commission, I extend you welcome.

TREASURY DEPARTMENT

For release morning papers
Wednesday August 19, 1925.

The World War Foreign Debt Commission, in announcing the conclusion of the negotiations over the Belgian debt, made the following statement:

The basis of settlement of the Belgian debt to the United States has been reached between the United States World War Foreign Debt Commission with the approval of the President, and the Belgian Debt Commission, subject to the ratification of the United States Congress and the Belgian political authorities.

Repayment of the post armistice debt, amounting at date to about \$246,000,000 has been arranged on the general lines accorded to other countries. Installments on principal are spread over a period of 62 years and the rate of interest is to be $3\frac{1}{2}\%$ beginning at the end of ten years as in the other cases. In this case, however, interest payments during the first ten years have been graduated in fixed amounts as shown in the statement attached. Repayment on the principal and interest for the first year will be about \$3,000,000 increasing each year until the eleventh year, when the total amount repayable on principal and interest is about \$9,800,000.

The Belgian Commission has been insistent that the United States should accept the basis for settlement of the pre Armistice debt of \$171,000,000 which was accepted by President Wilson at the Peace Conference. The arrangement contemplated at that time was that the German Government should be substituted for Belgium as the debtor for the pre Armistice debts. This proposal was accepted

by the Belgian Government as a fundamental part of other arrangements made by her under the Treaty of Versailles and was also accepted by the other creditors whose advances amounted to over \$800,000,000.

At that time it was considered by all the Belgium creditors that the pre-Armistice advances to Belgium occupied entirely a different position from other financial obligations between any of the countries in the war. Although the plan was accepted by the American representatives at Paris and acted upon by all the other parties to it, the United States did not ^{of} course become legally bound as the Versailles Treaty with Germany was not ratified. Nevertheless, the United States Debt Commission considers that while no legal obligation rests upon the United States in the matter, there does continue a weighty moral obligation as a result of assurances given which entirely differentiates this sum from all other debts due the United States from foreign countries.

Provision was made under the Dawes plan that 5% of the annual German reparations payments are set aside, after satisfying certain priorities (of which the payment of cost of the Army of Occupation of the United States is included as one of such priorities) for service to all nations on the Belgian pre-Armistice debt. All the other countries except the United States have accepted their proportion of the sum thus payable as a consumation of the plan accepted by President Wilson, and Belgium has been relieved as a debtor to these other nations.

The United States Debt Commission has not been able to accept the Belgian proposal that either Germany directly, or the proportion of the 5% payable to Belgium under the Dawes plan and applicable to the American debt, should be substituted by Belgium for repayment of the pre armistice debt and a specific Act by Congress forbids such action. But the United States Debt Commission has felt that under all the circumstances the United States should not ask for more than the repayment of the principal of the pre armistice debt. This has been arranged upon the basis of instalments payable over 62 years without interest, the obligation remaining directly upon Belgium. The amount of such annual instalments is to be \$2,900,000 but with a portion deferred during the first six years for subsequent repayment. Thus after the preliminary periods the total payments of Belgium to the United States will be about \$12,700,000 per annum.

The adjustments of early payments on the debts have been made to meet the present difficulties of Belgium in obtaining foreign exchange because of the unfavorable balance of her commodity trade and the deficiencies in her income from foreign investments, tourist travel and other forms of "invisible" exchange. A statement of the exact payments follows.

Statement of amounts payable to the United States on account of the Proposed Refunding Bonds to be issued by Belgium on account of its Post-Armistice Debt.

Principal	Schedule of annual interest instalments to be paid by Belgian Government on refunding bonds in arbitrary amounts for first 10 yrs.- 3½% thereafter.	Schedule of annual principal instalments to be paid on account of principal.	Total annual payments.	Year
246,000,000	1,740,000	1,100,000	2,840,000	1
244,900,000	2,000,000	1,100,000	3,100,000	2
243,800,000	2,250,000	1,200,000	3,450,000	3
242,600,000	2,500,000	1,200,000	3,700,000	4
241,400,000	2,750,000	1,200,000	3,950,000	5
240,200,000	3,250,000	1,300,000	4,550,000	6
238,900,000	3,750,000	1,300,000	5,050,000	7
237,600,000	4,250,000	1,300,000	5,550,000	8
236,300,000	4,750,000	1,400,000	6,150,000	9
234,900,000	5,250,000	1,400,000	6,650,000	10
233,500,000	8,172,500	1,600,000	9,772,500	11
231,900,000	8,116,500	1,700,000	9,816,500	12
230,200,000	8,057,000	1,800,000	9,857,000	13
228,400,000	7,994,000	1,800,000	9,794,000	14
226,600,000	7,931,000	1,900,000	9,831,000	15
224,700,000	7,864,500	1,900,000	9,764,500	16
222,800,000	7,798,000	2,000,000	9,798,000	17
220,800,000	7,728,000	2,100,000	9,828,000	18
218,700,000	7,654,500	2,100,000	9,754,500	19
216,600,000	7,581,000	2,200,000	9,781,000	20
214,400,000	7,504,000	2,300,000	9,804,000	21
212,100,000	7,423,500	2,400,000	9,823,500	22
209,700,000	7,339,500	2,500,000	9,839,500	23
207,200,000	7,252,000	2,500,000	9,752,000	24
204,700,000	7,164,500	2,600,000	9,764,500	25
202,100,000	7,073,500	2,700,000	9,773,500	26
199,400,000	6,979,000	2,800,000	9,779,000	27
196,600,000	6,881,000	2,900,000	9,781,000	28
193,700,000	6,779,500	3,000,000	9,779,500	29
190,700,000	6,674,500	3,100,000	9,774,500	30
187,600,000	6,566,000	3,300,000	9,866,000	31
184,300,000	6,450,500	3,400,000	9,850,500	32
180,900,000	6,331,500	3,500,000	9,831,500	33
177,400,000	6,209,000	3,600,000	9,809,000	34
173,800,000	6,083,000	3,700,000	9,783,000	35
170,100,000	5,953,500	3,800,000	9,753,500	36
166,300,000	5,820,500	4,000,000	9,820,500	37
162,300,000	5,680,500	4,100,000	9,780,500	38
158,200,000	5,537,000	4,300,000	9,837,000	39
153,900,000	5,386,500	4,400,000	9,786,500	40

149,500,000	5,232,500	4,600,000	9,832,500	41
144,900,000	5,071,500	4,700,000	9,771,500	42
140,200,000	4,907,000	4,900,000	9,807,000	43
135,300,000	4,735,500	5,100,000	9,835,500	44
130,200,000	4,557,000	5,300,000	9,857,000	45
124,900,000	4,371,500	5,400,000	9,771,500	46
119,500,000	4,182,500	5,600,000	9,782,500	47
113,900,000	3,936,500	5,800,000	9,786,500	48
108,100,000	3,783,500	6,000,000	9,783,500	49
102,100,000	3,573,500	6,300,000	9,873,500	50
95,800,000	3,353,000	6,600,000	9,953,000	51
89,200,000	3,122,000	6,800,000	9,922,000	52
82,400,000	2,884,000	7,000,000	9,884,000	53
75,400,000	2,639,000	7,200,000	9,839,000	54
68,200,000	2,387,000	7,500,000	9,887,000	55
60,700,000	2,124,500	7,800,000	9,924,500	56
52,900,000	1,851,500	8,100,000	9,951,500	57
44,800,000	1,568,000	8,400,000	9,968,000	58
36,400,000	1,274,000	8,600,000	9,874,000	59
27,800,000	973,000	8,900,000	9,873,000	60
18,900,000	661,500	9,300,000	9,961,500	61
9,600,000	336,000	9,600,000	9,936,000	62
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	310,050,500	246,000,000	556,050,500	

SCHEDULE OF ANNUAL PAYMENTS TO BE MADE BY THE
BELGIAN GOVERNMENT ON THE PRINCIPAL AMOUNTS OF ITS
PRE-ARMISTICE DEBT.

Annual installment of principal	Year
	<u>June 15</u>
1,000,000	1926
1,000,000	1927
1,250,000	1928
1,750,000	1929
2,250,000	1930
2,750,000	1931
2,900,000	1932
2,900,000	1933
2,900,000	1934
2,900,000	1935
2,900,000	1936
2,900,000	1937
2,900,000	1938
2,900,000	1939
2,900,000	1940
2,900,000	1941
2,900,000	1942
2,900,000	1943
2,900,000	1944
2,900,000	1945
2,900,000	1946
2,900,000	1947
2,900,000	1948
2,900,000	1949
2,900,000	1950
2,900,000	1951
2,900,000	1952
2,900,000	1953
2,900,000	1954
2,900,000	1955
2,900,000	1956
2,900,000	1957
2,900,000	1958
2,900,000	1959
2,900,000	1960
2,900,000	1961
2,900,000	1962
2,900,000	1963
2,900,000	1964
2,900,000	1965
2,900,000	1966
2,900,000	1967
2,900,000	1968
2,900,000	1969
2,900,000	1970
2,900,000	1971

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Annual installment of principal	Year
2,900,000	1972
2,900,000	1973
2,900,000	1974
2,900,000	1975
2,900,000	1976
2,900,000	1977
2,900,000	1978
2,900,000	1979
2,900,000	1980
2,900,000	1981
2,900,000	1982
2,900,000	1983
2,900,000	1984
2,900,000	1985
2,900,000	1986
2,280,000	1987

\$ 171,780,000

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Wednesday, Aug. 19, 1925.

Secretary Mellon, Chairman of the World War Foreign Debt Commission, announced to-day that he had been officially informed that a commission would sail from France about the middle of September to negotiate with the American Commission a funding of the French-American debt. The probable membership of the French commission was not stated.

TREASURY DEPARTMENT

FOR RELEASE, Morning Papers,
Tuesday, September 8, 1925.

STATEMENT BY SECRETARY MELLON.

The Treasury is today announcing its September financing which takes the form of an offering of \$250,000,000, or thereabouts, nine months' $3\frac{1}{4}$ per cent Treasury certificates of indebtedness, dated and bearing interest from September 15, 1925, maturing June 15, 1926. The Treasury will accept in payment for the new certificates Treasury certificates of indebtedness of Series TS-1925, maturing September 15, 1925, at par, but such subscriptions will not be given preferred allotment.

The present offering is intended, with the balances already on hand and the September tax receipts, to cover the Treasury's further cash requirements until December when further financing will be necessary.

The text of the official circular follows:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TJ2-1926, dated and bearing interest from September 15, 1925, payable June 15, 1926, with interest at the rate of three and one-quarter per cent per annum, payable on a semiannual basis.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached, payable December 15, 1925, and June 15, 1926.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before September 15, 1925, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury certificates of indebtedness of Series TS-1925, maturing September 15, 1925, will be accepted at par, in payment for any certificates of the Series TJ2-1926 now offered which shall be subscribed for and allotted, with an adjustment of the interest accrued, if any, on the certificates of Series TJ2-1926 so paid for.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Saturday, September 12, 1925.

Secretary Mellon announced that subscriptions for the issue of Treasury certificates of indebtedness, dated September 15, 1925, Series TJ2-1926, $3\frac{1}{4}$ per cent, maturing June 15, 1926, closed at the close of business on September 10, 1925. The reports received from the twelve Federal Reserve Banks show that for the offering, which was for \$250,000,000, or thereabouts, total subscriptions aggregate some \$568,000,000. Allotments on subscriptions were made as follows: Subscriptions in amounts not exceeding \$1,000 were allotted in full; subscriptions in amounts over \$1,000, but not exceeding \$10,000 were allotted 60 per cent, but not less than \$1,000 on any one subscription; subscriptions in amounts over \$10,000 but not exceeding \$50,000 were allotted 50 per cent, but not less than \$6,000 on any one subscription; subscriptions in amounts over \$50,000 but not exceeding \$500,000 were allotted 40 per cent, but not less than \$25,000 on any one subscription; subscriptions in amounts over \$500,000 were allotted 30 per cent, but not less than \$200,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,
Tuesday, September 15, 1925.

Secretary Mellon to-day announced that the total amount of subscriptions received for the issue of $3\frac{1}{4}$ per cent Treasury certificates of indebtedness, Series TJ2-1926, dated September 15, 1925, maturing June 15, 1926, was \$568,155,500, and that the total of subscriptions allotted was \$251,936,000. As previously announced, all subscriptions in amounts not exceeding \$1,000 were allotted in full, while allotments on subscriptions in amounts over \$1,000 were made on a graduated scale.

The subscriptions and allotments were divided among the several Federal Reserve districts as follows:

<u>Federal Reserve District:</u>	<u>Total Subscriptions Received:</u>	<u>Total Subscriptions Allotted:</u>
Boston	\$ 34,220,500	\$ 16,988,000
New York	239,570,500	81,123,000
Philadelphia	48,242,000	24,700,000
Cleveland	52,317,000	25,745,500
Richmond	15,827,000	7,610,000
Atlanta	26,219,500	15,618,500
Chicago	38,352,500	25,415,500
St. Louis	14,456,000	8,121,500
Minneapolis	11,201,000	6,875,000
Kansas City	8,691,000	4,402,000
Dallas	19,714,000	9,845,000
San Francisco	59,344,500	25,492,000
T O T A L	\$ 568,155,500	\$ 251,936,000

The Chairman of the World War Foreign Debt Commission made the following announcement:

The Secretary of State has been informed by the Charge d' Affaires of the Czechoslovak Republic that a Commission will be sent by the Czechoslovak Government to the United States to negotiate a settlement of Czechoslovakia's indebtedness to this country consisting of the following members:

Dr. Vilem Pospisil, Head of the Commission.

Mr. Pospisil is Director of Savings Banks of Prague, was at the Peace Conference in Paris, and has represented Czechoslovakia at Geneva.

Mr. Jan Kucera, from the Ministry of National Defense.

Dr. Karel Brabenec, from the Ministry of Finance.

Dr. Eugen Lippansky, from the Ministry of Finance, Financial expert.

Mr. Zikmund Konecny, from the Ministry of Foreign Affairs.

The Commission will sail for the United States from Cherbourg on the steamship "Berengaria" on September 26, 1925.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
September 24, 1925.

There was signed at the Treasury today an agreement providing for the refunding of the debt of the Republic of Latvia to the United States. This indebtedness represents obligations received in connection with the sale of war supplies by the Secretary of War and obligations received from the American Relief Administration on account of relief supplies furnished on credit.

The agreement was signed on behalf of the Republic of Latvia by Dr. Louis Seya, Envoy Extraordinary and Minister Plenipotentiary at Washington, and on behalf of the United States by the Secretary of the Treasury, as Chairman of the World War Foreign Debt Commission. The agreement was sent to the President for his approval this afternoon.

The amount of the indebtedness to be refunded is \$5,775,000, computed as follows:

Principal amount of obligations to be funded....	\$5,132,287.14
Interest accrued and unpaid thereon to December 15, 1922, at the rate of 4 $\frac{1}{4}$ per cent per annum.....	<u>647,275.62</u>
Total principal and interest accrued and unpaid as of December 15, 1922.....	5,779,562.76
To be paid in cash by Latvia upon execution of Agreement.....	<u>4,562.76</u>
Total indebtedness to be funded into bonds.....	\$5,775,000.00

The basis of the settlement is the same as that made with Poland; that is, the settlement was made substantially on the same basis as the settlement made with Great Britain, except that Latvia has the option to liquidate the amounts due under the agreement on or before December 15, 1930, in part by semi-annual cash payments as follows:

June 15, 1926	\$50,000	June 15, 1929	\$45,000
December 15, 1926	30,000	December 15, 1929	45,000
June 15, 1927	35,000	June 15, 1930	50,000
December 15, 1927	35,000	December 15, 1930	50,000
June 15, 1928	40,000		
December 15, 1928	40,000		
		Total	<u>\$400,000</u>

The balance is to be funded into bonds of Latvia similar in terms to the bonds first to be issued under the agreement.

The \$5,775,000 principal amount of bonds of Latvia to be issued under the refunding agreement mature serially over a period of 62 years and bear interest at the rate of 3% per annum up to December 15, 1932, and at the rate of 3½ per cent per annum thereafter.

The agreement is subject to the approval of Congress and also to the approval of the Saeima of Latvia.

The agreement with Latvia is the seventh funding agreement concluded by the World War Foreign Debt Commission since its creation on February 9, 1922. Agreements have already been concluded and approved by Congress with Great Britain, Finland, Hungary, Lithuania and Poland. The agreement made with Belgium on August 18, 1925, will be submitted to Congress at its next session, as well as the present agreement.

Dr. Louis Soya, the Latvian Minister at Washington, made the following announcement in connection with the signing of the debt funding agreement today:

When Latvia proclaimed her independence on the eighteenth of November 1918, while her territory was still under the occupation of the Bolshevist troops and the German armies, her treasury was entirely empty and she had nothing but a strong national will and consciousness of her just cause; she had to carry on a hard and enthusiastic fighting for the liberation of the country.

When in the spring of 1920 the Latvian people succeeded in becoming free of the Bolshevist intruders and the German occupation corps of von der Goltz and could first start its reconstruction work, the country was entirely ruined and disorganized. The population was reduced by 40%. 55% of the rural districts were cut up by dug-outs and covered with wire entanglements. Of 743,732 farm-buildings registered in Latvia before the war, 104,576 were partially and 78,278 completely destroyed and levelled with the ground. The Latvian industry lost about 60% of its former equipment destroyed or evacuated during the war.

In the years following the liberation of the country, energetic efforts were made to organize the State and to create the proper executive departments in order to meet the various requirements of the devastated country. In 1920, the Constituant Assembly was elected on the basis of universal suffrage for citizens of both sexes and the Constitution was elaborated declaring that Latvia shall be an independent democratic Republic and that the sovereign power of the Latvian State shall be vested in the people. By compulsory limitation in State Expenditure, by an observation of the strictest economy in all departments and an increased taxation the stability of the Latvian currency was

achieved. It was still more consolidated by a money reform introducing the gold basis for the currency system. Since 1922 the monetary unit is L a t s and hence only the Bank of Latvia shall have the right to issue bank-notes in Lats. As the emissions of the Latvian bank-notes are largely covered (about 200%) by gold and stable foreign currencies, the Latvian monetary unit, Lats, is not exposed to fluctuations and is, therefore, considered as one of the most stable currencies in Europe.

Now the Government of Latvia is energetically engaged in the great reconstruction work improving the railway traffic and harbors and establishing industries, light and power plants. The main economic assets of Latvia are her industrious thrifty population and her advantageous geographic position, as she is the most direct and convenient trade route between Russia and Western Europe. Latvia is in possession of such excellent ports, as Riga, Libau (Liepaja) and Windau (Ventspils), the latter two being ice-free the whole year round. It is why through these ports, having the advantage of direct railway connection with the commercial and industrial centres of Russia, went before the war nearly one fourth of the Russian imports and exports.

Now Latvia is in a position to meet her international financial obligations. She has paid off her debt to France and Norway and started funding of her debt of this country and to Great Britain. Latvia's national debt is about 10 - 11 million dollars, e.g. 5 - 6 dollars per capita.

TREASURY DEPARTMENT

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FOR IMMEDIATE RELEASE
Thursday, Sept. 24, 1925.

At the opening to-day of the negotiations for a settlement of the French debt, M. Caillaux, the Minister of Finance, addressed the American Commission as follows:

"Mr. Chairman,

Gentlemen:

I have come from France, intrusted by my Government, to meet the obligations of my country towards the United States.

Highly appreciated members of our Parliament, belonging to all parties, chairmen or reporters of the Financial and Trade Commissions of the upper and low House have been so kind as to accompany me. Like myself, these gentlemen have the greatest desire to reach a settlement.

We do not forget and no one in our country will ever forget what we owe to America for her splendid work to end victoriously the war and for the generous help our people received from citizens of the United States in time of need. We neither forget and we feel sure nobody on this side of the Atlantic forgets the ties knotted between both our countries at the end of the eighteenth century.

Now, if you wish, we'll go to work as practical men, desirous to come to a settlement satisfactory for all material interests, worthy of the past of the two great nations, combined in such a way as to fortify peace and help the economic stabilisation in the world."

Secretary of the Treasury Mellon, Chairman of the American World War Foreign Debt Commission, replied:

"One by one the world is overcoming the effects of the war which so long after its termination linger with us. The Dawes plan is a forward step towards economic stability in Europe. The reconstruction of devastated areas approaches conclusion; governmental expenditures becoming more regular, more certain of estimation and more possible of being met through taxation; and budgets approaching equilibrium. There still remain, however, loose ends to be gathered in. War and post-war governmental debts in many cases remain unsettled.

To establish the binding character of an international promise and to protect its own citizens, the creditor nation must seek adjustment. To keep good its word and to give itself time to recover its prosperity, the debtor nation must determine its future liabilities. No concern can successfully be reorganized in the face of an unfunded demand obligation. So we meet here in council as business men to conclude the one matter which is in controversy between our two countries.

We were glad to receive the help which France extended to us when we were fighting for our independence, and we were eager to make some return in France's own great need. The war is over, but we minimize neither the burdens France has borne nor the difficulties which menace her future. Through the necessity of recreating her destroyed productivity, through postponement of reimbursement from the destroyer, her present fiscal situation has been permitted to become impaired. We should make allowance for this condition. France now faces, however, all of the facts under a strong leadership and with the courage which withstood the assaults at Verdun. The condition is not permanent. France will emerge successfully from her difficulties.

We know that this conference opening to-day may influence greatly the peace of the world. We ourselves can not escape its repercussions. We feel, therefore, the great responsibility resting upon us. It is our duty to reach with you a conclusion, in the estimation of each of our peoples, fair; and in the practical test of time, workable. In the constructive attitude of the representatives of the two countries who now meet together, a solution will come.

Mr. Minister and gentlemen, I welcome you here."

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
Thursday, October 1, 1925.

The essential propositions made by the American Commission in its discussions with the French Commission are shown in the two attached documents.

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September 28, 1925.

We have had the privilege of considering your statement of this morning. We understand this to be a reaffirmation of your proposal to us of the 24th instant, that is, that you should pay \$25,000,000 annually for the first five years, \$30,000,000 annually for the following five years, \$60,000,000 annually for the following ten years, and \$90,000,000 annually for the last 42 years, this sum completely to extinguish the indebtedness. We have stated the reasons why this sum in our opinion is inadequate.

It seems to us that you consider the above proposed annuities are an application to your indebtedness to us of the principles discussed between France and England as applicable to the war debt of France to England. But we wish to point out that an examination of the existing settlements and tentative agreement between France and England discloses an entire difference. We find that the principles of these arrangements, if applied to the debt of the United States, would imply a larger obligation upon the part of France to the United States than that contained in our proposal below. For instance, in its treatment with England, France has considered its indebtedness for surplus war stocks and the indebtedness from the Bank of France to the Bank of England for exchange purposes as ordinary commercial debts repayable in full at full current rates of interest. Already payment is being made of these two categories of obligations. On the British-French war debt proper there appears to be contemplated a settlement by the payment of an annuity of 12,500,000 pounds for 62 years.

The \$407,000,000 representing France's indebtedness to the United States for surplus war stocks is, of course, of the same character as

the similar indebtedness to England. While there has been no separation into categories in the general debt of France to the United States, there are in the purposes to which the money loaned by the United States was devoted many which are similar to those involved in the creation of the Bank of France--Bank of England debt. Some \$682,000,000 of the American advances represent exchange transactions, meeting of maturing commercial debt obligations, and advances to the Bank of France. In order that the two creditor nations be treated on a parity, this sum would also have to be settled on the same basis as the Bank of France--Bank of England debt, that is, as any commercial obligation.

These principles of settlement as applied to France's indebtedness to the United States would necessitate:

(1) The \$407,000,000 of indebtedness for surplus war supplies would in these terms be treated as a commercial debt. It now bears 5 per cent interest and matures in 1929. If from the 15th of June, 1925, the interest rate be reduced to 4½ per cent, the rate which we now pay on our Liberty bonds, and if the principal be made payable over a period of twenty years, then the annuity payments required would amount to over \$30,000,000 per annum. This is parallel to the existing French agreement for payment of British surplus war supplies except that it is based on a lower rate of interest and upon a term of years more favorable to France than accorded by England.

(2) \$682,000,000 of the \$2,933,000,000 of other indebtedness represents advances to make payments on maturing commercial obligations and in support of the franc in international exchange and is therefore on

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parallel lines to the advances made by the Bank of England to the Bank of France. If this sum were treated also upon a commercial basis and interest were calculated to June 15, 1925, at the rates paid by France to the Bank of England, the principal sum with accrued interest at that date would be \$927,000,000 and if in this case also future interest be reduced to $4\frac{1}{4}$ per cent and the principal be repaid over a period of twenty years, the annual annuity required would be nearly \$70,000,000. This again compares with the existing English-French settlement except that it is at a lower rate of future interest and the principal is extended over a term of years more favorable to France.

(3) If an annuity over 62 years comparable to that mentioned in the British-French negotiations were applied to the remainder of our debt, it would imply an annuity payable to us of about \$61,000,000 per annum, even without adjustment for the gold security involved in the British negotiations.

The net result of the application of the principles to the American debt would bring about that France should pay to the United States an annual amount of \$161,000,000 for the first 20 years, and \$61,000,000 thereafter for 42 years. These payments would be altered if the annuity of \$61,000,000 were deferred for the first seven years and added to the subsequent period, as discussed in London. It seems to us that these principles of repayment are infeasible to France in the application of its indebtedness to us.

We had intended in our note of the 25th to indicate a basis which we believed would be a foundation for negotiations. We recognize the

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great difficulties under which the French Government is struggling and it is our utmost desire to meet them. We feel that such difficulties will be overcome within a few years and that our mutual problem is to take into account this expected improvement.

You have requested that we should be more specific and we have now the pleasure of laying before you a definite proposal.

(1) We propose to consolidate the entire indebtedness into one total sum. The amount of this indebtedness as of June 15, 1925, with accrued interest at the rate of the existing French obligations, is about \$4,227,000,000. We propose, however, that interest should be calculated upon the most favorable basis of our previous settlements, under which the principal, with accrued interest, would as of June 15, 1925, amount to about \$4,025,000,000, being a concession of over \$200,000,000 in accrued interest.

(2) We propose that the French Government should undertake to pay the principal of the debt in annual installments graduated upward during the period of 62 years, as is the case of the other settlements made by the United States. This would require at the first year the sum of \$20,000,000 on account of the principal, being approximately $\frac{1}{2}$ of one percent of the total principal, the payments on principal increasing gradually over the entire period of 62 years. You will recognize that in the arrangement of this schedule, it has been the desire of the American Commission to so arrange the payments as to meet the economic and fiscal necessities of France.

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(3) There therefore remains the question of the rate of interest to be paid upon the debt. In our desire to meet the difficulties of the French Government, and at the same time to provide that the American people may secure some return by participation in the increased strength and productivity to be expected in France, we propose that interest the first year shall be at the rate of $\frac{1}{2}$ of one per cent per annum, and that this rate shall increase each year by $\frac{1}{4}$ of one per cent. This would bring an interest rate up to $3\frac{1}{2}$ per cent at the 13th year, and this to remain as the maximum for the balance of the period.

We wish to express our high appreciation of the frank and earnest effort of our French colleagues to find a basis for settlement of this, the most difficult problem which confronts our two peoples.

We have before us the ^{revised} offer of the French Commission, that is, France should pay \$40,000,000 annually for the first five years; \$50,000,000 annually for the following seven years, and \$100,000,000 annually for the next 56 years, thus spreading payments over 68 years, - there being important conditions attached to this proposal which render these payments entirely uncertain.

The total payments offered imply a return of the principal of the debt and somewhat less than 1% per annum. In order to illustrate the sacrifice which such a plan would impose upon our people, we may point out that the present value of the above payments, if made in full (upon the basis of interest which we bear on Liberty bonds) is about \$1,750,000,000. This amount compares with over \$4,100,000,000 which we have to meet in charges upon our taxpayers in respect of the loans to France. In the plan which we laid before you the present value of the payments which we proposed would be about \$2,800,000,000 as compared with the \$4,100,000,000 as above, so that we have made most important concessions.

We believe it is fully recognized by both Commissions that the only basis of negotiation fair to both peoples is the principle of the capacity of France to pay.

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The nub of the difficulty of the two Commissions arises from a difference in judgment as to the future capacity of France to pay without, as we have stated, undermining her economic and social fabric and this difficulty narrows itself to the future rather than to the present for we are prepared to accept the views of the French Commission as to the immediate difficulties of France.

In order that we shall not be unmindful of every effort to meet the whole problem and at the same time to maintain the agreed principle of settlement, and that there shall be no break in the effective continuity of our discussions, we wish to lay before you the following suggestion, that is: while we cannot accept the proposal made we do propose that France shall undertake unconditionally to pay the \$40,000,000 per annum mentioned in your statement as your capacity for the next five years - this is to be considered full current interest on the debt during that period, and at the end of this five year period the two governments shall again review the capacity of France to pay and determine at that time the amounts which shall be paid over such further term as may be then agreed. The above is of course subject to the approval of Congress.

It appears to us that within this period of five years the economic problem with which we are mutually confronted will have been much clarified and we shall both be in position to make better determination. We know that it is the earnest desire of the American people not only to be just but that they are willing to make necessary sacrifices. We believe that with peace, the natural progress of industry and commerce and the recovering strength of France, a basis can be found at such later date which will meet the views of our two countries.

Mr. Caillaux made the following statement at the final joint meeting of the Commissions:

Before we answer the proposition handed to us, we desire to say to our colleagues of the War Debt Commission how highly we appreciate the constant courtesy shown to us and the efforts made to meet the difficulties which face our country.

We are also mindful of the principles laid down by your notes regarding the unification of the debt and the reduction of the accrued interest. We furthermore note that you fully recognize the capacity of France to pay as the only basis for any settlement of our debt towards the United States.

We would have been happy to reach a general and final agreement, which, within the limit he has indicated, the French Minister of Finance has been intrusted to sign. The arrangement you now propose bears a provisional character which has not been contemplated by the Government of the Republic.

Consequently, being as desirous as you are not to interrupt the negotiations, which cannot fail to reach an agreement, the Minister of Finance can do no more than to submit to his colleagues of the French Cabinet in Paris, the propositions which you have made today, and he will do his utmost to give you an answer as soon as possible.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
Thursday, October 8, 1925.

The Chairman of the World War Foreign Debt Commission announced:

Final steps were taken today in connection with the funding of the indebtedness of the Government of Lithuania to the United States. Mr. Kazys Bizauskas, the Lithuanian Envoy Extraordinary and Minister Plenipotentiary at Washington, delivered to the Treasury bonds of his Government in the principal amount of \$6,030,000, receiving in exchange the original obligations given by his Government in connection with the sale of surplus supplies by the Secretary of War and relief supplies furnished by the American Relief Administration. \$30,000 of the above principal amount was paid on June 15, 1925.

The bill approving the Lithuanian settlement was signed by the President on September 22, 1924. The Debt Funding Agreement has likewise been approved by the Seimas of Lithuania.

The World War Foreign Debt Commission announced to-day:

The Czechoslovakian Debt Commission proposed to the American Commission:

"With reference to our various discussions in the matter of settlement of the obligations of the Czechoslovak Government to the United States, we beg to submit to you the following proposal:

"1. That as there are a number of disputed items between us as to the capital sum of the debt, we believe that instead of entering upon the very large expense and delay involved on both sides by a reaccounting, we are prepared to yield on some considerable part of these items and to propose to you a round sum of settlement, that is, that we should consider the capital of the debt as at June 15, 1925, to be \$115,000,000. If, on the other hand, your Commission prefers, we are prepared to enter upon an accounting of these transactions and in this manner determine the capital.

"2. That if you can see your way to accept this proposal of \$115,000,000, we are prepared to at once enter into the contract of settlement on the terms which we have discussed."

The American Commission accepted the offer of \$115,000,000 as the capital sum as of June 15, 1925, and a funding of the debt has been agreed upon on the following terms:

(a) The principal to be paid over a period of 62 years, with interest at rates of 3 per cent for the first 10 years and $3\frac{1}{2}$ per cent thereafter.

(b) During the first 18 years the total annual amount to be paid is fixed at \$3,000,000 yearly, and the balance of each annuity at the above interest rates is funded over the remaining 44 years.

A definitive agreement, subject to approval of Congress, will be prepared for signatures and submission to the President.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Monday, October 19, 1925.

Senator Edge brought to the attention of the Treasury the suggestion which had been made to him that it might be advisable from a governmental standpoint to raise the exemption on income taxes to \$5,000. The Senator had no opportunity to check the figures furnished him and was entirely open-minded on the suggestion but desired the Treasury's viewpoint. Secretary of the Treasury Mellon answered as follows:

"October 7, 1925.

My dear Senator:

I have been so busy with the various foreign debt negotiations that I have delayed answering your letter of the 24th until to-day.

You suggest that it might be advisable in amending the income tax law to exempt all net incomes of \$5,000 or less. Your reason for this suggestion is your information that it probably costs the Government more to collect the tax on net incomes up to \$5,000 than the Government receives from the tax, and, therefore, it would be in the interest of economy from the Government's standpoint to exempt net incomes of \$5,000 or less.

Your estimate of the loss of revenue of \$83,000,000 by the adoption of such a suggestion is apparently based on the elimination of the tax on net incomes of \$5,000 and under, without extending a like exemption to taxpayers with higher incomes. It would hardly seem equitable to raise the exemption on taxpayers having incomes of \$5,000 and less and not permit similar exemption to taxpayers having incomes in excess of \$5,000. For example, it is not fair to levy no tax on a man with a net income of \$4,900 and to tax a man with an income of \$5,100 on all income in excess of \$1,000. If the principle of a straight \$5,000 exemption on all taxpayers were applied, it is estimated that the loss of revenue, based on 1923 returns, instead of \$83,000,000 would be \$167,000,000.

If now we compare this prospective loss of revenue with the expense of collection, it is obvious that the tax is very productive of net revenue to the Government. The total expenditures of the Internal Revenue Bureau for the year 1924 were some \$42,000,000. From this \$8,000,000 should be deducted for expenditures directly made for the enforcement of the Prohibition and Narcotic laws, leaving some \$34,000,000 to represent the expense of collecting the personal income taxes, both large and small, the corporate income taxes and all the miscellaneous taxes. As a matter of fact, the small returns are audited in the field in the various Collectors' offices, and except in unusual cases do not come into Washington at all. This audit is part of the regular work in the Collectors' offices, and the total expense of all Collectors' offices is only about \$14,000,000 a year. In other words, at an expense of \$14,000,000 a year these small returns are audited and the Collectors do all the other work required of them. It seems to me if we had a complete cost system there would be allocated to the expense of collecting the tax on net incomes of \$5,000 and less not more than \$5,000,000. Compare this expense with a revenue of \$167,000,000.

There is another point to be considered. It would not be practicable, even if the exemption were raised, to eliminate the making of returns by those having a certain gross income through their net income is below the exemption. At present, all having a gross income of \$2,000 a year must make returns. Were this not required, many taxable incomes would evade payment of tax. So, if the exemption were raised, almost as many returns would have to be audited. You can readily understand this since as the law now stands less than 50 per cent of those who make returns and whose returns are audited pay any tax at all.

Coming now to the question of delay and congestion in the Bureau, it has been our experience that returns of small net incomes are very

quickly audited, and that the returns of large incomes are the principal cause of delay and require the great number of employees. An experienced auditor can handle up to 300 small returns a day, whereas it may take him three or four months to handle one large return. Add to this the fact that these returns are audited in the field, and you can easily see that their elimination would in no wise relieve the Bureau of Internal Revenue from its present congested condition nor permit a lowering of the period of the Statute of Limitations. If you will examine the forms used for returns of less than \$5,000 and for those in excess of \$5,000, copies of which I enclose, you will note the simplicity of the former and the complicated character of the latter. These forms have been the result of practical experience and give a clear indication of the difference in time required for audit.

It is true that under the present law a married man with an income of \$3,000 pays but \$7.50 tax, or 1/4 of 1 per cent of his income, one with \$4,000 pays \$22.50 tax, or 1/2 of 1 per cent, and one with \$5,000 pays \$37.50 tax, or 3/4 of 1 per cent. These seem insignificant sums. They are to the taxpayer, but not to the Government. It must be remembered that great businesses have been built up on small returns and large volume. The most conspicuous example which comes to my mind is the 5 and 10 cent store. We ignore experience if we say that these small taxes from net incomes of \$5,000 or less are not worth collecting.

Income tax first touches the citizen of this country at a much higher point of income than in any other country with which I am familiar. In other countries the tax is on a broad base. With us this base has already been very much narrowed. To narrow it further would make the whole tax structure unstable and its continued usefulness as a source of revenue uncertain. As a matter of policy it is advisable to have every citizen

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with a stake in his country. Nothing brings home to a man the feeling that he personally has an interest in seeing that Government revenues are not squandered, but intelligently expended, as the fact that he contributes individually a direct tax, no matter how small, to his Government. I feel, therefore, that the adoption of your suggestion would be wrong in policy and ineffective in decreasing the cost of collection or in eliminating delay and congestion. The tax on the incomes to be affected is already so small as to be no burden to the taxpayer. The sole result of such a change would be an enormous loss of revenue to the Government without a single compensating advantage.

Very truly yours,

A. W. MELLON,

Secretary of the Treasury.

Hon. Walter E. Edge,
United States Senate,
Washington, D.C."

There was signed at the Treasury today an agreement providing for the refunding of the debt of the Republic of Esthonia to the United States. The indebtedness represents obligations received in connection with the sale of war supplies by the United States Liquidation Commission, War Department and obligations received from the American Relief Administration on account of relief supplies furnished on credit.

The agreement was signed on behalf of the Republic of Esthonia by Mr. Antonius Piip, Envoy Extraordinary and Minister Plenipotentiary at Washington, and on behalf of the United States by the Secretary of the Treasury, as Chairman of the World War Foreign Debt Commission. The agreement was immediately sent to the President for his approval.

The amount of the indebtedness to be funded is \$13,830,000, computed as follows:

Principal amount of obligations to be funded	\$13,999,145.60
Credit allowed for total loss of cargo on sinking of S. S. JOHN RUSS sunk by a mine in Baltic Sea	<u>1,932,923.45</u>
	\$12,066,222.15
Interest accrued and unpaid thereon to December 15, 1922, at the rate of 4 $\frac{1}{4}$ per cent a year.....	<u>1,765,219.73</u>
Total principal and interest accrued and unpaid as of December 15, 1922	\$13,831,441.88
To be paid in cash by Esthonia upon execution of Agreement	<u>1,441.88</u>
Total indebtedness to be funded into bonds	\$13,830,000.00

The credit of \$1,932,923.45 was allowed on account of the total loss of a cargo of surplus war material sold to Esthonia for relief purposes and destroyed when the S. S. JOHN RUSS was sunk by a mine in the Baltic Sea in September, 1919. The basis of the settlement is the same as that made with Poland, Esthonia having the option to liquidate the amounts

due under the agreement on or before December 15, 1930, in part by semi-annual cash payments as follows:

June 15, 1926	\$ 50,000	June 15, 1929	\$ 125,000
December 15, 1926	50,000	December 15, 1929	125,000
June 15, 1927	75,000	June 15, 1930	150,000
December 15, 1927	75,000	December 15, 1930	<u>150,000</u>
June 15, 1928	100,000		
December 15, 1928	100,000	Total	\$1,000,000

The balance is to be funded into bonds of Esthonia similar in terms to the bonds first to be issued under the agreement.

The \$13,830,000 principal amount of bonds of Esthonia to be issued under the funding agreement mature serially over a period of 62 years and bear interest at the rate of 3% a year up to December 15, 1932, and at the rate of 3½% a year thereafter.

The agreement with Esthonia is the ninth funding agreement concluded by the World War Foreign Debt Commission since its creation on February 9, 1922. Agreements have already been concluded and approved by Congress with Great Britain, Finland, Hungary, Lithuania and Poland. Agreements have also been concluded with Belgium, Czechoslovakia and Latvia, which will be submitted to Congress at its next session, as well as the present agreement.

October 23, 1925.

Mr. Antonius Piip, the Esthonian Minister at Washington, made the following announcement in connection with the signing of the debt funding agreement today:

With the funding of the indebtedness to the United States ends the period of readjustment of the Esthonian foreign debts contracted during the strenuous fight for independence against the Russian bolsheviks.

At the same time it proves the achievement of stability in Esthonian economic life and finances which required much vigorous effort, especially as it was necessary to build, after the World War, an entirely new financial system.

The process of financial and economical rehabilitation of Esthonia reads like a chapter in the general history of public finances. Esthonia has created her modern finances from nothing, after suffering much of the destruction and having lost practically all of her liquid capital through the ravages of the World War. She has received no reparation and no indemnity, and has rebuilt her industry from her own resources.

Esthonia is principally an agricultural country, the chief articles of export being flax, potatoes, fruits, and dairy products. The export of timber is considerable. The abundant forests yield excellent raw material for the paper and wood-working industries and match factories. Beside cement plants and chemical works, the textile and metal industry is of great importance, Esthonia having one of the largest cotton mills in the world. Practically all the cotton used is American.

During her independence Esthonia has developed new fields of activity such as the shale oil industry of which product

Esthonia has enormous deposits and in the use of which she is a foremost country. The peat and waterpower is utilized for electrification purposes, although the mighty Narva waterfall is still awaiting capital for development of a large power station.

Esthonia has greatly improved her railroads and harbors, especially the important port of Tallinn or Reval which is open all year around, Baltic Port, Pernau, and Narva. In the early post-war period Tallinn or Reval had been the main route for world trade with Russia.

The financial system of Esthonia is well established. Since 1921 her currency has been quite stable. The budget is balanced and since 1922 accounts are always closed with a surplus. Taxes are reasonable and changes are made conservatively.

The foreign trade is increasing every year, and nearing a balance of import and export. The balance for the last several months has been active. The trade with America is considerable. For the first half of 1925 imports from the United States constituted 27.9% of the total, being mainly cotton, wheat and machinery. The exports to the United States for the same period was only 0.6% of the total, being mainly paper, cement, and matches.

Esthonia's main efforts are concentrated on increasing the agricultural and industrial production of the country, and in developing her natural resources such as shale oil and water power. The high standard of education and industrious character of the people bode well for success.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
Monday, Nov. 2, 1925.

The Secretary greeted the Italian Commission:

"The American Commission wishes to express to you our pleasure in meeting you here in Washington around the table for a frank discussion of the matters involved in the debt settlement.

"We thank you for the complete economic, fiscal and social studies of the condition of Italy which were prepared for us as the result of our preliminary conferences with your Ambassador and Mr. Alberti last summer. We are studying your documentation in connection with similar investigations by ourselves. I wish to express our appreciation of the exhaustive nature of the documents you have furnished us and of the prompt arrival in America of your Commission with authority to settle the War debt of our two nations.

"We recognize fully Italy's efforts during and since the war. It is especially in the after-war period that Italy's constructive ability has drawn to her the attention of the world. Sound policies under the forceful direction of Premier Mussolini have radically reduced government expenditures, increased revenue and balanced Italy's budget. This is a governmental achievement worthy of highest praise. We know, too, something of the difficulties Italy must face owing to

natural conditions and the heavy fiscal burden imposed by the war. We believe, however, that with a continuation of your present political and economic stability Italy is assured its position as a great nation.

"In negotiating with you a settlement of the debt this Commission will apply the principle of Italy's capacity to pay and will give due weight to the special conditions existing in your situation. We will, I am sure, come to terms which will be within Italy's power to fulfill without undue pressure upon her or her people and which will also recognize the sacrifices made by the American taxpayer in the advances of our Treasury. We two nations desire a just settlement which will insure economic peace."

Count Volpi, head of the Italian Commission, in conveying to the American Commission his thanks, laid stress upon the help given Italy by America in the war and the burden of that war upon Italy and her people. He then said:

"When peace, which America, with such great authority, help protect all over the world, was assured, Italy, notwithstanding her extremely difficult financial situation, offered to settle her war debt with the United States, within the limits of her capacity to pay.

"This acknowledgment of her debt constituted an obligation of honor which Italy intended and intends to absolve; and to this end she resolved that the head of the delegation sent to the United States should, aside from my modest self, be her own Minister of Finance, in order to add to the solemnity of her pledge.

"Upon starting the present negotiations, Italy accepts the principle laid down by the American Debt Commission that each debtor nation shall be considered independently and shall repay its debt within its particular capacity to pay.

"In determining capacity of a nation the report of the Dawes Commission has shown that there are two principal elements - first, the capacity to collect in a country from its people the necessary money, and, second, the transfer of the money so collected in the national currency to the creditor country in the currency of the latter.

"In order to show to the American Commission Italy's capacity to pay in these two regards, there has been prepared and submitted to the American Commission a documentation of 24 monographs composed of material gathered along scientific lines by the most prominent Italian statisticians and economists. These monographs show:

- (1) Italy's burden in the war was equal to 30 per cent of her total national wealth. She lost 652,000 men and 458,000 of her youths were disabled.
- (2) Italy received no valuable colonies out of the war.
- (3) Italy's share of reparations is 10 per cent as against 52 per cent allotted to France and 22 per cent to Great Britain.
- (4) Italy, by immense sacrifices, has balanced her budget, reduced her governmental expenditures, and is the only great power whose military expenditures are to-day less than they were before the war.
- (5) Italy has been the only nation to tax war profits at 100 per

cent and to levy a capital tax.

(6) The burden of taxation in Italy, taking into account the national wealth and the national income, is higher than that of any other country - 38 per cent of her net income after deducting a minimum of subsistence.

(7) Italy has none of the principal raw materials. She must import food and all her requirements in oil, coal, cotton, iron, and copper.

(8) With her constantly increasing population it is doubtful if Italy's industrial development keeps pace with the increased demands of her population.

(9) Italy's balance of trade has always been adverse. During the past nine months she exported 13 billion of lire, and imported 20 billion, a balance against her of 7 billion lire. During this period Italy imported from the United States 5 billion of lire, and exported to the United States 1.331 billion of lire, that is to say, her imports from America were nearly four times her exports to this country.

"In fact I believe that once relations as of debtor and creditor existing between Italy and the United States are definitely settled, a new and larger basis will be created for the development of fruitful economic relations between Italy, a young nation, poor in natural resources but rich in capacity to work and to produce, and the wealthy American Republic which has already contributed so much to the economic development of all the world, under the enlightened and wise guidance of its President Calvin Coolidge and of the Government which assists him in his worthy endeavors. "

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
Monday, Nov. 9, 1925.

At the first meeting of the Roumanian Delegation with the American World War Foreign Debt Commission, Chairman Mellon welcomed them to this country and expressed the belief of the American Commission that an amicable settlement would be reached fair to both nations.

Mr. Titulesco, President of the Roumanian Delegation replied:

"On coming in touch with the United States World War Foreign Debt Commission, the first task of the Roumanian Delegation is to express our deep gratitude for the help received from the United States in the difficult years we had to pass during the great war.

The second task of the Roumanian Delegation is to tell you that we have come here in the firm intention of reaching a settlement which will allow Roumania to pay her debt to the United States Government on terms to be agreed upon between us, which will take into account among other factors of the problem, our present possibilities and their future development, so that both countries will be mutually satisfied.

I wish to end by assuring the hounourable Commission that you will find in us delegates animated not only by the consciousness of our obligations and the exigencies of justice, but also negotiators of a practical turn of mind, who will endeavour to remain all the time on the solid ground of reality, which in our opinion is an essential condition for the successful outcome of our mission."

The World War Foreign Debt Commission issues the following statement:

An agreement has been reached in settlement of the Italian Debt subject to the approval of Congress. It has been approved by President Coolidge.

The amount to be funded as of June 15, 1925, is the original indebtedness of \$1,648,000,000, plus accrued interest to date as in other recent settlements. The Italian Government agrees to the repayment of this amount of \$2,042,000,000 upon proportionately the same schedule of annual installments over 62 years, as in the agreement with Great Britain, except during the first five years the payments are to be five million annually, and the balance of these payments is spread over the subsequent years.

After the first five years interest is fixed at $1/8$ of one per cent for ten years and then increases for successive ten year periods to $1/4$ of one per cent, $1/2$ of one per cent, $3/4$ of one per cent and 1 per cent and the last seven years are at 2 per cent.

Under this arrangement the total annual payments begin at \$5,000,000. and reach \$80,000,000. in the last year. For an original debt of \$1,648,000,000. the United States will receive during the period of the agreement a total of \$2,407,000,000.

The basis of settlement has been repayment of principal in full and payment of interest in accordance with the capacity of Italy to pay.

The Commission has made a most exhaustive examination of Italy's fiscal and economic situation. Italy is poor in natural resources. The visible balance of trade is adverse. Food to support her rapidly increasing population, coal, oil, iron and copper, have to be imported. Her future depends upon the development of her industry and

the labor of her people.

It is felt that the settlement lays as heavy a burden upon the Italian people as we are justified in imposing, and represents Italy's capacity to pay.

A final agreement is being drafted and should be signed Saturday.

Count Volpi said:

"The Italian delegation brought over from Italy a complete study of Italy's economic and fiscal situation. With the American Commission the Italian delegation has gone over its documentations with great thoroughness and I believe that the American Commission has been impressed with the justice of Italy's case. I feel that we have succeeded in presenting a true picture of Italy's situation to the American Commission in the twelve days we have been with them, but I know the difficulty of carrying this picture to the 110,000,000 people of the United States. I trust that the American public will itself study these matters.

The entire Italian delegation has been impressed with the fairness of the American Commission and their evident desire to do justice to Italy and to protect the American taxpayer. Recognition has been given to the present difficult situation and confidence has been shown in Italy's future. The settlement as finally made is larger than we thought in the beginning we could agree to. Italy has, however, always met her international obligations. She has done so in this case. The settlement is a long step towards the restoration of economic peace in Europe."

<u>Years.</u>	<u>Approximated total payments.</u> <u>in millions.</u>
1 - 5	5
6 - 15	14 - 18
16 - 25	20 - 26
26 - 35	31 - 38
36 - 45	43 - 52
46 - 55	56 - 67
55 - 62	73 - 80

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE,
November 14, 1925.

The Italian-American debt settlement agreement was signed at eleven o'clock to-day by Count Volpi for Italy and by Secretary Mellon for the United States and has been approved by the President. Count Volpi said:

"I do not think I can close in a more appropriate way the proceedings of these meetings on our part than by communicating to you the following message which I just received from Premier Mussolini:

"I desire to express my full appreciation of the settlement reached which represents a happy conciliation of interests, as well as the acknowledgment of the justice of our case and of our real capabilities.

"Please convey to the members of the American Commission the expression of my gratification, voicing the sentiments of the Italian People.

"The good will shown by the American Commission in reaching a settlement, evidences their appreciation of Italy's efforts during and after the war.

"The conclusion of the agreement will help make the bonds of friendship between the two countries still closer. It will be a powerful stimulus for the development of economic intercourse and relations between Italy and the United States, adding a favorable element to general stabilization."

Mr. Mellon replied:

"You came here to disclose to us all of the factors involved in Italy's capacity to pay. We met you with an open mind and the two weeks full discussion of your situation has brought the two

commissions together upon what we believe is a settlement fair to each nation. By the agreement we have just signed Italy recognizes to her full capacity the integrity of her international obligations, we have eliminated in the relations of the two countries a matter disturbing if left unsettled, and we have added one more stone to the rebuilding of Europe's financial structure.

"Will you express to Premier Mussolini our appreciation of the character of the delegation which he sent to America and of the will to reach an agreement with which they were inspired."

Secretary Mellon made the following announcement:

From time to time the Treasury makes purchases for the Cumulative Sinking Fund on the market or through brokers. It is proposed to determine the feasibility of making such purchases, in part at least, directly from the holders and thus to give all holders of Third Liberty Loan bonds the opportunity to sell with the understanding that the lowest offers may be accepted within the limits stated below. This procedure will save commission charges to the sellers and to the Treasury.

The Treasury now solicits from all holders of Third Liberty Loan bonds proposals to sell these bonds. From the lowest proposals received the Treasury expects to purchase Third Liberty Loan bonds to an aggregate amount of \$50,000,000, or thereabouts, if offered below or at 101 1/2 and accrued interest. All proposals should be handled through a bank or trust company, who will deal with the Federal Reserve Banks, which are the official agencies for the Treasury in these transactions. Proposals must be received by a Federal Reserve Bank not later than December 10, 1925. Payment for the bonds accepted will be made on December 29, 1925.

The Treasury reserves the right to reject any or all proposals.

The text of the official circular follows:

The Treasury will purchase Third Liberty Loan Bonds for account of the Cumulative Sinking Fund, and solicits proposals for sale of such bonds to the Treasury. Purchase will be made of \$50,000,000, or thereabouts, of Third Liberty Loan Bonds, at the lowest prices offered, if at or below the price of 101 1/2 and accrued interest. Proposals must be presented to the Federal Reserve Banks by December 10, 1925, and payment will be made on December 29, 1925, for all bonds delivered in accordance with accepted proposals.

All transactions in connection with the proposals for sale, the delivery of bonds, and payment therefor should be handled through banks or trust companies, which will act as agents of the owners of the bonds. The banks and trust companies will deal with Federal Reserve Banks, which are the only official agencies of the United States in these transactions.

Proposals must be in writing, and must reach a Federal Reserve Bank before the close of business on December 10, 1925. All proposals not received at Federal Reserve Banks by the close of business December 10, 1925, will be rejected. The Secretary of the Treasury reserves the right to reject or accept in whole or in part any and all proposals, and his action in this respect shall be final. All proposals not accepted by December 19, 1925, (due time allowance being made for postal notification to the contrary), shall be considered as rejected.

Upon the acceptance of any proposal by the Secretary of the Treasury, the banking institution which forwarded such proposal will be notified by the Federal Reserve Bank of such acceptance and will thereupon transmit the Third Liberty Loan Bonds described in the proposal, at the

seller's own expense and risk, to the Federal Reserve Bank. All bonds to be surrendered for purchase must reach the Federal Reserve Bank on or before December 21, 1925, and the Federal Reserve Bank, on December 29, 1925, will pay therefor at the accepted proposal price. If not received by the Federal Reserve Bank until after December 21, 1925, the bonds may, in the discretion of the Secretary of the Treasury, be rejected. The Secretary of the Treasury reserves the right to reject in whole or in part any and all bonds, and his action in this respect shall be final.

All coupon bonds of the Third Liberty Loan presented for sale to the United States in accordance with accepted proposals should have the interest coupon due March 15, 1926, and interest coupons due subsequent thereto, attached. All registered bonds of the Third Liberty Loan presented for sale to the United States in accordance with accepted proposals must be duly assigned to "The Secretary of the Treasury for Redemption," in accordance with the general regulations of the Treasury Department governing assignments. Bonds registered in the names of minors or incompetents will not be accepted unless accompanied by a certificate of court of competent jurisdiction showing that the person assigning such bonds has authority to so assign.

Any further information which may be desired may be obtained from any Federal Reserve Bank.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE
December 1, 1925.

The World War Foreign Debt Commission issued the following statement today:

An agreement has been reached in settlement of the Rumanian debt to the United States subject to the approval of Congress and the Rumanian Parliament. The settlement has been approved by the President. The original indebtedness of Rumania amounted to \$36,128,494.94. Interest on this amount has been calculated as in recent settlements making the principal of the debt to be funded as of June 15, 1925, \$44,590,000. The Rumanian Government agrees to repay the principal of the funded debt over a period of 62 years with interest at 3 per cent a year for the first ten years and 3½ per cent a year thereafter. During the first 14 years the following total annual amounts are to be paid, the balance of each annuity at the above interest rates to be funded over the remaining 48 years:

June 15, 1926	\$200,000
June 15, 1927	300,000
June 15, 1928	400,000
June 15, 1929	500,000
June 15, 1930	600,000
June 15, 1931	700,000
June 15, 1932	800,000
June 15, 1933	1,000,000
June 15, 1934	1,200,000
June 15, 1935	1,400,000
June 15, 1936	1,600,000
June 15, 1937	1,800,000
June 15, 1938	2,000,000
June 15, 1939	2,200,000

A debt funding agreement will be prepared for signatures and submission to the President.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
Monday, December 7, 1925.

STATEMENT BY SECRETARY MELLON.

The Treasury is today announcing its December financing which takes the form of an offering of one year $3\frac{3}{4}$ per cent Treasury certificates of indebtedness, dated and bearing interest from December 15, 1925, maturing December 15, 1926. The certificates are tax certificates and the amount of the offering is for \$450,000,000, or thereabouts. The Treasury will accept in payment for the new certificates Treasury certificates of indebtedness of Series TD-1925, maturing December 15, 1925, and $4\text{-}3/8$ per cent Treasury notes of Series B-1925, maturing December 15, 1925. Subscriptions for which payment is made in certificates and notes maturing December 15, 1925, will be given preferred allotment.

About \$480,000,000 of Treasury notes and Treasury certificates of indebtedness become payable on December 15, 1925.

The present offering is intended, with the balances already on hand and the December tax receipts, to cover the Treasury's further cash requirements until March when further financing will be necessary.

The text of the official circular follows:

The Secretary of the Treasury, under the authority of the act approved September 24, 1917, as amended, offers for subscription, at par and accrued interest, through the Federal Reserve Banks, Treasury certificates of indebtedness of Series TD-1926, dated and bearing interest from December 15, 1925, payable December 15, 1926, with interest at the rate of three and three-quarters per cent per annum, payable semiannually.

Applications will be received at the Federal Reserve Banks.

Bearer certificates will be issued in denominations of \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The certificates will have two interest coupons attached, payable June 15, 1926, and December 15, 1926.

The certificates of said series shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds and certificates authorized by said act approved September 24, 1917, and amendments thereto, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

The certificates of this series will be accepted at par, with an adjustment of accrued interest, during such time and under such rules

and regulations as shall be proscribed or approved by the Secretary of the Treasury, in payment of income and profits taxes payable at the maturity of the certificates. The certificates of this series will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

The right is reserved to reject any subscription and to allot less than the amount of certificates applied for and to close the subscriptions at any time without notice. The Secretary of the Treasury also reserves the right to make allotment in full upon applications for smaller amounts, and to make reduced allotments upon, or to reject, applications for larger amounts, and to make classified allotments and allotments upon a graduated scale; and his action in these respects will be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

Payment at par and accrued interest for certificates allotted must be made on or before December 15, 1925, or on later allotment. After allotment and upon payment Federal Reserve Banks may issue interim receipts pending delivery of the definitive certificates. Any qualified depository will be permitted to make payment by credit for certificates allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits, when so notified by the Federal Reserve Bank of its district. Treasury notes of Series B-1925, and Treasury certificates of indebtedness of Series TD-1925, both

maturing December 15, 1925, will be accepted at par, in payment for any certificates of the series now offered which shall be subscribed for and allotted, with an adjustment of the interest accrued, if any, on the certificates of the series so paid for.

As fiscal agents of the United States, Federal Reserve Banks are authorized and requested to receive subscriptions and to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve Banks of the respective districts.

Secretary Mellon discussing the report from Germany of a Treasury plan for the settlement of the Alien Property and other related questions said:

The Mixed Claims Commission is now passing upon claims of American citizens and the United States against Germany, and its work is nearing completion. The only provision for the payment of claims allowed by the Mixed Claims Commission is the provision in the Paris Agreement for the payment to the United States of a certain proportion of the Dawes plan annuities which will amount to 45 million gold marks a year when the Dawes plan is in full effect. This annuity is not sufficient to pay the interest carried by the claims which probably will be allowed by the Mixed Claims Commission, and does not, therefore, adequately provide for payment of the claims. If the United States takes no further action, the American citizens will receive but a small percentage of the value of their claims against Germany.

During the war the United States, through the Alien Property Custodian, seized property located in the United States belonging to non-resident alien enemies. Under the Berlin Treaty this property may be held as security for the payment of the private American claims allowed by the Mixed Claims Commission. As a matter of broad national policy, it is believed the United States should recognize the property rights of private individuals, even though we were at war with their country, and not use this private property of

- 2 -

nationals to pay claims against their nation. If this is the proper policy for the United States, the seized property, or its substantial equivalent, should be returned.

When the United States entered the war it also seized German ships interned in our harbors, and it took over and used radio stations and patents owned by Germans. Provision for compensation for such taking or use has not yet been made. The question of national policy here involved is the same as in the case of the alien property.

A plan of settlement which has the consent of a majority of the three interests involved, (American Mixed Claimants, German property owners, and German ship and radio station owners) means a fair adjustment and the satisfaction of all parties concerned.

Giving consideration to these matters, the Treasury has worked out, with the consent and aid of the people interested, a constructive and comprehensive plan for submission to Congress for such action as Congress may deem desirable, to accomplish the following:

1. The prompt payment of private American claims.
2. Return to the German and Austrian nationals of their property or its substantial equivalent.
3. Determination of the amounts and payment of the claims of the German owners of ships, radio stations and patents.
4. The imposition of no new burden on the Treasury, and consequently, on the American taxpayer.

5. The utilization of gold mark credits in Germany, thus assuring that America will receive the benefits of the payments under the Paris Agreement independent of exchange difficulties.

The plan is substantially as follows:

The Plan

(1) The United States shall assign to a trustee payments the United States may receive under the Dawes plan on account of reparations and in payment of costs of the Army of Occupation against the delivery by the trustee of an issue of about \$250,000,000 25-year 5% bonds. Principal and interest may be payable either in dollars or marks or partly in dollars and partly in marks, and either in the United States or Germany, all at the option from time to time of the United States. The bonds may be retirable by lot at any time prior to maturity, at par if to be paid in dollars and at a premium after the first year of $\frac{1}{2}\%$ per annum if to be paid in marks. By "marks" is understood the currency accepted from Germany by the Transfer Committee under the Dawes plan at the rate currently accepted. Principal and interest of the bonds shall be guaranteed by the United States.

(2) The Alien Property Custodian shall purchase from funds in his possession \$50,000,000 of the bonds at par.

(3) Interest earned on cash deposits of the Alien Property Custodian with the Treasurer of the United States prior to March 1, 1923, (aggregating, with later accumulations, about \$31,000,000), and to which under the law owners of property in the hands of the Alien Property Custodian are not entitled, shall be used by the United States, together with the \$50,000,000 proceeds from the sale of the bonds, to pay on the private claims allowed by the Mixed Claims

Commission, which cash shall be used to pay all claims of less than \$10,000, and the balance applied on the larger claims with a minimum cash payment of \$10,000.

(4) The balance of the private American mixed claims not paid in full in cash shall be paid in the bonds at par.

(5) The properties in the hands of the Alien Property Custodian, including the bonds and other securities in which his funds are then invested, shall be delivered to their owners.

(6) The President shall appoint an arbiter to render an award of fair and reasonable compensation to Germans for the title to and/or use of ships, radio stations and such patents and property as have been taken and used by the United States; provided the total amount of such awards shall not in any event exceed \$100,000,000. Within the limitation above, the United States shall pay the awards in the bonds at par.

Advantages of the Plan

(1) The plan will have the consent of the three interests -- the American claimants, German property owners and German shipowners.

(2) The American claimants will be paid - the small claimants in cash and the large claimants in cash and bonds, which will have a substantial value.

(3) The alien property or its substantial equivalent will be returned to its owners, and the question of American national policy settled.

(4) Other German claims will be determined and paid.

(5) Since no cash is required from the Treasury and the service of the bonds is to come in the first instance from German reparations, no new burden is imposed on the Treasury and the American taxpayer.

(6) Payment of the 55,000,000 gold marks for the Army of Occupation costs are preferred under the Paris Agreement and it would probably be possible always to obtain dollars when desired by the United States. The 45,000,000 gold marks provided for the mixed claimants have no preference, but if the full payments in dollars on this account are not received by the United States, gold marks should be available in Germany. The option to pay the bonds, principal or interest, either in marks or dollars, will enable the United States to utilize payments in the currency which is available.

(7) While the United States sacrifices payments which it would otherwise receive to reimburse it for the Army costs and for Government claims allowed by the Mixed Claims Commission, this sacrifice is made in favor of the American claimants and represents, not new money from the Treasury, but simply the failure to receive reimbursement for money spent in past years.

(8) If the United States should be called upon to make good its guaranty the bonds could be refunded into straight Government dollar bonds at the current interest rate the Treasury is then paying on its other issues.

TREASURY DEPARTMENT

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FOR RELEASE, Morning Papers,
Friday, December 11, 1925.

Secretary Mellon announced that subscriptions for the issue of Treasury certificates of indebtedness, dated December 15, 1925, Series TD-1925, $3\frac{3}{4}$ per cent, maturing December 15, 1926, closed at the close of business on December 9, 1925. The reports received from the twelve Federal Reserve Banks show that for the offering, which was for \$450,000,000, or thereabouts, total subscriptions aggregate some \$876,000,000. Of these subscriptions, about \$168,000,000 represent subscriptions for which Treasury notes of Series B-1925 or Treasury certificates of indebtedness of Series TD-1925, both maturing December 15, 1925, were tendered in payment, all of which were allotted in full. Allotments on other subscriptions were made as follows: All subscriptions in amounts not exceeding \$100,000 for any one subscriber were allotted 50 per cent, but not less than \$500 on any one subscription; and subscriptions in amounts over \$100,000 were allotted 30 per cent, but not less than \$50,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

Secretary Mellon to-day announced that the total amount of subscriptions received for the issue of $3\frac{3}{4}$ per cent Treasury certificates of indebtedness, Series TD-1926, dated December 15, 1925, maturing December 15, 1926, was \$876,381,000. The total of subscriptions allotted was \$453,349,000, of which \$167,810,700 represent allotments on subscriptions for which notes and certificates maturing December 15, 1925, were tendered in payment. All of the latter subscriptions were allotted in full, while allotments on other subscriptions were made on a graduated scale.

The subscriptions and allotments were divided among the several Federal Reserve Districts as follows:

Federal Reserve District:	Total Subscriptions Received:	Total Subscriptions Allotted:
Boston	\$ 56,930,500	\$ 30,055,000
New York	320,927,500	171,995,000
Philadelphia	81,333,000	44,997,000
Cleveland	66,192,500	29,165,000
Richmond	28,641,000	12,830,500
Atlanta	35,236,500	17,744,500
Chicago	87,226,500	44,404,000
St. Louis	29,515,500	16,988,500
Minneapolis	22,699,500	14,819,500
Kansas City	17,292,500	12,040,000
Dallas	33,015,500	17,622,500
San Francisco	87,370,500	40,687,500
TOTAL	\$876,381,000	\$453,349,000

TREASURY DEPARTMENT

406
FOR RELEASE, MORNING PAPERS,
Tuesday, December 15, 1925.

Secretary Mellon announced that the privilege of tendering Third Liberty Loan $4\frac{1}{2}$ per cent bonds for sale to the United States, through the Cumulative Sinking Fund, expired at the close of business on December 10th, and no further proposals will be received. Under the terms of the Secretary's earlier announcement, purchases were to be made at the lowest prices offered, if at or below the price of $101\frac{1}{2}$ and accrued interest.

According to reports received from the Federal Reserve Banks, about \$176,000,000 face amount of bonds were tendered for sale, within the announced limit of $101\frac{1}{2}$ and accrued interest, at prices which averaged $101-11/32$.

The Treasury has accepted all proposals for sale at prices not exceeding $101\frac{1}{2}$. Such proposals aggregate about \$66,450,000 face amount, and the average cost of these bonds to the Government, (exclusive of accrued interest), will be approximately $101-6/32$. On all offers which have been accepted, the bonds should be in the hands of the Federal Reserve Banks by December 21, 1925, payment therefor to be made on December 29th.

All tenders for sale at prices exceeding $101\frac{1}{2}$ have been rejected.

TREASURY DEPARTMENT

407
IMMEDIATE RELEASE
December 15, 1925.

The Treasury today received payments amounting to \$95,253,371.85 from the following foreign governments on account of their funded indebtedness to the United States:

GREAT BRITAIN:

The sixth semiannual payment of interest and the third annual installment of principal on the funded indebtedness of Great Britain to the United States under the terms of the debt settlement approved by the act of February 28, 1923. The total payment amounted to \$92,310,000 of which \$68,310,000 was for interest and \$24,000,000 for principal and as authorized by the terms of the settlement was made in obligations of the United States which were accepted at par. The obligations were \$42,000,000 face amount of 4-3/8% Treasury notes Series B 1925, \$33,958,000 face amount 3% Treasury Certificates of indebtedness Series TJ 1926, \$8,502,000 face amount 3-1/4% Treasury Certificates of indebtedness Series TJ2 1926 and \$7,850,000 face amount 3-1/2% First Liberty Loan bonds.

BELGIUM:

The first semiannual payment of interest on the post armistice funded indebtedness of the Government of Belgium due the United States under the terms of the debt settlement of August 18, 1925. The payment due under the debt settlement is \$870,000. There was credited on August 18, 1925, against this amount a sum of \$192,567.78, which left an amount due on December 15 of \$677,432.22. This amount was paid in cash.

CZECHOSLOVAKIA:

The first semiannual installment of principal on the funded indebtedness of the Government of Czechoslovakia due the United States under the terms of the debt settlement of October 13, 1925. The payment amounting to \$1,500,000 was made in cash.

FINLAND:

The sixth semiannual payment of interest and the third annual installment of principal of the funded indebtedness of the Government of Finland due the United States under the terms of the debt settlement approved by the Act of March 12, 1924. The total payment amounted to \$180,650 of which \$133,650 was for interest and \$47,000 for principal. The payment was made in cash.

HUNGARY:

The fourth semiannual payment of interest and the second annual installment of principal on the funded indebtedness of the Government of Hungary due the United States under the terms of the debt settlement approved by the Act of May 23, 1924. The total payment amounted to \$39,611.25 of which \$29,593.25 was for interest and \$10,018 was for principal. Of the last mentioned amount \$218 represented payment on account of principal of the temporary bonds given on June 15 and December 15, 1924 and June 15, 1925 for one half the interest accruing on those dates on the bonds originally issued under the debt settlement. The payment was made in cash.

LITHUANIA:

The third semiannual payment of interest, except that part to be funded, on the funded indebtedness of the Government of Lithuania to the United States under the terms of the debt settlement approved by the Act of December 22, 1924. The total payment amounted to \$45,678.38 which was made in cash. The remainder of the interest amounting to \$45,000 will be funded in accordance with the option given the Government of Lithuania in the debt settlement agreement.

POLAND:

The second payment on account of the funded indebtedness of the Government of Poland to the United States under the terms of the debt settlement approved by the Act of December 22, 1924. The payment amounted to \$500,000 which was made in cash. The remainder due will be funded in accordance with the option

given the Government of Poland in the debt settlement agreement.

The obligations of the United States accepted in connection with the British payment have been cancelled and retired and the public debt reduced accordingly.

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