U.S. Treasury Dept.

Press Releases

In his interview, published in the Saturday Evening Post January 5, 1924, Mr. Mellon said:

> "We have had many interesting discussions in the Treasury regarding the surtaxes as to where the point of maximum return would be - that is, how low could we make the surtax and yet get the maximum amount of revenue. Some of our statisticians place the maximum as low as 15 per cent, none of them puts it as high as 25 per cent. The present maximum surtax rate is 50 per cent. I recommended 25 per cent because I did not feel warranted in going to an extreme. I felt it was clear beyond discussion that it would prove wise to reduce the maximum surtax to 25 per cent, making with the normal tax a total of 31 per cent."

The question, of course, is one which is presented to every business man when he is called upon to make an investment. He considers, first, what the net return of the investment should be before income taxes. He then deducts from this investment return his income tax and determines how much he would actually get net to him. If this last return is too small as compared with the risks of the investment, he puts no money in the proposition. As an example, a man with $200,000 income would only have 5 per cent net to him out of an investment which would return about 12 per cent, and only 6 per cent net to him out of an investment which would return 14¼ per cent. Now, investments with these high returns are ordinarily speculative, and a prudent man will not go into a speculative investment which returns him only 5 or 6 per cent.

On the other hand, with a 31 per cent peak of taxation - being 6 per cent normal tax and 25 per cent surtax - one can get a 6 per cent net to the taxpayer on an 8 2/3 per cent return and a 5 per cent net to the taxpayer on a 7¼ per cent return. If you have a total tax of only 20 per cent, the taxpayer can get 6 per cent net to him out of a 7½ per cent investment and 5 per cent net to him out of a 6¼ per cent investment.

There can be no definite line drawn between a tax which will permit an investment and a tax which will deter an investment, because in each case the investor determines for himself whether the risk in the investment is greater than justified by the return which the investor will receive after his taxes. It is perfectly clear that no prudent man would consider an 11 per cent return before taxes as the equal in safety to a 4½ per cent municipal bond, and yet, if his income is large, under present rates he would have for his own use the same money from each.

When this country really gets back to a peace-time basis of taxation it is probable that, including normal and surtax, a total tax of 10 per cent will yield to the Government the most revenue with the least disturbance to business. This is the Tithe of the ancient Hebrew scripture which has always been considered a fairly heavy tax.

January 3, 1924.

TREASURY DEPARTMENT.

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

SPEECH 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.

There is no reason why the subject of taxation cannot be approached from a purely non-partisan viewpoint. The outstanding feature 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 Governement 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 determing tax liability. In addition, Mr. Mellon recommended the repeal of the telegraph and admission taxes.

These recommendations were notdrawn 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 2½ per cent of the loss of revenue from income in excess of $100,000 a year, and it is estimated that even this 2½ 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 Committe, presents a plan, the

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 paymentin 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 $60 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 4½ 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 $6,000,000,000, 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 4½ 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 6½ per cent would be the equivalent of the 4½ 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 $300,000 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.

No idea has ever been presented without its being subject to attack in its details. We all know how easy it is from one motive or another to complain that one feature of a plan should be this instead of that, and how difficult it is to establish a plan as a whole. It is the difference between a constructive and a destructive mind. There are details in the plan which I might wish to change; there are some which you may wish to have different; but I can say to you frankly that the Treasury bill has been prepared without favor and without prejudice. It represents the experience of the United States Treasury. There is no partisanship in its make-up. You cannot succeed with a multiplicity of conflicting remedies for an intricate situation. If you believe the bill is fair and on a sound basis, it should have your unqualified backing.

BONUSES, AIDS, BENEFITS, AND EXEMPTIONS GRANTED BY THE UNITED STATES GOVERNMENT, THE VARIOUS STATES, AND CERTAIN FOREIGN COUNTRIES TO THEIR EX-SERVICE MEN.

Only the bonuses, aids, benefits and exemptions granted to able-bodied veterans by the various countries are summarized in this manuscript. No attempt is made to show the nature or extent of the aid given to the disabled veterans or to the dependent relatives of the men in service.

Prepared by
SECTION OF STATISTICS,
TREASURY DEPARTMENT,
January 17, 1924.

OUTLINE

SUMMARY OF THE AMOUNT OF CASH BONUSES OR ADJUSTED COMPENSATION PAID BY THE VARIOUS COUNTRIES.

Country		Total estimated cost (1)
United States		
Federal Government	$248,333,400	
Various State Governments	358,045,402(2)	
Total for United States		$606,378,802
Australia		105,000,000
Canada		147,600,000
France		372,371,150
Great Britain (includes furlough)		417,753,151
New Zealand		18,290,650

(1) At the time the major part of the above payments were made the rate of exchange on Great Britain was $3.50, Canada $.90, Australia $3.50, New Zealand $3.50, and France .075. These rates were used for purposes of conversion into dollars.

(2) Includes a $45,000,000 bond issue authorized by New York State on November 6, 1923.

It is not possible to show in summary form comparable cash estimates for other aids, benefits, and exemptions granted by the various countries, the details of which are given in the following pages.

UNITED STATES

Cash bonus or adjusted compensation paid by the Federal Government to veterans of the World War:

In accordance with section 1406 of the Revenue Act of 1918, approved February 24, 1919, (40 Stat. 1151) a cash payment of $60 was made to each officer and enlisted man upon discharge.

Payments on this account have been as follows:

Army to May 10, 1923 (1)	$215,294,940
Navy up to date (2)	28,876,200
Marine Corps to Dec. 31,1923(3)	3,808,200
Coast Guard to Dec. 31,1923 (4)	354,060
Total	$248,333,400

(1) Memorandum for the Adjutant General of the Army, May 10, 1923.
(2) Memorandum from the Navy Department, Bureau of Supplies and Accounts, January 4, 1924.
(3) Memorandum from Paymaster of the Marine Corps, January 5, 1924.
(4) Memorandum from Headquarters United States Coast Guard, January 3, 1924.

Civil Service Preference:

Under the Deficiency Appropriation Act of 1919, approved February 25, 1919, (40 Stat. 1164) it was provided that all former government employees who had been drafted or who had enlisted in the military service of the United States in the War with Germany should, on application, be reinstated to their former positions, provided they had received honorable discharge and were properly qualified for the positions.

On March 3, 1923, the President issued an order amending the rules governing preference in appointments to the classified

service allowed to veterans under existing laws. The nature of the preference relates mainly to the appointment to and the dismissal from the service, reduction in grade or salary, and the examination grade necessary for eligibility. Up to June 30, 1923, 250,000 claims for preference in appointment to classified positions were allowed. Of these 165,000 became eligible and over 63,000 have actually been appointed. (Annual Report of the Civil Service Commission, 1923, p. XIII and XIV.)

Clothing:

Each enlisted man in the Army, Navy, and Marine Corps, upon honorable discharge, was allowed to retain one complete suit of outer uniform, including an overcoat. (40 Stat. 1202.)

Insurance:

In October, 1917, term insurance convertible into Government level premium insurance was made available to each soldier upon application. Of the 4,600,000 policies issued there are now in force 554,904, including both War Risk term and United States Government life (converted), representing $2,830,026,673 of insurance.

There is no level premium participating insurance, providing equal benefits with an equal guarantee of safety, offered at a premium rate as low as the Government rate.

Soldiers who have allowed their policies to lapse may reinstate their insurance, upon proper evidence of insurability and upon payment of two monthly premiums. It is estimated that the majority of those who are now carrying policies suffered no physical disability as a result of service.

Cash Bonus or Adjusted Compensation paid by State Governments to their Veterans of the World War. (1)

A brief statement of the terms, amounts paid or being paid each veteran in U. S. service during the war and the total estimated cost to the State.

State	Brief Statement of Provisions	Total cost estimated
Illinois	50 cents per day of service, in case of service in excess of 2 months. Maximum amount $300	$55,000,000
Iowa	50 cents per day. Maximum amount $350.	22,000,000
Kansas	$1 per day for all in United States service.	25,000,000
Massachusetts	Paid $10 per month to all below the commissioned grades for service between February 3, 1917, and January 15, 1918 A bonus of $100 flat.	22,275,000
Maine	Awarded a flat bonus of $100	3,211,397
Michigan	Paid $15 per month of service up to August 1, 1919	30,657,576
Minnesota	Paid $15 per month of service and fraction therof. Minimum amount $50.	23,500,000
Missouri	Paid $10 for each month of service. Maximum amount $250.	15,000,000
New Hampshire (2)	Paid a flat bonus of $100	1,961,423
New Jersey	Paid $10 per month of service. Maximum amount $100	11,250,000
North Dakota (2)	Paid $25 per month of service. The money received was to be used within the State	11,000,000

(1) The data on this subject have been obtained from letters received from State officials, digests of State laws, and official memoranda.

(2) The bonus is also paid to resident citizens who served in the allied forces during the period the United States was at war.

State	Brief statement of provisions	Total estimated cost
Ohio (1)	Paid $10 for each month of service. Maximum amount $250.	$32,500,000
Oregon	Paid $15 a month for each month of service to those who served longer than 60 days or in lieu of which any veteran could accept a loan upon real estate of not less than $500 nor exceeding $3,000 in the aggregate.	20,000,000
Rhode Island (1)	Granted a flat bonus of $100	2,588,000
South Dakota	Paid $15 for each full month and 50 cents for each additional day to all in U.S. services who served for at least 60 days. Maximum amount $400.	6,000,000
Vermont	Paid $10 a month for each month of service to all below the commissioned grades. Maximum amount $120.	1,500,000
Washington (1)	Paid $15 per month for each month of service.	13,500,000
Wisconsin	Paid $10 per month for each month's service. Minimum amount $50.	16,102,006.
	Total estimated cost to the States which have paid and are paying cash bonuses or adjusted compensation.	$313,045,402

(1) See note 2 at bottom of page 5

Bonus Legislation Pending:

In a referendum held November 6, 1923, New York ratified an amendment to the Constitution authorizing a bonded indebtedness to be incurred for the payment of the veterans. The measure has not yet been enacted. The total estimated cost is $45,000,000.

Bonus Referenda Pending:

In the following States bonus bills have been passed by the legislature. These measures will be submitted to referendum at the next general election in 1924:

		Estimated cost
Colorado	Proposed to pay $15 per month for each month of service.	$ 8,000,000
Montana	Proposed to pay $10 per month for all in service between April 6, 1917, and November 11, 1918. Maximum amount $200.	4,500,000
Pennsylvania	Proposed to pay $10 for each month of service of the grade of captain and below who served at least 60 days. Maximum amount $200.	35,000,000
	Total estimated cost	$ 47,500,000

Summary of the Estimated Cost of Bonus or Adjusted Compensation Legislation:

	Estimated cost
1. States which have paid or are in the process of paying bonus.	$313,045,402
2. States in which bonus legislation is pending.	45,000,000
Total	$358,045,402
3. States in which bonus measures will be submitted to referendum.	47,500,000
Total estimated cost of all bonus legislation to date	$405,545,402

Bonus Measures Declared Unconstitutional:

In Montana, New York, and Maryland the Supreme Courts have declared bonus legislation as enacted, unconstitutional.

In New York a constitutional amendment authorizing a bonus has been ratified by referendum.

In Montana a new bill will be submitted to the voters at the next general election.

In Maryland no further action has been taken.

States which have not adopted cash bonus measures.

In the following States the cash bonus or adjusted compensation has not been adopted and no referendum is pending:

Alabama, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Idaho, Indiana, Kentucky, Louisiana, Maryland, Mississippi, Nevada, Nebraska, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming.

In the following States bonus or adjusted compensation legislation was proposed but failed to become law:

Arizona	The Senate failed to pass the bill which the lower House enacted.
Delaware	The measure was defeated.
Indiana	The State legislature in January, 1923, passed a bonus act, which the Governor vetoed in March.
Kentucky	Bonus bill was discussed in the 1922 legislature. It failed to pass.
Nebraska	A bill authorizing a bond issue of $5,000,000 was proposed, but was defeated by the Senate in 1922.
Oklahoma	The bonus measure approved by the legislature failed to receive the required number of votes when submitted to referendum at a special election held October 2, 1922.

Aids, Benefits, Privileges and Exemptions:

Preference in Civil Service appointments for veterans has been granted in the following States:

California, Connecticut, Illinois, Indiana, Iowa, Kansas, Massachusetts, Michigan, Minnesota, Nevada, New Jersey, South Dakota, Washington, and Wisconsin.

Partial exemption from taxation has been granted by the legislature in the following states:

California, Connecticut, Georgia, Indiana, Iowa, Maine, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New Mexico, North Dakota, Oklahoma, Rhode Island, South Dakota, South Carolina, Tennessee, Texas, and Wyoming.

Educational assistance is given to veterans who desire to continue their education, in the following States:

California, Colorado, Illinois, Kentucky, Minnesota, Ohio, Oregon, South Carolina, and Wisconsin.

Assistance in buying homes and settling on farms and also other land settlement claims have been granted by the States enumerated:

Arizona, California, Colorado, Idaho, Indiana, Minnesota, Missouri, Nevada, New Mexico, North Carolina, Oregon, South Dakota, Tennessee, and Wyoming.

Veterans Welfare Commissions or Boards have been instituted in the following States:

Idaho, Iowa, Minnesota, Montana, Oregon, Rhode Island, and Washington.

Aid is given to veterans in finding employment in the following States:

Georgia, Illinois, Indiana, Massachusetts, Missouri, Montana, Nevada, New Hampshire, New Jersey, North Carolina, Oregon, and Tennessee.

Exemption from the payment of peddlers' and hawkers' licenses is granted to disabled veterans in the following States:

California, Georgia, Kansas, Massachusetts, Minnesota, New Hampshire, New York, Oklahoma, and Pennsylvania.

Funds have been instituted out of which loans may be given to veterans in the following States:

Minnesota, Montana, North Carolina, and South Dakota.

Relief for needy veterans is granted in the following States:

Connecticut, Idaho, Maine, Massachusetts, Minnesota, Nebraska, New Hampshire, New Jersey, New York, Ohio, Oklahoma, Oregon, Rhode Island, South Dakota, Washington, West Virginia, and Wisconsin.

Admission to State hospitals, insane asylums, soldiers' homes, and hospitals for the tubercular is generally provided for in all States. Almost every State will also pay part or all of the funeral expenses.

Assistance is granted in the following States to veterans to prosecute disability claims:

Georgia, Idaho, Kentucky, and Washington.

The legislatures of California and New York have passed resolutions memorializing the United States Congress to pass adjusted compensation.

GREAT BRITAIN

Gratuity:

Provision for the ex-service men of Great Britain was made by a Royal Warrant of December 17, 1918, which was issued as Army Order No. 17, 1919.

This order provided a basic payment to each enlisted man and supplemental payments dependent upon the nature and length of service.

The basic payments were made to all enlisted men who had served more than six months, and to those who had served six months or less when a portion of the service was overseas. These payments ranged from £5 in the case of a private to £15 in the case of a warrant officers, first class. They constituted the entire gratuity for the first 12 months of service, after the completion of which the supplemental payments began. These supplemental payments, which were limited to 48 installments, were paid at the rate of 10 shillings per month for overseas service and 5 shillings per month for domestic service.

Officers received from £35 in the case of a Second Lieutenant to £370 in the case of a Lieutenant General.

On August 6, 1919, the House of Commons appropriated £585,000 to be issued as grants, varying from £10,000 to £100,000, to military and naval leaders. (Parliamentary Debates, House of Commons, Vol. 119, No. 111, p. 207 ff.), The total gratuity paid according to Army and Navy annual accounts was £79,358,043.

Furlough and Clothes:

In addition to the basic gratuity as described above some four million persons were granted four weeks' furlough on full pay and allowance. The expenditure to the government on this account was

about £40,000,000. Plain clothes, or an allowance in lieu thereof, were given to each man upon discharge. This occasioned an expenditure of about £10,000,000. (Memorandum from the office of Military Attache, November 5, 1921.)

Out of work donation policy:

To provide against unemployment an insurance policy known as an "out of work donation policy" was given each veteran below commissioned rank, upon discharge. This policy was valid for one year and entitled the holder to a donation, in case of unemployment. (Ministry of Labour Pamphlet D. 14, October, 1919.) The cost of donations granted under these policies was, according to the office of the Military Attache, about £451,000.

Repatriation:

Provision was made also for the repatriation of those who had come from other countries to serve under the British colors. Free transportation home was given to the men and their families, and in some cases to the widows and orphans of those who had been killed. Over 35,000 persons and the families of those who were married were repatriated at a cost of about £1,120,000.

CANADA.

Gratuity:

Provision for a gratuity to Canadian soldiers was made in accordance with Orders in Council December 21, 1918, February 8, 1919, June 23, 1919, December 1, 1919.

The amount of compensation was calculated in terms of additional pay and allowances for from 31 to 183 days, varying according to the length and nature of service, rank, dependents, etc. No man entitled to a gratuity received less than $70 and not less than $100, if with dependents. Gratuities were paid as follows:

	Additional pay
For 3 years service, any part of which was in the theatre of war	183 days
From 2 to 3 years " " " " " " " " " " "	153 days
From 1 to 2 years " " " " " " " " " " "	122 days
Less than 1 year " " " " " " " " " " "	92 days
For 3 years Canadian service	92 days
For 2 years " "	61 days
For 1 to 2 years" "	31 days

The total cost of these gratuities to the Canadian government was about $164,000,000. (Canadian Year Book, 1920, p. 40)

Expense Money:

Each Canadian soldier upon departure from France was given $10, ship and train money. The amount paid on this account was $3,879,410. (Based on figures given in memorandum of Department of Soldiers' Civil Reestablishment, Ottawa, October 20, 1923, to U. S. Veterans Bureau.)

Clothes:

Each enlisted man received a $35 clothes allowance on retirement from the service. (Memorandum of Capt. C. B. Wilson, U. S. A., to Col. C. A. Gibson, Acting Chief of Statistical Branch, October 11, 1919.) The amount paid on this account was $18,615,940 (Based on figures given in memorandum mentioned under expense money above.)

Land Settlement:

In 1917 the Dominion Government passed a Soldier Settlement Act (7-8 Geo. V. Ch. 21) to assist returned soldiers in settling on land and to increase agricultural production. On February 1, 1918, the Board of Commissioners created by this Act was appointed and placed under the Minister of the Interior. The main provision of the Act was that it granted to each ex-soldier 160 acres of Dominion Lands on settlement conditions and made it possible for him to secure as much as $2500 to assist him in operting and stocking his land.

In 1919 a further Act was passed (9-10 Geo. V, Ch. 71) amended May 11, 1920, (10-11 Geo. V, Ch. 19) changing the conditions as to the amount of land which might be acquired and the amount of the loan securable thereon. This Act provided also for assistance to soldiers who desired to purchase land, provided they could make a 10 per cent cash payment.

Up to March 31, 1922, 63,323 applications had been received and 45,180 had been accepted as qualified.

Loans had been granted to 21,394 applicants as follows:

	Number	Amount
Prince Edward Island	336	$ 924,438
Nova Scotia	400	1,365,569
New Brunswick	568	1,757,388
Quebec	416	2,092,482
Ontario	1,628	7,001,765
Manitoba	3,378	14,495,488
Saskatchewan	5,336	21,586,288
Alberta	6,260	25,580,812
British Columbia	3,072	13,724,767
Total	21,394	$88,528,997

(Canadian Year Book, 1921, p. 809)

The estimated expenditures on land settlement for the year 1922-1923 were $12,000,000. (Estimates1923, Geo. V, Sessional Paper, No. 3, page 59.)

Insurance:

Under the Returned Soldiers' Insurance Act (10-11 Geo. V, Ch. 54, Statutes 1920, assented to July 1, 1920, as amended by 11-12 Geo. V, Ch. 52, assented to June 4, 1921) a system of

life insurance at very favorable rates was established for ex-service men who might not be considered insurable by ordinary life insurance companies. Under this Act policies from $500 to $5000 are procurable at rates considerably lower than those quoted by insurance companies for similar policies. They cannot be used as collateral for loans. The beneficiaries under the policies receive an amount not exceeding $1000 upon the death of the insured and the balance in annual instalments, according to the choice of the insured.

Up to December 31, 1921, the number of applications received and approved was 7,980. The premiums received amounted to $352,769, and the face of the policies amounted to $19,589,500. Death claims to that date had been settled to the amount of $645,000 in 180 cases.

(Canadian Year Book, 1921, page 808.)

Civil Service Preference:

By Orders in Council, February, 1918, Civil Service preference was given ex-service men.

Repatriation:

Upon the outbreak of the war and the departure of Canadian soldiers for overseas, many wives and other dependents accompanied their husbands or fathers in order to be near them. When the war closed there were some 50,000 to 60,000 dependents of Canadian soldiers abroad. Free transportation back to Canada was provided for wives, and children under eighteen. The amount of expenditure on this account up to March 31, 1921, was $2,800,000.

(Canadian Year Book for 1920, page 42.)

AUSTRALIA

Gratuity:

Gratuities to Australian soldiers and sailors were provided under acts assented to April 30 and May 29, 1920.

The gratuities provided by these acts are in recognition of honorable services and cannot be claimable or recovered as a matter of right. Members of the naval and military forces who served overseas received 1s. 6d. per day, and those who did not, received 1s. per day. These gratuities were made payable, with certain exceptions, in 5½ per cent Treasury bonds maturing not later than May 31, 1924. Provision was made, however, that in necessitous cases they should be in cash if the veteran so desired. The first gratuities were made available about the beginning of June, 1920. By July 2, 1921, £5,157,110 had been paid in cash, and bonds to the amount of £20,585,746 had been issued. It was estimated that about 360,000 payments would be made aggregating £30,000,000. (Official Year Book Commonwealth of Australia, No. 15 (1922) p. 930.)

Land Settlement:

In addition to the cash gratuities as described above, Australia has established a land settlement plan for ex-service men. In 1917 at a Premiers' Conference in Melbourne it was agreed that the States should undertake the work of settling soldiers on the land but that the Commonwealth should finance them for this purpose.

The original arrangement provided that the Commonwealth should take the responsibility of finding up to £500 per settler as working capital for improvements, implements, seed, etc., an amount which was subsequently increased to £625 per settler.

At a Premiers' Conference held in January, 1919, definite proposals were put forward by the States at the request of the Commonwealth Government and the latter agreed to finance the States to the amount of £34,820,793, of which there was advanced £33,153,272.

As the number of applicants exceeded the estimates, the States sought further assistance from the Commonwealth. The basis of the agreement arrived at (Premiers' Conference, July, 1920) was that the Commonwealth Government should advance the States a flat rate of £1,000 per settler - £625 per settler (on the average) as working capital and £375 per settler (on the average) for resumptions and works incidental to land settlement, approved by the Commonwealth.

(Official Year Book of the Commonwealth of Australia, No. 15, 1922, pp. 935-936)

NEW ZEALAND

Gratuity

Provision for ex-service men of New Zealand was made by Section 7 of the Expeditionary Forces Amendment Act of 1918.

The gratuity provided for in this act could not be claimed

as a right and could not be recovered in a court of law. It was to be considered merely as a free gift of the State in recognition of honorable service. Orders in Council of September 19, 1919, provided for a payment of 1s. 6d per day of service to any member of the New Zealand naval force engaged in the war with Germany or any other person living in New Zealand who served overseas with any portion of "His Majesty's Forces." Up to May 20, 1920, payments to the amount of £5,225,900 had been made to 88,932 persons. Some 2,000 claims had been settled in London.
(New Zealand Year Book, 1920, page 84.)

Land Settlement:

Under provisions of the Discharged Soldiers' Settlement Act of 1915, and amendments thereto, any person who served in a New Zealand Naval or Expeditionary Force who had received an honorable discharge, (provided that those who served abroad returned to New Zealand) and bona fide residents of New Zealand who served with a British force, were made eligible to apply for advances for land purchase. Under Section 3 of the Discharged Soldiers' Settlement Amendment Act of 1917, it was provided that one or more discharged soldiers might apply to the Land Board with a view to securing land from the government. If the land desired by the soldier could be bought by the Crown it was then sold to the soldier making application to purchase.

The maximum amount that might be advanced to any one person for any purpose was placed at £2500, with an additional further advance of £750 for improvements, etc. Repayments of advances may be securied by 10-year 5 per cent flat mortgages or by 6 per cent 36½-year instalment mortgages.

In case of need of help in the purchase of a residence site with dwelling on it, an allowance of not exceeding £1000 might be made, or, in case the site is owned by the applicant, £900 might be made for the purpose of erecting a dwelling. Repayment of advances of this character might be secured by a flat 5 per cent ten-year mortgage or by a 7 per cent 25½-year instalment mortgage. £750 for specified purposes might be loaned in the case of those who already owned or leased land administered by the Board. Up to March 31, 1922, advances made under provisions for soldiers' settlement on land amounted to £19,744,950, of which £1,457,659 had been repaid and the number of acres of land procured by about 20,000 persons was 1,367,761.

(New Zealand Year Book, 1923, p., 345 ff.)

Assistance in Business:

Discharged soldiers may also receive assistance in establishing themselves in business. Loans up to £425, of which £175 may be interest free, can be advanced to those who desire to enter business. The interest rate chargeable is 5 per cent. Under this arrangement loans up to June 20, 1922, amounted to £1,839,543, and about 21,153 persons had been assisted.

(New Zealand Year Book, 1923, page 507 ff.)

FRANCE

Gratuity:

The provision for a bonus to French soldiers and sailors is contained in Sections 1 to 7 of the Act of March 22, 1919, (Journal Officiel, March 29, 1919, page 3218). It provided that 250 francs should be paid to all enlisted men and officers up to the rank of captain who had served for at least three months between August 2, 1914, and November 11, 1918. In addition to this a bonus of 15 francs per month for service in the rear and 20 francs per month for service at the front was provided. The maximum amount in pensions, premiums, etc., payable to each man was placed at 5000 francs per year. This maximum was increased by 1000 francs for each dependent child under sixteen years of age. (Letter from U. S. Military Attaché, Paris, France, to U.S. War Department, December 14, 1922.)

Gratuities to demobilized soldiers and sailors up to the grade of captain amounted, up to April 30, 1921, to 4,964,948,670 francs.

(Journal Officiel de la Republique Francaise, 1919-1921.)

Released for use by morning papers on January 21, 1924.

DEPARTMENT OF COMMERCE
WASHINGTON

TAXES COLLECTED BY THE NATION, BY STATE GOVERNMENTS, BY COUNTIES, AND BY ALL CIVIL DIVISIONS HAVING POWER TO LEVY AND COLLECT TAXES: 1922.

Washington, D. C., January 21, 1924.---The Department of Commerce has issued a statement in regard to the specified revenues of the National Government, of the 48 states and the District of Columbia, and of counties, cities, towns, villages, school districts, townships, drainage districts, park districts, and other civil divisions having power to levy and collect taxes.

The grand total of these revenues is $7,433,081,000, or an average of $68.37 for each person. Of this total $3,204,133,000 represent the revenues of the National Government, consisting of customs, $562,139,000; Internal Revenue (1) income and profit tax, $1,691,090,000 and (2) miscellaneous taxes, $933,699,000; tax on circulation of National Banks, $4,304,000; and Federal Reserve Franchise tax, $10,851,000.

The total of the revenues of states, counties, cities, townships, and other local political units is $4,228,948,000, or an average of $38.90 for each person. Of this total $3,329,380,000, or 78.7 per cent come from general property taxes. Special taxes, including inheritance, income, etc., contribute $258,034,000; poll taxes, $29,190,000; licenses and permits, $408,597,000; and special assessments, $203,747,000.

Specified Revenues of the States, Counties, Incorporated Places, Townships, School Districts, and All Other Civil Divisions, 1922, and of the National Government, 1923.
(Totals expressed in thousands.)

Civil divisions.	Total.	General property taxes.	Special taxes.	Poll taxes.	Licenses and permits.	Special assessments.
State governments.	$ 867,468	$ 348,290	$196,081	$ 8,324	$305,365	$ 9,408
Counties	742,331	683,398	4,785	9,200	25,251	19,197
Incorporated places	1,627,329	1,344,316	52,847	7,196	73,238	149,732
Townships	151,318	140,625	3,329	1,682	3,266	1,906
School districts..	738,433	734,994	236	2,036	1,132	35
All other civil divisions	102,069	77,247	256	752	345	23,469
Total	4,228,948	3,329,380	258,034	29,190	408,597	203,747
National Government	3,204,133					
Grand total	7,433,081					

Comparison, 1922 and 1912.---The statistics here given form part of the 1922 census of wealth, debt, and taxation. A similar census taken for 1912 included the revenues of the National Government and of all states and counties; but as regards cities, included only those having a population of over 2,500. Accurate comparison can be made only for the revenues of the National Government, the state governments, and the counties. The comparison, however, can be extended to incorporated places having over 2,500 population if allowance is made for the fact that the places not having that population in 1910 and having it in 1920 are included in the 1922 but not in the 1912 revenues---a difference which would have very little effect on the comparability of the totals.

The specified revenues of the National Government increased from $667,038,000 in 1912 to $3,204,133,000 in 1922, an increase of 380 per cent. The state revenues within this period increased 183 per cent, the county revenues 141 per cent, and the municipal revenues for places of 2,500 population and over increased 80 per cent. The total of the above classes of revenues increased from $2,131,402,000 in 1912 to $6,346,332,000 in 1922, or 198 per cent, which is equivalent to an average per person in the United States of $58.37 in 1922 and of $21.96 in 1912.

Specified Revenues of the States, Counties, and Incorporated Places Over 2,500, 1922 and 1912, and of the National Government, 1923 and 1913.
(Totals expressed in thousands.)

Civil Divisions.	1922.	1912.	Per cent of increase, 1912 to 1922.
State governments	$ 867,468	$ 306,521	183
Counties	742,331	307,872	141
Incorporated places over 2,500	1,532,400	849,971	80
Total	3,142,199	1,464,364	115
National Government	3,204,133	667,038	380
Grand total	6,346,332	2,131,402	198

February 5, 1924.

Dear Sir:

Under date of February 1st you referred to me a clipping from the New York World, in which Mr. John R. Quinn, National Commander of the American Legion, is quoted on certain matters with reference to the Treasury of the United States, and have asked my comments thereon.

(1) Mr. Quinn states that in December, 1922, the Treasury estimated a deficit of $650,000,000 for the fiscal year ending June 30, 1923, whereas at the end of the fiscal year there was a surplus of $313,000,000.

The President used figures which showed a possible deficit of $697,000,000 in his speech delivered July 11, 1922, to the business organizations of the Government. This figure was made up from tentative figures furnished by the Treasury and other departments and establishments, and did not include an estimated expenditure of $125,000,000 for accrued discount on War Savings Certificates. These figures were for the fiscal year ending June 30, 1923, and were, therefore, made a year in advance of the close of the fiscal year. At the time for the Secretary's Annual Report in November, 1922, sufficient improvement had been made in the general business conditions of the country to require a reconsideration of these tentative figures, and the estimated deficit for the fiscal year ending June 30, 1923, was reduced to $273,000,000. A surplus or a deficit is the difference between the receipts and the expenditures of the Government and is affected by any change either in the receipts or in the expenditures. The recovery of the country from the depression of 1921 was much more rapid than had been anticipated. A new

tariff law had just gone into effect, and the revenue from this source developed into the highest in the history of the Government and was entirely unanticipated. On account of these two changes in conditions which brought additional revenue to the Government, actual revenues were some $400,000,000 in excess of the revenues estimated in November, 1922. A like but not so marked change took place in the expenditures. The principal item was a saving of $220,000,000 in expected expenditures on account of railroads by a reduction in what was actually spent and a realization on railroad securities owned. Since the Government's accounts are kept on a cash basis, and capital items received are treated as ordinary receipts, or as reductions of ordinary expenditures, it was difficult for the Government to estimate accurately its receipts when it was holding so many realizable capital assets in its Treasury. Due to these unforeseen circumstances, the estimate made by the Treasury in November necessarily varied from the actual results determined by the following June, but Mr. Quinn is, however, in error in saying that there was a deficit of $650,000,000 estimated in December, 1922.

(2) Mr. Quinn states that the Treasury officially estimated the cost of the bonus as $80,000,000 and it now estimates it to be $250,000,000 as the average for the first four years.

The original figures were prepared by the Government Actuary under the instructions of and upon the basis determined by Senator McCumber, author of the bonus bill. Based as Senator McCumber requested, the Government Actuary figured the cost of the bonus for the first four years as follows:

1923	$77,440,889
1924	92,177,729
1925	73,100,962
1926	370,229,885

Upon a basis of what is now considered would be the probable exercise of the options given by the bill, the Treasury figures the cost of the bonus for the first four years as follows:

1924	$161,729,002
1925	111,336,378
1926	92,676,005
1927	661,545,183

(3) Mr. Quinn states that the Treasury has ignored the $160,000,000 Great Britain is paying annually on its debt.

In the Secretary's Annual Report for 1923, page 107, under "Miscellaneous receipts: Proceeds of Government owned securities - Foreign obligations - Principal," is estimated $60,533,000, of which $23,000,000 is British refunding, and "Interest" estimated at $160,488,004, of which $137,655,000 is British refunding interest. These estimated miscellaneous receipts are part of the general receipts of the Government on which the estimated surplus for 1924 is determined.

(4) Mr. Quinn states that the British payment could be used to pay the bonus.

Great Britain has the right under the debt settlement to pay its obligations either in notes or bonds of the United States or in cash. This amounts to no more than a mutual cancellation of debts, that is, we cancel our claim against Great Britain for $161,000,000 upon Great Britain's cancelling claims against us, that is, bonds of the United States and accrued interest, to an equal amount. As an illustration of

the effect of this provision, of the $92,000,000 due from Great Britain on December 15th last, the United States received all in its own bonds and accrued interest thereon, except the sum of $22.16 in cash. If the bonus were to be paid out of this debt settlement, there would be available, therefore, only $22.16.

(5) Mr. Quinn states that the Treasury ignored the proposed cut in Governmental expenditures, which he says will save another $220,000,000 annually.

The estimated surplus is the difference between the estimated receipts and estimated expenditures. In determining the estimated surplus of $329,000,000 for the fiscal year 1924, the Treasury of necessity took into account the reduction in expenditures. No other course would have been possible and even a cursory examination of the Secretary's Annual Report must have made this obvious.

I trust this will answer your inquiry.

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

W. S. Woods, Esq.,
Editor, The Literary Digest,
354 Fourth Avenue,
New York, N. Y.

DEMOCRATIC PLAN. (Not to be given out.)

Estimated effect upon the revenue of the proposed changes in the individual income tax law, upon the base of returns for the second year after the law is in full effect.

Income tax brackets.	Number paying tax in each bracket.	Loss in tax as compared with estimated tax for 1923.						
		Normal tax (Loss)	Surtax (Loss)	Earned income provision. (Loss)	Capital losses provision. (Gain)	Certain deductions limited to nontaxable income. (Gain)	Community property provision. (Gain)	Net reduction in tax collected.
Under ------ 5,000	1,610,000	$159,500,000	--------	$ 8,800,000	600,000	1,000,000	* $ 550,000	$167,250,000
$5,000 to 10,000	610,000	37,500,000	$ 15,700,000	8,150,000	400,000	500,000	* 600,000	61,050,000
10,000 " 20,000	230,000	3,800,000	27,762,000	7,150,000	300,000	850,000	* 200,000	37,762,000
20,000 " 50,000	80,000	4,900,000	53,235,000	16,720,000	800,000	850,000	900,000	72,305,000
50,000 " 100,000	11,000	6,200,000	36,230,000	15,410,000	1,900,000	1,200,000	1,000,000	53,740,000
100,000 " 150,000	1,870	2,400,000	33,160,000	5,570,000	2,350,000	3,000,000	50,000	35,730,000
150,000 " 200,000	770	800,000	16,050,000	2,220,000	2,450,000	2,000,000	* 100,000	14,720,000
200,000 " 300,000	370	900,000	19,280,000	1,920,000	2,600,000	1,450,000	--------	18,050,000
300,000 " 500,000	170	1,500,000	19,380,000	1,200,000	1,700,000	1,250,000	--------	19,130,000
500,000 " 1,000,000	70	600,000	17,200,000	1,080,000	1,300,000	1,400,000	--------	16,180,000
Over ---- 1,000,000	20	500,000	17,680,000	480,000	1,100,000	1,500,000	--------	16,060,000
Gain:	------	--------	--------	--------	$15,500,000	$15,000,000	$ 500,000	--------
Loss:	------	218,600,000	255,677,000	$68,700,000	--------	--------	--------	$511,977,000

* Loss.

FOR IMMEDIATE RELEASE Thursday, February 14, 1924.

The President today gave publicity to the following letter from the Secretary of the Treasury.

February 13, 1924.

Dear Mr. President:

I am writing to advise you of the situation which has developed in connection with the charges made by Mr. Charles B. Brewer as to alleged duplicate issues of Liberty bonds and other alleged frauds affecting the public debt. Mr. Brewer has been conducting his investigations for over two years and he has made his report under date of January 15, 1924. This report reached me on January 26th, and the Treasury has since been checking it up, with a view to answering it item by item at the earliest possible moment. In the meantime, however, the report has become public through proceedings brought by Mr. Brewer in the District of Columbia courts against the Secretary of the Treasury and the Attorney General, and since it is calculated to disturb the public mind by suggesting doubts as to the integrity of the public debt, I believe it is time to make a clear statement of the facts and answer once and for all the charges which Mr. Brewer has brought against the Treasury.

Mr. Brewer charges in substance that there have been large issues of duplicate Liberty bonds, and at least implies that there has been a conspiracy, affecting even the higher officials of the Treasury, to suppress the facts and make it possible for the guilty parties to realize on the duplicate bonds. His charges cover principally the issue of temporary bonds during the years 1917, 1918, and

1919, and, as appears from the report, were made first by Mr. J. W. McCarter, of South Dakota, in letters published in September, 1920, in the name of the "McCarter Corporation", a family corporation organized by McCarter in the interests of the Non-Partisan League. It appears from the records of the Treasury that Secretary Houston made a thorough investigation into the matter at the time, and subsequently stated in two letters which were made public on September 28, 1920, that the charges were without foundation, that they were manifestly based on misinformation and misunderstanding, and that though there were instances of duplicate serial numbers on Liberty bonds, no evidence had been found of any duplicate issues or other fraudulent over-issue of Liberty bonds or other Government securities. It appears further from the records that McCarter had been for a time Assistant Register of the Treasury under the Democratic Administration, that his conduct in office had been inefficient and generally unsatisfactory, and that in July of 1920 he had been permitted to resign, though Secretary Glass had first asked and obtained authority from President Wilson to remove him from office, for reasons which he summarized as follows:

> "I am obliged to ask your authority to remove from office James W. McCarter, Assistant Register of the Treasury. He has conducted himself in his office in a manner not only wholly inefficient but grossly offensive to the members of his organization. He has been given warning and ample opportunity to amend his ways and I feel that nothing but peremptory action will make it possible to restore the efficiency of the organization".

Shortly after his withdrawal from office McCarter published his charges of duplication in the issues of Liberty bonds, and Brewer, to whose attention they subsequently came, has since been endeavoring to develop them through his investigations.

For the most part, the charges of McCarter and Brewer relate to matters preceding my administration of the Treasury, as to which I have no personal knowledge. I have made independent investigation, however, with all the facilities at my command, and I am satisfied that the charges are unfounded, that there has been no fraudulent duplication or over-issue of the public debt, and that there is no occasion for any public uneasiness as to the integrity of either the Government's outstanding obligations or those branches of the Treasury service which have been engaged in the handling of the public debt securities. The Treasury has been on the alert at all times to guard against fraudulent dealings in public debt securities, and has been at the greatest pains to provide for handling both security issues and security redemptions in such a way as to safeguard the Government's interests at every point. Its record in this regard invites the fullest inspection, and the results which it has achieved in dealing with the unparallelled issues of war bonds and other securities do it the greatest credit.

It should be clear in the first place that the securities to which the charges principally relate are the so-called temporary

Liberty Bonds, which were issued in 1917 and 1918 with only the first few coupons attached, and the Victory notes which were issued in 1919. The Victory notes have since matured and been paid off in 1923. The temporary Liberty bonds became exchangeable for permanent bonds, with all coupons to maturity attached, in 1919 and 1920, and the exchanges of temporary for permanent bonds are now practically complete, only about $37,000,000 face amount of temporary bonds being still outstanding out of a total of nearly $15,000,000,000 of outstanding Liberty bonds. In other words, the Liberty bonds now in the hands of the public are practically all permanent bonds, which are not in any way affected by the charges, so that there is no occasion for any public uneasiness in this regard.

The exchange of temporary for permanent bonds has also given an excellent check upon the integrity of the issue of temporary bonds, and it furnishes a conclusive answer to the charges of duplication in the public debt. It has involved practically a complete turnover of the coupon Liberty bonds originally issued, as a result of which the temporary bonds have been surrendered to the Treasury for retirement. Over 101,000,000 pieces of temporary bonds were delivered in the first instances by the Bureau of Engraving and Printing. Of these, there were outstanding in the hands of the public on November 30, 1923, only 481,241 bonds, having an aggregate face value of $37,108,450. In other words, over 100,000,000 pieces of temporary bonds have already been retired and delivered to the Register of the Treasury for final

examination and audit. The examination of these millions of pieces is practically current, and since it involves a check in each case against the numerical records, it would be certain to disclose duplicate issues if any had been made. As a matter of fact, the examination has not disclosed any duplication, and shows that the issues and retirements check up, by loans and denominations, without any over-issue.

Another check on the integrity of the Liberty Loan issues is furnished by the accounts of the interest accrued and unpaid on the public debt. These figures indicate that instead of the excessive payments of interest which would be expected if there were large duplicate issues of bonds, the interest payments as a matter of fact have constantly been far below the actual accruals upon the outstanding public debt. For example, according to the public debt statement for November 30, 1923, the latest available, there were outstanding on that date matured interest coupons and interest checks to an aggregate amount of $64,604,085.85. In other words, instead of an overpayment of interest, the Government has actually had to pay considerably less interest than has accrued on the bonds and other securities which are admittedly outstanding. The public debt statements, moreover, are made up on a cash basis, the amounts shown as issued being taken up only against cash actually received. The figures for the Public debt on this basis agree with the figures reached independently by the Division of Loans and Currency on the basis of securities issued, and this of itself furnishes conclusive proof that there have been no over-issues.

Beyond all this, the audits which have been made of the paper accounts of the Bureau of Engraving and Printing over the whole period since the beginning of the war show that there are no discrepancies in these accounts beyond the petty discrepancies that would naturally be expected in transactions involving several hundred million pieces of distinctive paper. The balances of distinctive paper for which the Bureau of Engraving and Printing is accountable appear on the books of the Treasury, and from time to time it is the practice to check and verify these balances through audit by an independent committee. Security paper issued to the Bureau has to be accounted for either by deliveries of perfect securities to the Division of Loans and Currency, or by imperfect or spoiled securities which are destroyed. There have been three audits of the the paper accounts covering the period in question, the first in 1920, after the issue of the last Liberty Loan, when Secretary Glass designated a committee to verify the balances of security paper charged to the Bureau of Engraving and Printing. This committee submitted its report on August 5, 1920, after having made a complete verification of all open balances of paper and examined by actual count all paper at the Bureau. No substantial discrepancies appeared, most of the differences being found to be accounting errors. In April of 1922, I designated another committee to make examination of the security paper accounts. The report of this committee, as of April 8, 1922, showed there were no substantial discrepancies in the distinctive paper accounts, and that the total differences affecting

the original issues of Liberty bonds and Victory notes (including the items shown by the 1920 report above-mentioned), were as follows: a net shortage of 49 sheets for the First 3½'s; a net shortage of 28½ sheets for the First 4's and Second 4's; a net overage of 1 3/6 sheets for all of the 4¼ per cent Liberty bonds; a net overage of 5¼ sheets for Victory notes. It is estimated that the differences in the 3½ per cent First Liberty Loan paper accounts could not involve a money value of over $3,690, while the differences in the First 4 per cent and Second 4 per cent paper could not involve a money value of over $2,783.41. Against these shortages there are, as stated, overages in the 4¼ per cent bond paper and in the Victory note paper accounts. The conclusions of this report were substantiated by the report of the auditors of the Department of Justice which made an independent examination as of the same date and found substantially the same discrepancies.

The check which has thus been made in the paper accounts of the Bureau of Engraving and Printing conclusively negatives the possibility of any material duplication or over-issue of any of the Liberty Loans or other public debt securities since the beginning of the war. As a matter of fact, the audits show that the Bureau of Engraving and Printing printed and delivered in connection with the war issues over 215,000,000 pieces of securities, with an aggregate face value exceeding $137,000,000,000. The percentages of differences in relation to these totals is insignificant and certainly not more than would be expected in operations of this magnitude.

After printing and delivery by the Bureau of Engraving and Printing the bonds and other securities all received a critical examination, the seal of the Treasury was affixed and they were initialled by examiners. In the various processes the securities were subjected to successive piece counts, and adequate checks were imposed at the Treasury and The Federal Reserve Banks to insure that no deliveries would be made except against payment therefor in proper form. During the course of examination, and before issue, thousands of imperfectly printed bonds, including many bonds and notes with imperfect or incorrect serial numbers, were detected by the examiners and returned to the Bureau of Engraving and Printing for destruction. Undoubtedly some imperfectly printed and some imperfectly numbered bonds were not detected and ultimately reached the public, but only against payment therefor in regular course, so that there was no duplication or over-issue of the public debt on this account.

Undoubtedly, also, there have been bonds and other securities with duplicate serial numbers, and contrary to Mr. Brewer's assertions, there have been such duplications of numbers with registered as well as coupon bonds. Even now duplications occasionally occur in printing, through variations in the numbering machinery. All the duplicate serial numbers discovered by the Treasury are checked up as promptly as possible, and none has yet been found to involve any duplication whatever in the public debt. For the most part, the duplicate numbers have been found, on investigation, to result from mechanical errors in numbering, either through aberrations in the

machinery or through mistakes in numbering make-up bonds, or to be only apparent duplications, resulting from errors in recordation. In many other cases, it appears that the numbers have been altered while the bonds were outstanding, thus creating an apparent duplication in numbering when returned to the Treasury. When it is remembered that there were over 100,000,000 pieces of temporary Liberty bonds alone issued by the Treasury, each with a serial number, it is not surprising that duplicate numbers should occasionally appear, the total up to date being only about three thousand. When it is remembered also that in the ordinary course of business United States coupon bonds and other bearer securities are handled by the public without regard to their serial numbers, and that even in the Treasury the serial numbers are important only for purposes of original issue and again on final audit when received for retirement, it will be appreciated how little significance for practical purposes attaches to the duplications in serial number which have been discovered.

No case which the Treasury has yet investigated in the course of its examination of the Brewer report throws any doubts on these conclusions or indicates any duplication or over-issue of the public debt. Many of the specific cases mentioned, in fact, had already been fully explained to Mr. Brewer, and had no proper place in the report. The examination will be finished to completion as rapidly as possible, and I will advise you further as to the final results.

I think in the meantime the public can rest assured that there has been no over-issue of Government securities and that the integrity of the public debt cannot be attacked.

Faithfully yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

The President,

The White House.

February 18, 1924.

Dear Colonel Miller:

You are quoted by the New York papers as saying in a speech in New York yesterday that a "high Treasury official" had told you that the Treasury Department estimates of the cost of the soldiers' bonus had been "juggled". You are further quoted as saying that you had been informed by the "high Treasury official" that this had been done because "it was felt necessary at the Treasury Department to use stronger and stronger arguments against the bonus each time it came up". Please advise me, (1) do these quotations substantially represent what you said in your speech in New York? (2) if so, what is the name of the "high Treasury official" who is the source of your information?

I am unable to find any one in the Treasury who could have given you the information which you are said to have received. The statement alleged to have been received from the "high Treasury official" is false. The figures given publicity by the Treasury Department with respect to the bonus cost were prepared by the Government Actuary and represent his calculations as to the probable cost of the bonus. They represent the Treasury's views of this cost without ulterior purpose.

We have had within the past week an example of a man of public prominence who made statements in a speech without verification of their accuracy. Such cases should be promptly dealt with, for the public is entitled to know the truth. I will appreciate, therefore, an immediate answer to my request for this information.

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

Honorable Thomas W. Miller,
Alien Property Custodian,
Washington, D. C.

March 1, 1924.

THE TREASURY UNDER A REPUBLICAN ADMINISTRATION.

Among the outstanding achievements of the present administration is the success with which it has handled the Government's fiscal affairs. Important economies in expenditures have been effected, the tax burden has been reduced, the budget has been kept balanced, substantial progress has been made in the liquidation of the debt, the first phase of the refunding operations has been completed, and a satisfactory settlement of the debt due the United States from the British Government has been effected.

The reduction in expenditures during the fiscal year ending June 30, 1922, as compared with the previous fiscal year, was approximately $1,700,000,000, while the surplus for the year amounted to about $300,000,000. That this was accomplished in the face of the unfavorable prospects that confronted the Treasury at the beginning of the year is due to the unremitting efforts of the Government departments and establishments under the leadership of the President to reduce current expenditures to the utmost consistent with proper administration. And it is no mean accomplishment, for current expenditures during the year were about 600 million dollars less than the spending departments themselves estimated would be necessary at the outset of the year. At the beginning of the fiscal year 1923 the prospects were again unfavorable, and the Government faced a threatened deficit of nearly $700,000,000 exclusive of $125,000,000 accrued interest on war savings certificates due January 1, 1923, which was not embraced in the estimate made in July, 1922. At the close of the fiscal year, however, it was found that ordinary receipts for the year amounted to about $4,007,000,000 on the basis of daily Treasury statements, while the total expenditures chargeable against ordinary receipts amounted to

about $3,697,000,000 thus showing a surplus of receipts over expenditures amounting to about $310,000,000. The public debt was reduced during the year by nearly $403,000,000 on account of the sinking fund and other debt retirements chargeable against ordinary receipts and by $211,000,000 out of the surplus, making a total debt reduction for the year of about $614,000,000. This fortunate result was due in large part to the increase in receipts. Customs receipts during the year were much larger than for any previous year in the history of the Government, aggregating almost $562,000,000 as compared with $356,000,000 during the fiscal year 1922, the previous high record. Income and profits tax receipts also exceeded expectations, aggregating about $1,679,000,000 as compared with the estimate of $1,500,000,000 submitted in the Budget last December. Miscellaneous internal revenue receipts amounted to $946,000,000. This is a showing which gives much reason for encouragement, and it means better prospects for the future if all concerned will continue to exercise the utmost economy in Government expenditure and avoid new projects that would drain the public Treasury.

The following table shows for the fiscal years 1920-1923, on the basis of daily Treasury statements, the ordinary receipts of the Government, expenditures chargeable against ordinary receipts, and the surplus of receipts over expenditures. Estimates for the fiscal years 1924 and 1925 are also included:

	Receipts	Expenditures	Surplus
1920	$6,694,565,389	$6,482,090,191	$212,475,198
1921	5,624,932,961	5,538,209,189	86,723,772
1922	4,109,104,151	3,795,302,500	313,801,651
1923	4,007,135,480	3,697,478,020	309,657,460
1924(Est.)	3,894,677,712	3,565,038,088	329,639,624
1925(Est.)	3,693,762,078	3,298,080,444	395,681,634

The determined efforts for economy made it possible nearly two years ago to proceed with a revision of internal taxes with a view to reducing the tax burden for all classes of the community. The result is that the revenue act of 1921, approved November 23, 1921, made a substantial reduction in the tax burden, running over $800,000,000 for the fiscal year 1923, as compared with what would have been collected under the old law, and at the same time provided for the repeal or reduction of several of the most vexatious and burdensome taxes and for the simplification of the taxes that remain in force.

It is on the basis of estimated surpluses during the next few years that the Treasury's recommendations for further tax revision have been worked out, and any deviation from the policy of economy, through authorizations for new and unexpected expenditures, such as a soldiers' bonus, would make impossible the adoption of such a tax program. The principal features of the Treasury's tax program are: (1) make a 25 per cent reduction in the tax on earned income; (2) where the present normal tax is 4 per cent reduce it to 3 per cent, and where the present normal tax is 8 per cent reduce it to 6 per cent; (3) reduce the surtax rates by commencing their application at $10,000 instead of $6,000, and scaling them progressively upwards to 25 per cent at $100,000; and (4) repeal the tax on telegrams, telephones, admissions, and also the nuisance taxes. The following table shows the effect of the proposed income tax changes on the income of the typical salaried tax payer, married and having two children.

Income	Present tax	Proposed tax	Saving to taxpayer
$ 4,000	28.00	15.75	12.25
5,000	68.00	38.25	29.75
6,000	128.00	72.00	56.00
7,000	186.00	99.00	87.00
8,000	276.00	144.00	132.00
9,000	366.00	189.00	177.00
10,000	456.00	234.00	222.00

One of the principal problems facing the administration at the outset was the handling of the public debt, which at that time amounted to about $24,000,000,000. Of that amount about seven and one-half billion dollars was short-dated debt maturing within 2½ years. The administration's policy with respect to this short-dated debt was expressed by the President in his first address to Congress as one of "orderly funding and gradual liquidation". Confronted by the necessity of relieving business and industry from the staggering tax burden imposed during the war, it was evident that a large part of this short-dated debt had to be refunded. The Liberty Loans had been floated under the stimulus of the war enthusiasm through great popular drives and with the help of a country-wide Liberty Loan organization that comprised 2 million persons. To conduct refunding operations on a similar scale in time of peace, to the amount of over 7 billions of dollars, was a task of unparallelled magnitude, and yet the Republican Administration has not only effected the gradual refunding of practically all of this short-dated debt without disturbance to business or interference with the normal activities of the people, but by March 1, 1924, had also effected a reduction in the gross public debt of about $2,269,000,000.

Shortly after the administration came into power steps were taken toward the refunding of a large part of the early maturing debt by successive issues of Treasury notes in moderate amounts with maturities of from three to five years, in order to distribute the short-dated debt through the years between the maturity of the Victory Liberty Loan in 1923 and the maturity of the Third Liberty Loan in 1928. Beginning in June, 1921, the Treasury has floated nine issues of Treasury notes, maturing at various dates in 1924, 1925, 1926, and 1927, to an aggregate amount of about $4,250,000,000.

The Treasury also offered on October 16, 1922, as part of its refunding program, an issue of 4½ per cent Treasury bonds of 1947-52. The offering was $500,000,000, or thereabouts, with the right reserved to allot additional bonds against exchanges of 4 3/4 per cent Victory notes and other maturing obligations. This refunding issue of bonds met with an immediate response from investors all over the country, and was promptly over-subscribed. Total allotments on the offering aggregated slightly over $763,000,000.

Thus all the old seven and one-half billion dollars of short-dated debt has been retired or refunded, and in its place there is a new class of short-dated debt, aggregating on March 1, 1924, about $5,340,000,000, consisting of (1) $900,000,000, or thereabouts, of Treasury certificates of indebtedness, maturing on various quarterly tax-payment dates within the year; (2) about $4,050,000,000 in the aggregate of Treasury notes, maturing on various quarterly tax-payment dates in the years 1924, 1925, 1926, and 1927; and (3) about $390,000,000 of War Savings Certificates and Treasury Savings Certificates, maturing in moderate amounts each year. These maturities are arranged so as to permit their refinancing with the minimum of disturbance to business

and industry, and, with the Government balancing its budget each year and showing a reasonable surplus, it should be possible to retire them gradually out of surplus revenues, in time to avoid embarrassment to the heavy refinancing that will be necessary in connection with the maturity of the Third Liberty Loan, on September 15, 1928.

In addition to the refunding operations the Administration has effected substantial reductions in the debt. In fact the Government has now firmly established the principle of including in its ordinary budget certain fixed debt charges, including the sinking fund, and these fixed debt charges must be met before the budget can balance. The expenditures of the Government as given on page 2 of this statement, for example, include debt retirements as follows:

Fiscal year	Debt retirements chargeable against ordinary receipts.
1920	$ 78,746,000
1921	422,282,000
1922	422,695,000
1923	402,850,000
1924 (estimated)	511,968,000
1925 (estimated)	482,277,000

In addition to these retirements included in the ordinary budget, the surplus receipts, except for temporary fluctuations in the net balance in the general fund, are applied directly to debt reductions. Total debt reductions since the present Administration came into office are as follows:

Fiscal Year	Debt Reduction
1921 (Feb. 28 to June 30).....	$ 74,234,000
1922	1,014,069,000
1923	613,674,000
1924 (8 months)	567,741,000
Total from Feb. 28, 1921 to March 1, 1924.	$2,269,718,000.

Thus the Republican Administration has not only effected a material reduction in the gross public debt but by sound financing it has already completed the refunding of the old seven and one-half billions of short-dated debt, without either disturbance to business or strain on the financial market. On the contrary, what has been done has tended to relieve the markets of the fear of spectacular Government operations and has been helpful to the recovery of business. Moreover, the Government's financing has been conducted on a strict investment basis and at the lowest possible rates consistent with the proper distribution among the investing public of the securities offered. All new offerings of bonds, notes and certificates have been met with a ready response from investors and all issues are selling today in the open market at or about par. Liberty bonds have risen about twelve points since March 1921, reflecting the improvement which has taken place in the Government's finances and in the general investment market.

Passing from the field of domestic finance, the most striking accomplishment has been the settlement of the indebtedness of the British Government to the United States. This settlement was approved by an Act of Congress, February 28, 1923, and the formal proposal by the British Government, embodying in detail the terms of the agreement, was received by the Treasury on June 19, 1923, and was signed by the Secretary of the Treasury as Chairman

of the World War Foreign Debt Commission. Bonds of the United Kingdom in the aggregate principal amount of $4,600,000,000 issued pursuant to the terms of the proposal and acceptance, were received by the Treasury on July 5, 1923. The Treasury thereupon canceled and surrendered to the British Government, through the British Embassy at Washington, demand obligations of Great Britain in the principal amount of $4,074,818,358.44, in accordance with the provisions of the proposal and acceptance. The settlement provides for the repayment in full of the British debt to the United States over a period of 62 years, with interest for the first ten years at three per cent and for the remainder of the period at three and one-half per cent. The World War Foreign Debt Commission in its report to the President has well expressed the significance of the settlement in the following terms:

> "The Commission believes that a settlement of the British debt to the United States on this basis is fair and just to both Governments and that its prompt adoption will make a most important contribution to international stability. The extension of payment both of the principal and interest over a long period will make for stability in exchange and promotion of commerce between the two countries. The payment of principal has been established on a basis of positive instalments of increasing volume, firmly establishing the principle of repayment of the entire capital sum. The payment of interest has been established at the approximately normal rates payable by strong governments over long terms of years. It has not been the thought of the Commission that it would be just to demand over a long period the high rate of interest naturally maintained during the war and reconstruction, and that such an attempt would defeat our efforts at settlement. Beyond this, the Commission has felt that the present difficulties of unemployment and high taxation in the United Kingdom should be met with suitable consideration during the early years, and, therefore, the Commission considers it equitable and desirable that payments during the next few years should be made on such basis and with such flexibility as will encourage economic recuperation not only in the countries immediately concerned but throughout the world.

> "This settlement between the British Government and the United States has the utmost significance. It is a business settlement, fully preserving the integrity of the obligations, and it represents the first great step in the readjustment of the intergovernmental obligations growing out of the war."

A settlement of the indebtedness of Finland to the United States, amounting to about $9,000,000, has been effected on terms similar to those of the British settlement.

The obligations of various foreign governments held by the Treasury on March 1, 1924, aggregated $10,555,454,718.39 principal amount. Total cash receipts by fiscal years from 1920 to date on account of principal and interest on foreign obligations are as follows:

Fiscal year	Principal Payments	Interest Payments	Total
1920	$71,045,188.47	$ 4,487,821.11	$ 75,533,009.58
1921	84,128,723.38	31,826,863.30	115,955,586.68
1922	49,070,107.46	27,758,162.42	76,828,269.88
1923	31,616,907.64	201,311,960.77	232,928,868.41
1924 (8 months)	60,626,706.14	91,032,508.05	151,659,214.19
Total - -	$296,487,633.09	$356,417,315.65	$652,904,948.74

During 1923 an agreement was signed by the Allies and the United States for the payment of the cost of the American army of occupation. The settlement provides that the amount due the United States shall be paid in twelve annual instalments out of future cash payments credited to Germany, and it may be estimated roughly that the annuities will amount to approximately $20,000,000 yearly.

Letter from Secretary Mellon to the Editor of the American Bankers Association Journal with respect to the interest rate on government securities.

March 17, 1924.

Dear Sir:

I received your letter of March 10, 1924, commenting on the address of Senator Shipstead of Minnesota on the floor of the Senate, February 1, 1924, in which he charged that the people of the United States are paying about one per cent too much interest on the public debt, and requesting a statement as to how the Treasury fixes the rate of interest on its borrowings.

The factors which the Treasury must always take into consideration in floating a new issue of securities are practically the same as those which must be considered by any investment banker in floating new issues for his clients. All Government offerings are made on a strict investment basis. The Treasury always aims to sell its securities at the lowest possible interest rate consistent with their successful distribution among investors, and with this in view it always gives close attention and consideration, in connection with the determination of the amount and terms of each issue, to the market quotations on outstanding securities and to prevailing money market conditions. No one realizes better than the Treasury that the burden of paying the interest on the public debt falls on the country's taxpayers, and I can assure you that every effort is made to minimize this burden. On the other hand, it is necessary to meet market conditions in carrying on refunding operations and in securing funds to meet current activities. If Treasury certificates and notes should be offered at rates of interest lower than market conditions warrant they would not prove sufficiently

attractive to investors and the funds necessary to carry on the Government's activities would not be available. The Government can no longer appeal to the public to purchase its securities at less than market rates on grounds of patriotism.

In the Government financing which took place on December 15, 1923, the Treasury required to meet maturing obligations and to carry it over the period to March 15, 1924, about $350,000,000. One-third of this could be thrown into June 15, 1924, maturities, when maturing obligations were somewhat lower than expected receipts, and two-thirds placed in December 15, 1924, maturities, on which date there were no other maturing obligations. A summary of the market situation December 10, 1923, when the December 15th financing was announced with the maturity dates, the amount of short-term issues then outstanding, and their return based on the market price, follows:

Maturity	Amount outstanding	Return
March 15,1924	$570,946,500	3.85%
June 15,1924	311,088,600	4.04
Sept. 15,1924	377,681,100	4.20
Dec. 15,1924	------	----
March 15,1925	598,355,900	4.39

Obviously the above market situation called for an interest rate of 4 per cent on the six months' certificates maturing June 15, 1924, and 4¼ per cent on the certificates maturing December 15, 1924. That in spite of over-subscriptions the interest rate was correctly fixed is shown by the fact that in the week succeeding their issuance large amounts of the new issue of each series changed hands at par.

The March 15th certificates were offered Monday morning, March 10th, and the previous Saturday the price of Government short-term obligations indicated the following returns on the maturity dates::

June 16, 1924	3.60
September 15,1924	3.83
December 15,1924	3.85
March 15, 1925	4.00
June 15, 1925	4.13
December 15,1925	4.14

Faced with this market situation, a 3¾ per cent rate was too low for a nine months' certificate. To have made this 3-7/8 would have been to adopt an inconvenient rate. It was determined, therefore, to issue twelve months' certificates on a 4 per cent basis, which exactly hit the market.

It is possible, of course, that the Treasury might at times have issued its securities at a somewhat lower rate and have appealed to the Federal reserve banks to support the market through heavy purchases of such securities in case the proper distribution should not be effected. To pursue such a course in peace times, however, would seem to me to be inexcusable. It would create an artificial situation in the investment and money markets and tend to produce inflation. It may be noted in this connection that the Treasury has succeeded in borrowing on its certificates of indebtedness at a lower rate than even states and cities have been able to borrow on their fully tax-exempt short-term bills, though in substance the Treasury certificates are exempt only from the normal income tax. During the whole of February, for example, the City of New York paid 4-1/8 and 4-1/4 per cent on its short-term bills, while the Treasury is now offering one-year certificates at 4 per cent. Moreover, the Treasury's long-term bonds not wholly tax-exempt do not bear higher rates than the average on municipal bonds issued during and since the war which are wholly tax-exempt. The Treasury's wholly tax-exempt securities bear a rate nearly one per cent lower than municipal tax-exempt securities. A glance at the Public Debt Statement will show that the great bulk of the outstanding public debt bears 4¼ per cent or less. During the heavy refunding operations of 1921 and the early part of 1922 when the money market was tight and

interest rates high, it was necessary, of course, to issue securities at somewhat higher rates, but it will be noted that none of these issues have long maturities. They all mature within the next few years and can soon be replaced by issues at lower rates according to the conditions of the market. In fact the two series of notes which bear the highest rates mature during the current calendar year and will be paid off or refunded at the market rates.

The principal evidence in support of the contention that the Treasury is paying too high rates seems to be that the various offerings were over-subscribed, but if one will take the trouble to examine the market it will be found that there are comparatively few successful offerings of securities of any kind which are not over-subscribed. In fact, if they are under-subscribed the offering is in part a failure and reflects on the judgment of those who made it. The investment market is an exceedingly delicate affair and a very small difference in rate will mean the differnce between success and failure of the offering. Reference was made to the Treasury notes of January 15, 1923, bearing 4½ per cent and the notes of May 15, 1923, bearing 4¾ per cent. The daily quotations, which are of course the best index of what the market will take, show that soon after the issue of the 4½ per cent notes in January they dropped below par and by May when the next issue was due they were selling at a yield of over 4.60. The May issue was an unusually large one, amounting to nearly $700,000,000, and I do not believe anyone familiar with the market would contend that the issue would have been successful at a lower rate. You will recall the violent criticisms which were directed against the Treasury after the war when the Liberty bonds sold below par on the ground that the rates on the loans were too low.

In comparing the rates on acceptances with the various types of Government securities, the differences in the nature of the issues, in maturity dates,

size of issues, changing market conditions, and other fundamental factors were wholly ignored. Rates on acceptances are for 90-day bills, and it might be noted that in December 1923 the Treasury issued six-months securities at 4 per cent and is now offering an issue of twelve-months securities at 4 per cent, while the market rate on bills was 4-1/8 to 4-1/4 on the former date and is now 4-1/8. A compilation of interest rates shows that the rate on six-months certificates has conformed fairly closely to the rate on 90-day bills since 1921, and that the rate on commercial paper has run approximately three-quarters to one per cent higher.

Much of the criticism of the Treasury and the Federal reserve banks clearly betrays a lack of understanding of the fundamental economic principles which determine interest rates. The impression seems to prevail that conditions in the money market are due entirely to the rates paid on Government securities and to the discount rates of Federal reserve banks, and that these rates can be fixed arbitrarily at a higher or lower level, thus determining market conditions at will. On the contrary, both the rates paid on Government securities and the discount rates of Federal reserve banks reflect conditions in the money market rather than cause them. Fundamentally, interest rates are determined by the demand for and supply of capital. The comparatively high money rates which continue to prevail are the result of economic conditions which exist throughout the world. The demand for capital everywhere following the destruction of the war is so great that high rates must be paid by those who wish to secure the limited supply. The return to normal rates must necessarily be a gradual process depending upon the rapidity with which the supply of capital is replenished. A scarcity of capital is something beyond the power of the Treasury or banks to prevent. It is a persistent fallacy that financial and credit institutions can create capital or make it cheap. They

can manufacture credit, but only in a limited sense can credit take the place of capital. Capital can be created only by increased productivity and increased savings.

With reference to the effect of the Federal reserve bank rate on conditions in the Northwest, statistics show that in the Minneapolis District the average rate charged by member banks to customers on paper which they in turn rediscounted rose from 7.65 per cent in December, 1921, to 7.99 per cent in December, 1923, although the discount rate of the Federal Reserve Bank of Minneapolis declined from 5½ to 4½ per cent. On the latter date the spread between the discount rate and the rate charged by member banks to their customers was 3½ per cent. This would hardly bear out the contention that the plight of the banks in that district is due to the discount rate of the Federal Reserve Bank. A similar situation prevails in some of the other districts, particularly in the agricultural districts. Many banks have long been accustomed to charge the maximum rate allowed by the usury laws of the State, especially on the smaller loans. In some sections of the country these rates range from 6 to 10 per cent and are still paid by many borrowers in spite of the discount rate of 4½ per cent. In many agricultural sections, moreover, a great majority of the commercial banks are not members of the Federal reserve system, and under such conditions it would be difficult for the Federal reserve banks to exercise any great influence over the higher level of interest rates for those districts. In fact, the discount rates of none of the Federal reserve banks can be said to be effective at the present time in the sense that they are a controlling factor in the general level of interest rates. It should be noted in this connection that discount rates of Federal reserve banks are not fixed with the idea of enabling member banks to make a profit.

Commercial banks are not primarily borrowing institutions; they are lenders, and for them to borrow in order to lend at a profit is universally recognized as unsound practice. The primary purpose of reserve institutions is to assist commercial banks in times of umusual or emergency demands rather than to extend a permanent line of credit on which member banks can make a profit. In connection with this whole question of discount rates and the function of reserve institutions, it is significant that in England and other European countries the bank rate is almost constantly higher than market rates on discountable paper. Since the entrance of the United States into the World War in 1917, however, the rates of Federal reserve banks have been lower than rates charged by member banks on practically all paper rediscounted.

While the Treasury welcomes any public discussion or suggestions with reference to its policies, I realize that much harm has been done by charges against the Federal reserve system by those who are neither familiar with the facts nor the fundamental economic principles involved. These charges have inflamed the minds of the public in certain sections with wholly imaginary evils and injustices, and any contribution that you can make towards the better understanding of our banking and financial system will be a public service. I fully appreciate the conditions in certain agricultural districts but in my opinion the farmer's greatest enemies to-day are those who, posing as his champions, lead him into the belief that his ills can be cured by political measures rather than through the necessary economic adjustments and who

seek to divert him from facing the facts in the case by indiscriminate attacks on existing institutions. What the farmer needs above all else at this time is sound constructive statesmanship.

Very truly yours,

(Signed) A. W. MELLON,

Secretary of the Treasury.

Mr. James E. Clark,
Editor, American Bankers
Association Journal,
110 East 42nd Street.
New York City.

March 20, 1924.

The Growth of Tax Exempt Securities in the United States

The amount of State and local securities outstanding in the United States has increased with greater rapidity than the amount of corporate and other securities (exclusive of United States Government securities) during the past few years, as shown in the following tables:

Table 1.

Total Securities floated in the United States, Total State and Local Securities, and Per Cent of State and Local to Total 1912 - 1923.

(000,000 omitted)

Year	Total Securities Floated in the United States (exclusive of U. S. Gov't. obligations)	Total State and Local Securities Floated in the United States.	Per cent of State and Local to Total.
1912	$ 3,952(1)	$ 387	9.79
1913	2,952(1)	403	13.65
1914	2,998(1)	474	15.81
1915	3,998(1)	499	12.48
1916	5,438(1)	457	8.40
1917	3,641(1)	451	12.39
1918	2,877(1)	297	10.32
1919	4,286	692	16.15
1920	4,010	683	17.03
1921	4,204	1,209	28.76
1922	5,245	1,102	21.01
1923	4,986	1,032	20.70

(1) The figures of total securities floated in the United States 1912-1918 are estimates made by the Harvard University Committee on Economic Research based upon data from various sources. They are supposed to include both foreign and domestic securities, new and refunding, floated in the United States during the period in question. All other figures are taken from the Commercial and Financial Chronicle.

Table II.

New Capital Issues of Corporations and States and Municipalities in the United States 1913 - 1923

Year	Amounts		Index Numbers (1919 basis)	
	Corporate securities	State and Local securities	Corporate securities	State and Local securities
1913	$ 1,646,000,000	$ 376,234,691	71	55
1914	1,437,000,000	464,727,871	62	69
1915	1,435,000,000	466,433,730	62	69
1916	2,187,000,000	433,735,031	95	64
1917	1,530,000,000	435,873,593	66	64
1918	1,345,000,000	286,831,077	58	42
1919	2,303,328,636	678,187,262	100	100
1920	2,710,011,386	671,765,574	118	99
1921	1,823,004,851	1,199,396,561	79	177
1922	2,335,734,207	1,070,901,057	101	158
1923	2,730,796,155	1,013,786,164	119	149

Corporate issues 1913 - 1918 from Review of Economic Statistics (Harvard University Press) May 25, 1921, p. 98. Includes both new and refunding issues; these figures include only those which have been reported and not additional estimates. All other figures from the Commercial and Financial Chronicle.

Table I shows that state and local securities have constituted a much larger proportion of the securities floated in the United States since 1919 than they did in earlier years. Table II differs from Table I in that only corporate securities have been used in the first column and that refunding issues have been omitted wherever possible. In the eleven years shown the amount of state and local securities issued annually has increased with greater rapidity than the amount of corporate securities. The index numbers show that the great increase in the state

and local securities issued in the last three years has not been paralleled by issues of corporate securities.

Table III

Estimated Amount of Wholly Tax Exempt Securities in the United States, Exclusive of those held in Treasury, Sinking and Trust Funds. 1912 -1923(1)

December 31	Tax Exempt Securities
1912	$ 4,086,000,000
1913	4,338,000,000
1914	4,789,000,000
1915	5,188,000,000
1916	5,623,000,000
1917	7,994,000,000
1918	7,707,000,000(2)
1919	8,506,000,000(3)
1920	9,804,000,000
1921	10,586,000,000
1922	11,321,000,000
1923	12,309,000,000

(1) The figures for state and local debt for 1912 and 1922 are based on the Census compilations. For the intermediate years interpolations have been made on the basis of annual issues. The actual amounts of Federal government and Farm loan tax-exempt issues have been added to the estimates for each year.

(2) The decline in 1918 was due to the fact that very few state and local bonds were issued, and over half a billion of wholly tax-exempt First Liberty 3½ per cent bonds were converted during the year to 4's or 4¼'s which are not wholly tax-exempt.

(3) This does not include the Victory 3¾ per cent notes outstanding, as separate figures for the Victory 3¾'s and 4¾'s were not available for 1919. The Victory 3¾'s are included in 1920 and 1921, but not in 1922, as they matured before the end of the year.

Table III includes all wholly tax-exempt securities outstanding except those in the United States Treasury, sinking funds and trust funds. Both in 1912 and in 1922 the state and local securities composed about three-fourths of the total tax-exempt securities outstanding. Reliable figures as to the amounts of all other securities outstanding are not available.

Treasury Department
April 5, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING FEBRUARY 29, 1924.

(1)

(Revised basis)

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 11 378 000 000	$1,707 000 000 (2)	$ 9 671 000 000
Territories, insular possessions, and District of Columbia	125 000 000	20 000 000 (3)	105 000 000
United States Government	2 294 000 000	755 000 000 (4)	1 539 000 000
Federal land banks, intermediate credit banks, and joint stock land banks	1 310 000 000	104 000 000 (5)	1 206 000 000
Total Feb. 29,1924	$15 107 000 000	$2 586 000 000	$12 521 000 000
Comparative totals:			
December 31, 1923	$14 885 000 000	$2 564 000 000	$12 321 000 000
December 31, 1922	13 652 000 000	2 331 000 000	11 321 000 000
December 31, 1918	9 506 000 000	1 799 000 000	7 707 000 000
December 31, 1912	5 554 000 000	1 468 000 000	4 086 000 000

(1) Since issuing the estimate of January 1, 1924, the method of estimating has been revised and as a result both the gross amount of securities outstanding and the amount held in sinking funds have been substantially increased but the net amount outstanding except for the normal growth has been changed but slightly.

(2) Total amount of state and local sinking funds.

(3) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.

(4) Amount held in trust by the Treasurer of the United States.

(5) See Note (4), also partly owned by the United States Government.

April 5, 1924.
Not a general release.

Strike out from line 15, page 38, to line 16, page 40, inclusive, and insert in lieu thereof the following:

1 per centum of the amount by which the net income exceeds $10,000 and does not exceed $12,000;

2 per centum of the amount by which the net income exceeds $12,000 and does not exceed $14,000;

3 per centum of the amount by which the net income exceeds $14,000 and does not exceed $16,000;

4 per centum of the amount by which the net income exceeds $16,000 and does not exceed $18,000;

5 per centum of the amount by which the net income exceeds $18,000 and does not exceed $20,000;

6 per centum of the amount by which the net income exceeds $20,000 and does not exceed $22,000;

7 per centum of the amount by which the net income exceeds $22,000 and does not exceed $24,000;

8 per centum of the amount by which the net income exceeds $24,000 and does not exceed $28,000;

9 per centum of the amount by which the net income exceeds $28,000 and does not exceed $32,000;

10 per centum of the amount by which the net income exceeds $32,000 and does not exceed $36,000;

11 per centum of the amount by which the net income exceeds $36,000 and does not exceed $40,000;

12 per centum of the amount by which the net income exceeds $40,000 and does not exceed $44,000;

13 per centum of the amount by which the net income exceeds $44,000 and does not exceed $48,000;

14 per centum of the amount by which the net income exceeds $48,000 and does not exceed $52,000;

15 per centum of the amount by which the net income exceeds $52,000 and does not exceed $56,000;

16 per centum of the amount by which the net income exceeds $56,000 and does not exceed $60,000;

17 per centum of the amount by which the net income exceeds $60,000 and does not exceed $64,000;

18 per centum of the amount by which the net income exceeds $64,000 and does not exceed $68,000;

19 per centum of the amount by which the net income exceeds $68,000 and does not exceed $72,000;

20 per centum of the amount by which the net income exceeds $72,000 and does not exceed $76,000;

21 per centum of the amount by which the net income exceeds $76,000 and does not exceed $80,000;

22 per centum of the amount by which the net income exceeds $80,000 and does not exceed $84,000;

23 per centum of the amount by which the net income exceeds $84,000 and does not exceed $88,000;

24 per centum of the amount by which the net income exceeds $88,000 and does not exceed $92,000;

25 per centum of the amount by which the net income exceeds $92,000 and does not exceed $96,000;

26 per centum of the amount by which the net income exceeds $96,000 and does not exceed $100,000;

27 per centum of the amount by which the net income exceeds $100,000 and does not exceed $150,000;

28 per centum of the amount by which the net income exceeds $150,000 and does not exceed $200,000;

29 per centum of the amount by which the net income exceeds $200,000 and does not exceed $250,000;

30 per centum of the amount by which the net income exceeds $250,000 and does not exceed $300,000;

31 per centum of the amount by which the net income exceeds $300,000 and does not exceed $350,000;

32 per centum of the amount by which the net income exceeds $350,000 and does not exceed $400,000;

33 per centum of the amount by which the net income exceeds $400,000 and does not exceed $450,000;

34 per centum of the amount by which the net income exceeds $450,000 and does not exceed $500,000;

35 per centum of the amount by which the net income exceeds $500,000 and does not exceed $750,000;

36 per centum of the amount by which the net income exceeds $750,000 and does not exceed $1,000,000;

37 per centum of the amount by which the net income exceeds $1,000,000.

Letter of Secretary Mellon to the President in connection with the investigation of the Bureau of Internal Revenue.

April 10, 1924.

Dear Mr. President:

On March 12, 1924, by S. Res. 168, the Senate appointed a special committee to investigate the Bureau of Internal Revenue and suggest corrective legislation. Senator Couzens was the moving spirit of the resolution. In urging the appointment of the committee his purpose was ostensibly to obtain information upon which to recommend to the Senate constructive reforms in law and in administration. With such a purpose I am entirely in accord. From the line of investigation selected by Senator Couzens and by the atmosphere which he has seen fit to inject into the inquiry, it is now obvious that his sole purpose is to vent some personal grievance against me. All companies in which I have been interested have been sought out. I have aided in obtaining from them the waiver of their right to privacy and in the delivery of their income tax returns in complete detail to the committee. This investigation has disclosed that no company in which I may have been interested has received any different or better treatment than any other taxpayer. The inquiry, so far as showing that I favored my own interests, has failed completely. Any constructive purpose of the committee has now been abandoned.

At a meeting of the committee yesterday Senator Couzens carried a resolution, against the objection of the two Republican

members, empowering Francis J. Heney to assume charge of the investigation and to conduct the examination of witnesses, with the understanding expressly stated in the resolution that neither the committee nor the Government pay Heney's compensation. In effect, a private individual is authorized to investigate generally an Executive department of the Government. This individual is paid not by the Senate or its committee, but Senator Couzens alone.

As Secretary of the Treasury I have charge of the finances of the nation. The Treasury touches directly or indirectly every person and in the sound conduct of its business affects the industrial life of the United States. Already the present investigation has greatly injured the efficiency of the income tax organization and the sufferer is not the Government but every taxpayer. Attacks such as these seriously impair the morale of the 60,000 employees of the Department throughout the country. Government business cannot continue to be conducted under frequent interference by investigations of Congress, entirely destructive in their character. If the interposition of private resources be permitted to interfere with the Executive administration of Government, the machinery of Government will cease to function.

I owe to you and to the people of the United States the duty to see that the Treasury conduct efficiently and faithfully the great tasks continuously presented to it, that its integrity be preserved, and that its future be insured. This has been my sole

thought as head of this Department. When, through unnecessary interference, the proper exercise of this duty is rendered impossible, I must advise you that neither I nor any other man of character can longer take responsibility for the Treasury. Government by investigation is not Government.

Faithfully yours,

(Signed) A. W. MELLON

Secretary of the Treasury

The President,

The White House.

Letter of resignation of Dr. Adams to the Senate Committee Investigating the Bureau of Internal Revenue.

Washington, D. C., April 11, 1924.

Hon. James E. Watson,
Chairman, Select Committee to investigate
the Bureau of Internal Revenue.

My dear Senator Watson:

When I agreed to assist in the work of your Committee, it was understood that I should confine my efforts largely to the constructive work of the Committee. Recent developments within the Committee indicate that its constructive work is likely to be postponed indefinitely, and on this account I request the Committee to accept my resignation to take effect on the receipt of this communication.

The important shortcomings of the Bureau of Internal Revenue lie on or near the surface. They are known to hundreds of people conversant with the work of the Bureau. They are grave, but they are obvious. To exploit them gratuitously, to probe for the sake of probing, impresses me - if I may say so without offense - as a particularly demoralizing form of child's play. The task worth attempting, the man's work in this connection, is to devise and institute adequate remedies.

The Bureau of Internal Revenue is charged with the responsibility of administering, throughout a nation of 110,000,000 people, some of the most complicated and burdensome taxes ever adopted by a self-governing people. The Bureau employs in its work over 19,000 persons, who assess and collect $2,500,000,000 taxes, and at the present time are authorizing for payment over $100,000,000 refunds, annually. Under such circumstances

there must inevitably occur mistakes in judgment, instances of favoritism, and sporadic cases of actual graft. The Committee will have no difficulty in finding cases of each kind. But they signify nothing, unless there is reason to believe that graft and favoritism are widespread and chronic in the work of the Bureau. I am not familiar with, and therefore cannot speak about, the prohibition-enforcement work of the Bureau. But I have been rather intimately familiar with its tax functions since the summer of 1917. I know that the personnel of the Bureau has been singularly clean; that its responsible officials have been, with few exceptions, zealous and intelligent; that its leaders have fought with vigor and success the interjection of politics and politicians of the undersirable type. The Bureau deserves the respect and gratitude of the American people.

Remember this crucial fact about the work of tax officials. They are called upon to decide, in wholesale quantity, extremely complicated cases, which frequently turn upon distinctions of metaphysical nicety, or upon new points which can be decided almost as easily one way as another. The men who decide these questions are caught in a barrage of cross-fires. If they decide against the taxpayer, they bring down upon themselves the taxpayer's enmity and frequently the enmity of his political friends. If they decide against the Government, they expose themselves not infrequently to whispered accusation and slanderous attacks from some disgruntled subordinate, who because he has not been promoted as rapidly as he thinks just or, for other reasons, nurses a suppressed grudge against his superior officer. And on top of this is the danger of investigation by harassed Congressmen who can not possibly take time to investigate these decisions as thoroughly as they must be investigated to pass fair judgment upon them.

The Bureau does not deserve and can not bear without demoralization much more buffeting. The brief investigation already made has practically stopped some of its most important activities. Decisions and settlements which should be made, either to collect needed revenue for the Government or to relieve harassed taxpayers from further apprehension, are being held up. Throughout many sections of the Bureau the attitude towards the taxpayer has become strained and unnatural. Officials of the timid type are evading responsibility. Others have stiffened their attitude and are now deciding points against the taxpayer which a few weeks ago they would have decided in his favor. Officials of the belligerent type are tempted to let down the bars in sheer defiance of what they regard as unmerited criticism. Intricate tax laws can not be fairly administered in an atmosphere charged with suspicion, misconstruction of motive, and accusation of graft.

The federal income tax, as it actually works, is not merely defective; it has reached a condition of inequality the gravity of which could scarcely be exaggerated. But the evil goes back not to administrative inefficiency or personal dereliction, but to the complexity of the law and the fundamental conditions of public service in the United States. How long will it be before Congress seriously undertakes to solve these difficult problems? Must there be laid upon the legislative altar the burnt sacrifice of smirched reputation and blasted character, before anything adequate will be done? Have we reached the stage where nothing short of scandal and graft will prompt remedial action?

If so, there are evils even more menacing than the degeneracy of the federal income tax with which the American public must cope.

Yours very truly,

(Signed) T. S. ADAMS

Remarks by Secretary Mellon at the Dinner of the Pittsburgh Chamber of Commerce, Pittsburgh, Saturday Evening, April 12, 1924.

It is hard to find words to express my deep appreciation of the honor done me by your organization, composed as it is of my friends, neighbors and associates, and I set high value upon and shall always greatly prize this token of your regard for me. I am not given to public speaking but even if I were blessed with great ability in that regard I am afraid my effort could not do justice to my sense of obligation for your kindness. I think the great pleasure of one's life comes from retaining the cherished friendship and regard of our old friends.

I have thought you would like to have me say something bearing upon my work in Washington. So I have prepared a few remarks for which I ask your indulgence as I read them.

Government is more than a theory. In the handling of the affairs of a country as great as ours, its multitude of details, its number of servants, and its effect upon the private life of every citizen, it is a business and can only be run upon business principles. The Department of which I am the head has 60,000 employees. In customs and internal revenue it collects over three billion dollars a year. In the Internal Revenue alone there are 20,000 employees, and it is in their prompt administration of law that every taxpayer is vitally interested.

You gentlemen are familiar with large businesses and know the difficulties under the best conditions of securing efficient operation.

To appreciate the additional burdens which Government business must bear, just add to your troubles these factors; Your employees must be selected from the Civil Service. Once in, it is difficult to remove any one, and political pressure is continually being applied to the promotion or retention of undeserving employees. Your salaries to your principal men are limited and are inadequate to procure able men or to retain those men who have shown ability in the service. Labor turnover in the key positions is very high. The housing facilities are inadequate and in Washington the Internal Revenue is in nine buildings scattered about town.

These are our ordinary difficulties. To these there recently has been added government by investigation of Congress. I can show you briefly what it means to have the Legislature depart from the sphere given it under the Constitution and proceed to take apart the machinery of the Executive.

A month ago a select committee of the Senate was appointed to investigate the Bureau of Internal Revenue. Its purpose was laudable - to recommend improvements in the law and its administration. Its real purpose seems to be a personal attack upon me or an effort to develop scandal. What have been the effects in one month? In the Income Tax Unit, production, that is, determination of disputed tax liability, has dropped fifty per cent. In the Natural Resources Division, where values are obtained, work has practically ceased, and the time of the division is devoted to furnishing information to the Senate committee. Employees throughout the Bureau are more interested in reading about and discussing the investigation than in work, and adequate supervision can scarcely be maintained. In any close case, a man, because he fears that he too may

be criticised, refuses to act impartially and automatically decides the question in favor of the Government, leaving the taxpayer to such relief as the courts may ultimately give him. No one knows when a prosecutor, under Government authority and private pay, may haul him before a committee and pillory him on the stand. The morale of the entire organization is destroyed. Unless some end is brought to this unnecessary interference, government will cease to function.

Let us consider for a moment what the investigation has accomplished to date. The committee has made inquiry into every company in which I may have been interested. Nowhere has it been shown that a company has been favored because I happen to be a stockholder. On the contrary it is probable that the reverse has been the case. As a matter of fact, I think the investigation has shown that favoritism through connivance of Government employees is practically impossible. Too many different divisions and too many different employees in each division, each jealous of his opinion, have to pass on every claim. Certainly no fraud has been shown, although nearly every discharged employee has rushed to present his suspicions to Senator Couzens.

We have, then, added to the ordinary difficulties of Government business, Congressional investigations, disingenuous in nature and paralyzing in effect.

It has been my experience in Washington that there is a sense of service and a pride in position which have brought to the Government a better, a more honest, and a more honorable class of servant than private industry can command upon anything like the same terms. The value of

this asset is incalculable, but it is rapidly being destroyed. Public service is now a target for public abuse, not an honor.

However, I hope and believe that it is a passing phase which may soon disappear, to be succeeded by a return to orderly procedure.

I thank you for your kind attention and again for your delightful and cordial reception.

4-21-24

SURTAX RATES UNDER DIFFERENT PLANS

Brackets	Garner	Longworth	Simmons	Mellon	Proposed
10,000 - $ 12,000	0%	1-1/2%	1%	1%	1%
12,000 - 14,000	1	2-1/4	1	2	2
14,000 - 16,000	2	3	2	3	3
16,000 - 18,000	3	3-3/4	3	4	4
18,000 - 20,000	4	4-1/2	4	5	5
20,000 - 22,000	5	6	5	6	6
22,000 - 24,000	6	6-3/4	6	7	7
24,000 - 26,000	7	7-1/2	7	8	8
26,000 - 28,000	8	8-1/4	8	9	8
28,000 - 30,000	9	9	9	10	9
30,000 - 32,000	10	9-3/4	10	11	9
32,000 - 34,000	11	11-1/4	10	12	10
34,000 - 36,000	12	11-1/4	11	13	10
36,000 - 38,000	13	12	12	14	11
38,000 - 40,000	14	12-3/4	13	14	11
40,000 - 42,000	15	13-1/2	13	15	12
42,000 - 44,000	16	14-1/4	14	15	12
44,000 - 46,000	17	15	15	15	13
46,000 - 48,000	18	15-3/4	16	16	13
48,000 - 50,000	19	16-1/2	17	16	14
50,000 - 52,000	20	17-1/4	18	16	14
52,000 - 54,000	21	18	19	17	15
54,000 - 56,000	22	18-3/4	19	17	15
56,000 - 58,000	23	19-1/2	20	17	16
58,000 - 60,000	24	20-1/4	21	18	16
60,000 - 62,000	25-26	21	21	18	17
62,000 - 64,000	27-28	21-3/4	22	18	17
64,000 - 66,000	29-30	22-1/2	23	19	18
66,000 - 68,000	31	23-1/4	24	19	18
68,000 - 70,000	32	24	25	19	19
70,000 - 72,000	33	24-3/4	26	20	19
72,000 - 74,000	34	25-1/2	26	20	20
74,000 - 76,000	35	26-1/4	27	20	20
76,000 - 78,000	36	27	28	21	21
78,000 - 80,000	37	27-3/4	28	21	21
80,000 - 82,000	38	28-1/2	29	21	22
82,000 - 84,000	39	29-1/4	30	22	22
84,000 - 86,000	40	30	31	22	23
86,000 - 88,000	41	30-3/4	31	22	23
88,000 - 90,000	42	31-1/2	32	23	24
90,000 - 92,000	43	32-1/4	33	23	24
92,000 - 94,000	44	33	34	23	25
94,000 - 96,000	44	33-3/4	35	24	25
96,000 - 98,000	44	34-1/2	36	24	26
98,000 - 100,000	44	35-1/4	36	24	26
100,000 - 150,000	44	36	37	25	27
150,000 - 200,000	44	36-3/4	37	25	28
200,000 - 250,000	44	37-1/2	38	25	29
250,000 - 300,000	44	37-1/2	38	25	30
300,000 - 350,000	44	37-1/2	39	25	31
350,000 - 400,000	44	37-1/2	39	25	32
400,000 - 450,000	44	37-1/2	39	25	33
450,000 - 500,000	44	37-1/2	39	25	34
500,000 - 750,000	44	37-1/2	40	25	35
750,000 - 1,000,000	44	37-1/2	40	25	36
Over - - - 1,000,000	44	37-1/2	40	25	37

ESTIMATED REVENUE FROM SURTAX RATES, APPLIED TO ESTIMATED INCOME TAX RETURNS.

Plan.	1923 returns.	Second year after passage.
Garner	$438,000,000	$286,000,000
Longworth	391,000,000	380,000,000
Simmons	373,700,000	370,000,000
Mellon	332,700,000	439,000,000
Proposed	338,600,000	400,000,000

Treasury Department
May 3, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING
March 31, 1924.

(Revised basis)[1]

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
ates, counties, cities, etc.	$ 11,454,000,000	$ 1,718,000,000[2]	$ 9,736,000,000
rritories, insular possessions, and District of Columbia	125,000,000	20,000,000[3]	105,000,000
ited States Government	2,294,000,000	757,000,000[4]	1,537,000,000
deral land banks intermediate credit banks and joint stock land banks	1,313,000,000	104,000,000[5]	1,209,000,000
tal March 31,1924	$ 15,186,000,000	$ 2,599,000,000	$ 12,587,000,000
mparative totals:			
December 31, 1923	$ 14,885,000,000	$ 2,564,000,000	$ 12,321,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

[1] Since issuing the estimate of January 1, 1924, the method of estimating has been revised and as a result both the gross amount of securities outstanding and the amount held in sinking funds have been substantially increased but the net amount outstanding except for the normal growth has been changed but slightly.

[2] Total amount of state and local sinking funds.

[3] Total amount of sinking funds and amount held in trust by the Treasurer of the United States.

[4] Amount held in trust by the Treasurer of the United States.

[5] See Note (4), also partly owned by the United States Government.

May 15, 1924

TO THE HOUSE OF REPRESENTATIVES:

Herewith is returned, without approval, H. R. 7959, a bill "to provide adjusted compensation for veterans of the World War, and for other purposes."

The bill provides a bonus for the veterans of the World War and dependents of those who fell. To certain of its beneficiaries whose maximum benefits do not exceed $50, this bonus is to be paid immediately in cash. To each of its beneficiaries who are not to receive such immediate cash payment, there is to be provided free insurance under a twenty-year endowment plan. The face value of each policy will be based upon the military service, the average amount being at least $988, payable at the expiration of ~~twenty~~ twenty years or at death prior thereto. After the lapse of two years the holder of a policy may borrow thereon from banks at reasonable rates of interest. If amounts so borrowed are not repaid by the veteran the Government is obligated to pay to the banks this indebtedness which ultimately reduces the maturity value of the policy.

An appropriation of $146,000,000 for the fiscal year 1925 will be required to provide the prorated annual cost of the insurance and to meet cash payments to those not receiving such insurance. This does not include administrative costs, which will amount to approximately $6,500,000 the first year. For the fiscal year 1926 an appropriation of $155,500,000 will be required and the annual appropriations for the twenty-year period will aggregate, according to the lowest estimate, $2,280,758,542. These and the other figures herein are from the Veterans' Bureau, but the Treasury estimates are materially more.

That part of the annual appropriation not required to meet the cash bonus or to pay policies maturing on account of death will be invested in Government bonds. The face value of the bonds thus acquired plus the interest thereon reinvested will equal during the twenty-year period the maturity value of the insurance policies, aggregating at the lowest estimate $3,145,000,000.

The money spent for the acquisition of these bonds manifestly cannot be spent for any other purpose, no matter how urgent our other requirements may be. In other words, we will be committing this nation for a period of twenty years to an additional average annual appropriation of $114,000,000. This of itself should require most serious reflection, but if we are to have such commitment it should be in some form which would be in harmony with recognized principles of Government finance. The provisions of this bill are not so in harmony. Under it the Government will not have in the fund in 1945 two and a half billions of dollars. All it will have will be its own obligations, and it will owe two and a half billions of dollars cash. It will then be necessary to sell to the public this two and a half billions of bonds -- a major operation in finance which may be disastrous at that time and may jeopardize the value of Federal securities then outstanding.

We have no money to bestow upon a class of people that is not taken from the whole people. Our first concern must be the nation as a whole. This outweighs in its importance the consideration of a class and the latter must yield to the former. The one compelling desire and demand of the people today, irrespective of party or class, is for tax relief. The people have labored during the last six years under a heavy tax burden. This was necessary to meet the extraordinary costs of the war. This heavy assessment has been met willingly and without complaint. We have now reached a financial condition which permits us to lighten this tax burden. If this bills becomes law, we wipe out at once almost all the progress five hard years have accomplished in reducing the national debt. If we now confer upon a class a gratuity such as is contemplated by this bill we diminish to the extent of the expenditures involved the benefits of reduced taxes which will flow not only to this class, but to the entire people. When it is considered that less than $40 a year would pay for the average policy provided by this bill, there is strong ground to assume that the veterans themselves would be better off to make that small payment and be relieved of the attendant high taxes and high living costs which such legislation would impose upon them. Certainly the Country would. We have hardly an economic ill today which cannot be attributed directly or indirectly to high taxes.

he prosperity of the nation, which is the prosperity of the people, rests primarily on reducing the existing tax burden. No other action would so encourage business. No other legislative enactment would do so much to relieve agriculture. The drastic executive campaign for economy in Government expenditures has but one purpose - that its benefits may accrue to the whole people in the form of reduction in taxes. I cannot recede from this purpose. I am for the interests of the whole people. The expenditures proposed in this bill are against the interests of the whole people. I do not believe they are for the benefit of the veterans.

The running expenses of the Government for services and supplies must be met. Certain other obligations in the nature of investments for improvements and buildings are necessary, and often result in a saving. The debts of the nation must be paid. The sum of all these is a tremendous amount. At the present rate it is nearly $35 for each resident of our country, or $175 for each average family every year, and must be for some time. This bill calls for a further expenditure in the aggregate of nearly $35 for each inhabitant, and lays nearly $175 more on each family, to be spread over a period of twenty years. No one supposes the effort will stop here. Already suggestions are made for a cash bonus, in addition, to be paid at once. Such action logically would be encouraged, if this bill becomes law. Neither the rich nor the profiteers will meet this expense. All of this enormous sum has to be earned by the people of this country through their toil. It is taken from the returns of their production. They must earn it, they must pay it. The people of this country ought not to be required by their Government to bear any such additional burden. They are not deserving of any such treatment. Our business is not to impose upon them, but to protect them.

If this bill be considered as insurance, the opportunity for such a provision had already been provided. Nearly $3,000,000,000 of war risk and government life insurance is now outstanding, and over $500,000,000 has been paid on such policies. When this provision was made in 1917, it was on the explicit understanding of the Congress that such insurance was to relieve the Government of subsequent contributions. The then Secretary of the Treasury said in relation to the proposed insurance act: "it ought to check any further attempts at service pension legislation by enabling a man now to provide against impairment through old age, total disability or death resulting from other causes, and to give all this protection to those kindred who may be dependent upon him and who do not share in the Government compensation." This opportunity was afforded all those who entered the service. It was distinctly understood that it covered every obligation on the part

of the Government. The intent of this bill now to provide free insurance lacks both a legal or moral requirement, and falls into the position of a plain gratuity.

Considering this bill from the standpoint of its intrinsic merit, I see no justification for its enactment into law. We owe no bonus to able-bodied veterans of the World War. The first duty of every citizen is to the nation. The veterans of the World War performed this first duty. To confer upon them a cash consideration or its equivalent for performing this first duty is unjustified. It is not justified when considered in the interests of the whole people; it is not justified when considered alone on its own merits. The gratitude of the nation to these veterans cannot be expressed in dollars and cents. No way exists by which we can either equalize the burdens or give adequate financial reward to those who served the nation in both civil and military capacities in time of war. The respect and honor of their country will rightfully be theirs for evermore. But patriotism can neither be bought nor sold. It is not hire and salary. It is not material, but spiritual. It is one of the finest and highest of human virtues. To attempt to pay money for it is to offer it an unworthy indignity which cheapens, debases and destroys it. Those who would really honor patriotism should strive to match it with an equal courage, with an equal fidelity to the welfare of their country, and an equal faith in the cause of righteousness.

I am not unmindful that this bill also embraces within its provisions the disabled of our veterans and the dependents of those who fell. To state that the disabled veterans and these dependents are entitled to this additional gratuity is to state that the nation is not meeting its obligation to them. Such a statement cannot truthfully be made. The nation has spent more than two billion dollars in behalf of disabled veterans and dependents of those who died. It is now spending for compensation, training, insurance and hospitalization more than $400,000,000 annually. Solicitude for the disabled veterans and the dependents of those who lost their lives is the nation's solicitude. To minister to their every need is a sacred obligation which will be generously and gratefully met. The nation stands ready to expend any amount needed for their proper care. But that is not the object of this bill.

America entered the World War with a higher purpose than to secure material gain. Not greed, but duty, was the impelling motive. Our veterans as a whole responded to that motive. They are not asking as a whole, they do not want as a whole, any money recompense. Those who do seek a money recompense, for the most part of course, prefer an immediate cash payment. We must either abandon our theory of patriotism or abandon this bill. Patriotism which is bought and paid for is not patriotism. Our country has maintained the principle that our Government is established for something higher and finer than to permit those who are charged with the responsibility of office, or any class whose favor they might seek, to get what they can out of it. Service to our country in time of war means sacrifice. It is for that reason alone that we honor and revere it. To attempt to make a money payment out of the earnings of the people to those who are physically well and financially able is to abandon one of our most cherished American ideals. The property of the people belongs to the people. To take it from them by taxation cannot be justified except by urgent public necessity. Unless this principle be recognized our country is no longer secure, our people no longer free. This bill would condemn those who are weak to turn over a part of their earnings to those who are strong. Our country cannot afford it. The veterans as a whole do not want it. All our American principles are opposed to it. There is no moral justification for it.

CALVIN COOLIDGE

THE WHITE HOUSE,

May 15, 1924.

May 28, 1924.

Confidential

Not to be given out,

My dear Mr. President:

I return herewith the Revenue Bill of 1924.

As a permanent expression of Government fiscal policy this bill contains provisions which, in my opinion, are not only unsatisfactory but are harmful to the future of this country.

The reduction of high surtaxes from 50 to 40 per cent is quite immaterial to accomplish a real improvement in the law. The resolution for a constitutional amendment giving to the States and the Federal Government reciprocal rights of taxation on securities issued by the other, which you urged in your Annual Message to Congress, failed of passage. The suggestion of reaching in part the abuse of tax-exemption by limiting the deduction for interest of a non-business character to the amount that such interest exceeds the tax-exempt revenue of the taxpayer, has not been adopted. With some $12,000,000,000 of tax-exempt securities now outstanding, and $1,000,000,000 of new issues each year, it is idle to propose high surtaxes. A man with large inherited or accumulated capital is told he must pay one-half of his income to the Government if he invests it in productive business, but he is invited to be relieved of all tax by the simple expedient of withdrawing from business and investing in tax-exempt securities. This

does not mean that wealth in existence is taxed; it is not. It escapes. It does mean, however, that initiative and new enterprises are throttled.

While the inconsistency of high surtaxes existing side by side with a lawfully authorized means of avoidance is obvious, it is not simply through tax exemption that high surtaxes are uneconomical. The experience for the few years under high surtaxes shows the increasing failure of these taxes as a source of revenue. There are many means of escaping the tax, and with the settlement of conditions abroad we may anticipate the movement of capital from this country to other parts of the world where income is not so penalized. Ways will always be found to avoid taxation inherently excessive. We are presented, then, with a plan of taxation which punishes energy and initiative and must decrease revenue. Such a plan will ultimately work harm to the country and should not be permitted to continue much longer. The cure does not lie in attacking the symptoms by other unsound penalties worse than the disease itself, such as an undistributed surplus tax, but in correcting the cause. The remedy is such a reduction in the peak of the surtaxes as will attract capital to new enterprises and prevent the continual diminution of taxable income in the higher brackets. In this way alone can high living costs, the indirect tax paid by all of the people, be reduced and the productivity of a graduated income tax maintained.

The principles applicable to high surtaxes apply similarly to high estate taxes. The bill raises the estate tax to 40 per cent.

As a concomitant is added a gift tax which is a further invasion of the rights of the citizen, both unusual in nature and ofdoubtful legality. When there is added to this the inheritance taxes levied by the States, there amounts to a practical confiscation of capital. To meet these taxes executors must realize cash on forced sales of property with a general lowering of all values upon which the credit structure of our country is based, and diminishing the very source from which this revenue comes. It is proposed to take capital and to use it in the ordinary operating expenses of Government. We are thus to live, not on income, but on principal, and to that extent we exhaust our resources and prevent the industrial expansion essential to our increasing population and our high standard of living. Heretofore estate taxes in the Federal Government have been war measures. It is now proposed to use these reserves in timesof peace. They should be kept for emergencies.

The States have a very real interest in this tax. Inheritance taxes constitute a material part of State revenue. They are a comparatively small factor in Federal revenue. As the Federal Government invades this sphere, belonging primarily to the States, it will cut down the flow of income to the States from this tax, and thus force the States to higher taxes from other sources, which will mean increased land taxes. For the sake of $12,000,000 of additional revenue the Federal Government in its strength should not further handicap the States, already heavily burdened with expenditures which can be met only by taxation. I believe also it would be advisable to call a conference of the taxing authorities of the States

and the Treasury and give consideration to some comprehensive plan of division of this field of taxation between the various States and the Federal Government and the elimination of overlapping and unfair taxes.

Our institutions guarantee to our citizens sanctity in their private affairs, a right giving way only to the needs of Government. Under the law as it now exists, the Treasury has access to all information useful in determining the liability of the taxpayer. For the needs of revenue, publicity is unnecessary. While the bill purports not to give full publicity this is scarcely true, and it still sacrifices without reason the rights of the taxpayer. In each postoffice the amount which the citizen contributes to the Treasury must be exhibited to the curious and to the taxpayer's business rivals. Committees in Congress have access to returns and other private papers, without any restriction as to their publication in open committee or on the floor of Congress, the most certain means of publicity. If a taxpayer desires a hearing before the Board of Tax Appeals he must expose to the public the complete details of his income. To put this price upon the fair determination of tax liability in its regular administrative course, is entirely unjustifiable. Yet, such is done in the publicity provisions of the Board of Tax Appeals.

It is not alone in the unwarranted interference with the right of the citizen to privacy that these provisions are hurtful. It is believed that far from increasing revenue, the desire to avoid

the gratification of the idle curiosity of others or the exposure of one's personal affairs to one's competitor will result in the concealment of millions of dollars of income which would otherwise be reported. This means a change in the fundamental policy of our laws, violative of private rights, and harmful to Government revenues.

Criticism of the income tax and a large part of the dissatisfaction with it are the result of delay and uncertainty in the final determination of a taxpayer's liability. Taxes can usually be paid within a short time after the receipt of the income on which the tax is based without serious embarrassment. The payment, however, of a large additional tax on income received several years previous and which may have since its receipt either been wiped out by subsequent losses or invested in nonliquid assets may force a taxpayer into bankruptcy and often causes financial sacrifice and hardship. Provision should be made for the prompt and final determination of a taxpayer's liability and such was the purpose in the suggestion for a Board of Tax Appeals.

The provisions of the bill, however, with reference to the Board, make it in all its essentials practically a court of record. The Board is to be bound by formal rules of evidence and procedure. In each case a formal record must be prepared and all oral testimony in cases involving more than $10,000 must be reduced to writing and an opinion in addition to the findings of fact and a decision must be written. A taxpayer is entitled to

appeal to the Board before any assessment can be made. The reduction in the salary of the members of the Board from $10,000 as recommended by the Treasury to $7500 and the reduction of the term of office of the original appointees from the 10 years recommended to 2 years, make it difficult to secure for membership on the Board men with training, experience, and ability. This Board of Tax Appeals, unable to secure the proper type of men for membership, hampered and burdened with rules of procedure and evidence and forced to prepare a record, a finding of fact, and a decision in practically every case, will be unable to handle the business which will come to it. The result will be greater delay in the final settlement of tax cases, and may ultimately result in the complete breakdown of the administrative machinery for the collection of taxes.

The purpose of a tax bill is to provide the Government with revenue, and the primary consideration on tax reduction is the probable receipts and expenditures of the Government after the bill becomes a law. We shall close the fiscal year ending June 30, next, with a surplus, but it is the next fiscal year that must have consideration. By far the greater part of the loss of revenue which will be brought about by the bill is in income taxes. Aside from the 25 per cent credit in 1924 taxes the bill applies to incomes received in 1924, the tax on which is payable in the calendar year 1925. So this income tax reduction will not be felt until the last half of the fiscal year 1925. It has been the

experience of the Treasury that 55 per cent of the total income tax receipts for any calendar year are received in the first six months of such year, which are the last six months of the Government's fiscal year. The fiscal year 1925 will receive, therefore, 55 per cent of the income tax receipts for the calendar year 1925 and will feel only six months of this tax reduction. Under these circumstances, after giving effect to the bonus law and the reductions contemplated by the bill, and provided no further commitments in large amounts are made by the Congress, the Treasury may reasonably expect to conclude the fiscal year 1925 without a deficit.

Looking beyond 1925 to later years, there are certain factors which deserve consideration. The excess profits and income tax laws of the war period were new in principle and exceedingly complicated in practice. The Treasury has not yet become current in the ascertainment of tax liability and collection of taxes for this period. During the present fiscal year back taxes should add $350,000,000 to Government revenue, in 1925 they should amount to $300,000,000, and thereafter rapidly diminish. Certainly by the end of the fiscal year 1926 this source of revenue will be substantially exhausted. By the sale of war supplies and other war assets, which now constitute no material part of present revenue, and by the collection of back taxes,an asset not yet fully spent, the Government has been living upon capital stored up in the past, and the surpluses which have been shown by the Treasury each year

would not have existed had the Government met current expenditures solely out of current revenues. We must, therefore, consider the establishment for the future of such a policy of taxation as will insure the maintenance of the sources of taxation without the aid of these reservoirs which will soon be empty. This means that the policy must be so framed that it will encourage the creation of income subject to tax, will close the most obvious methods of avoidance, will not diminish by excessive estate taxes the very values upon which the Federal and the State Governments must rely for revenue, and will bring about a reduction in the high cost of living as a means of meeting world competition. 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. These conditions the present bill does not meet.

High taxes were adopted as a war measure in 1918. We have had but six years' experience under them and their detrimental effect upon our fiscal structure is not yet fully appreciated. To the intelligent observer tendencies are already apparent which indicate the stress to which this structure is being put. I mention as an instance the increased cost of capital for new industrial enterprises. These influences are being felt even in our present prosperity. During the after-the-war period of adjustment, the other great nations of the world have been disturbed more than this country. They are not yet restored. As a consequence, we have been relieved of much of the world competition. When other

countries return to productivity and become again the serious commercial rivals of our people, and when we experience those periods of depression, which normally follow periods of prosperity, we should have our house in order by so establishing our tax system that its economic effects will be beneficial and not harmful. The bill represents tax reduction, not tax reform. If we are to maintain the American standard of living and hold our place in the world, we must adjust our taxes upon an economic and not a political basis.

The bill is presented to you for consideration less than two weeks before the contemplated adjournment of Congress and it provides for a credit on 1924 taxes which should become effective before June 15th next. No different bill can be passed before adjournment. The question before you is the present law or the bill in the shape it has passed the Congress. As it stands, in its administrative features generally it is an improvement on the existing law. It will meet the needs of revenue at least through the fiscal year 1925. The immediate relief by credit on 1924 taxes is due, is expected by the people, and should be promptly given, and the determination of the taxes to which 1924 incomes will be subject should be made certain while the income is still being received.

As I have said, the bill does not represent a sound permanent tax policy and in its passage has been subject to unfortunate influence which ought not to control fiscal questions. Still, in spite of its obvious defects, its advantages as a temporary relief and a temporary adjustment of business conditions, in view of the uncertainty

of a better law within a reasonable time, lead me to believe that the best interests of the country would be subserved if this bill became a law. A correction of its defects may be left to the next Congress.

Faithfully yours,

(Signed) A. W. MELLON,

Secretary of the Treasury.

The President,

The White House.

1 enclosure.

June 2, 1924.

STATEMENT CONCERNING THE REVENUE BILL BY PRESIDENT COOLIDGE:

The passage of a new Revenue Bill was required for two reasons, the reduction of taxation and the reform of taxation. The bill as passed provides a certain amount of tax reduction. It improves some of the features of administration But it is not only lacking in tax reform, it actually adds some undesirable features to the present law. As a permanent expression of Government fiscal policy this bill contains provisions which, in my opinion, are not only unsatisfactory but are harmful to the future of this country.

The reduction of high surtaxes from 50 to 40 per cent is quite immaterial t accomplish a real improvement in the law. The resolution for a constitutional amendment giving to the States and the Federal Government reciprocal rights of taxation on securities issued by the other, which was urged in my Annual Message to the Congress, failed of passage. The suggestion of reaching in part the abuse of tax-exemption by limiting the deduction for interest of a non-business character to the amount that such interest exceeds the tax-exempt revenue of the taxpayer, has not been adopted. With some $12,000,000,000 of tax-exempt securities now outstanding, and $1,000,000,000 of new issues each year, it is idle to propose high surtaxes. A man with large inherited or accumulated capital is tol he must pay one-half of his income to the Government if he invests it in productive business, but he is invited to be relieved of all tax by the simple expedient of withdrawing from business and investing in tax-exempt securities. This does not mean that wealth in existence is taxed; it is not. It escapes. It does mean, however, that initiative and new enterprises are throttled.

While the inconsistency of high surtaxes existing side by side with a lawfully authorized means of avoidance is obvious, it is not simply through tax exemption that high surtaxes are uneconomical. The experience for the few years under high surtaxes shows the increasing failure of these taxes as a source of revenue. There are many means of escaping the tax, and with the settlement of conditions abroad we may anticipate the movement of capital from this country to other parts of the world where income is not so penalized. Ways will always be found to avoid taxation inherently excessive. We are presented, then, with a plan of taxation which punishes energy and initiative and must decrease revenue. Such a plan will ultimately work harm to the country and should not be permitted to continue much longer. The cure does not lie in attacking the symptoms by other unsound penalties worse than the disease itself, such as an undistributed surplus tax, but in correcting the cause. The remedy is such a reduction in the peak of the surtaxes as will attract capital to new enterprises and prevent the continual diminution of taxable income in the higher brackets. In this way alone can high living costs, the indirect tax paid by all of the people, be reduced and the productivity of a graduated income tax maintained.

The principles applicable to high surtaxes apply similarly to high estate taxes. The bill raises the estate tax to 40 per cent. As a concomitant is added a gift tax which is a further invasion of the rights of the citizen, both unusual in nature and of doubtful legality. When there is added to this the inheritance taxes levied by the States, there amounts to a practical confiscation of capital. To meet these taxes executors must realize cash on forced sales of property, with a general lowering of all values upon which the credit structure of our country is based, and diminishing the very source from which this revenue comes. It is proposed to take capital and to use it in the ordinary operating expenses of Government. We are thus to live, not on income, but on principal, and to that extent we exhaust our resources and prevent the industrial expansion essential to our increasing population and our high standard of living. Heretofore estate taxes in the Federal Government have been war measures. It is now proposed to use these reserves in times of peace. They should be kept for emergencies.

The States have a very real interest in this tax. Inheritance taxes constitute a material part of State revenue. They are a comparatively small factor in Federal revenue. As the Federal Government invades this sphere, belonging primarily to the States, it will cut down the flow of income to the States from this tax, and thus force the States to higher taxes from other sources, which will mean increased land taxes. For the sake of $12,000,000 of additional revenue the Federal Government in its strength should not further handicap the states, already heavily burdened with expenditures which can be met only by taxation. I believe also it would be advisable to call a conference of the taxing authorities of the States and the Treasury, before the next session of the Congress, to give consideration to some comprehensive plan of division of this field of taxation between the various States and the Federal Government and the elimination of overlapping and unfair taxes.

Our institutions guarantee to our citizens sanctity in their private affairs, a right giving way only to the needs of Government. Under the law as

it now exists, the Treasury has access to all information useful in determining the liability of the taxpayer. For the needs of revenue, publicity is unnecessary,. While the bill purports not to give full publicity this is scarcely true, and it still sacrifices without reason the rights of the taxpayer. In each post office the amount which the citizen contributes to the Treasury must be exhibited to the curious and to the taxpayer's business rivals. Committees in Congress have access to returns and other private papers, without any restriction as to their publication in open committee or on the floor of Congress, the most certain means of publicity. If a taxpayer desires a hearing before the Board of Tax Appeals he must expose to the public the complete details of his income. To put this price upon the fair determination of tax liability in its regular administrative course, is entirely unjustifiable. Yet, such is done in the publicity provisions of the Board of Tax Appeals.

It is not alone in the unwarranted interference with the right of the citizen to privacy that these provisions are hurtful. It is believed that far from increasing revenue, the desire to avoid the gratification of the idle curiosity of others or the exposure of one's personal affairs to one's competitor will result in the concealment of millions of dollars of income which would otherwise be reported. This means a change in the fundamental policy of our laws, violative of private rights, and harmful to Government revenues.

Criticism of the income tax and a large part of the dissatisfaction with it are the result of delay and uncertainty in the final determination of a taxpayer's liability. Taxes can usually be paid within a short time after the receipt of the income on which the tax is based without serious embarrassment. The payment, however, of a large additional tax on income received several years previous and which may have since its receipt either been wiped out by subsequent losses or invested in nonliquid assets may force a taxpayer into bankruptcy and often causes financial sacrifice and hardship. Provision should be made for the prompt and final determination of a taxpayer's liability and such was the purpose in the suggestion for a Board of Tax Appeals.

The provisions of the bill, however, with reference to the Board, make it in all its essentials practically a court of record. The Board is to be bound by formal rules of evidence and procedure. In each case a formal record must be prepared and all oral testimony in cases involving more than $10,000 must be reduced to writing and an opinion in addition to the findings of fact and a decision must be written. A taxpayer is entitled to appeal to the Board before any assessment can be made. The reduction in the salary of the members of the Board from $10,000 as recommended by the Treasury to $7500, and the reduction of the term of office of the original appointees from the 10 years recommended to 2 years, make it difficult to secure for membership on the Board men with training, experience and ability. This Board of Tax Appeals, unable to secure the proper type of men for membership hampered and burdened with rules of procedure and evidence and forced to prepare a record, a finding of fact, and a decision in practically every case, will be unable to handle the business which will come to it. The result will be greater delay in the final settlement of tax cases, and may ultimately result in the complete breakdown of the administrative machinery for the collection of taxes.

The purpose of a tax bill is to provide the Government with revenue, and the primary consideration on tax reduction is the probable receipts and expenditures of the Government after the bill becomes a law. We shall close the fiscal year ending June 30th, next with a surplus, but it is the next fiscal year that must have consideration. By far the greater part of the loss of revenue which will be brought about by the bill is in income taxes. Aside from the 25 per cent credit in 1924 taxes the bill applies to incomes received in 1924, the tax on which is payable in the calendar year 1925. So this income tax reduction will not be felt until the last half of the fiscal year 1925. Under these circumstances, after giving effect to the bonus law and the reductions contemplated by the bill, and provided no further commitments in large amounts are made by the Congress, the Treasury may reasonably expect to conclude the fiscal year 1925 without a deficit.

Looking beyond 1925 to later years, there are certain factors which deserve consideration. The excess profits and income tax laws of the war period were now in principle and exceedingly complicated in practice. The Treasury has not yet become current in the ascertainment of tax liability and collection of taxes for this period. We must, therefore, consider the establishment for the future of such a policy of taxation as will insure the maintenance of the sources of taxation without the aid of these reservoirs which will soon be empty. This means that the policy must be so framed that it will encourage the creation of income subject to tax, will close the most obvious methods of avoidance, will not diminish by excessive estate taxes the very values upon which the Federal and the State Governments must rely for revenue,and will bring about a reduction in the high cost of living as a means of meeting world competition.Of the 110,000,000 people in this country,less/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. These conditions the present bill does not meet.

High taxes were adopted as a war measure in 1918. We have had but six years experience under them and their detrimental effect upon our fiscal structure is not yet fully appreciated. To the intelligent observer tendencies are already apparent which indicate the stress to which this structure is being put. I mention as an instance the increased cost of capital for new industrial enterprises. Those influences are being felt even in our present prosperity. During the after-the-war period of adjustment, the other great nations of the world have been disturbed more than this country. They are not yet restored. As a consequence, we have been relieved of much of the world competition. When other countries return to productivity and become again the serious commercial rivals of our people, and when we experience those periods of depression, which normally follow periods of prosperity, we should have our house in order by so establishing our tax system that its economic effects will be beneficial and not harmful. The bill represents tax reduction, not tax reform. If we are to maintain the American standard of living and hold our place in the world, we must adjust our taxes upon an economic and not a political basis.

The bill comes to me for consideration less than two weeks before the contemplated adjournment of Congress, and it provides for a credit on 1924 taxes which should become effective before June 15th next. No different bill can be passed before adjournment. The question before me is the present law or the bill in the shape it has passed the Congress. As it stands, in its administrative features generally it is an improvement on the existing law. It will meet the needs of revenue through the fiscal year 1925, and probably be sufficient for some time if no unforeseen expenses arise. The immediate relief by credit on 1924 taxes of 25 per cent is due, is expected by the people, and should be promptly given, and the determination of the taxes to which 1924 incomes will be subject should be made certain while the income is still being received.

These opinions are supported by the Treasury Department.

As I have said, the bill does not represent a sound permanent tax policy and in its passage has been subject to unfortunate influence which ought not to control fiscal questions. Still, in spite of its obvious defects, its advantages as a temporary relief and a temporary adjustment of business conditions, in view of the uncertainty of a better law within a reasonable time, lead me to believe that the best interests of the country would be subserved if this bill became a law. A correction of its defects may be left to the next session of the Congress. I trust a bill less political and more truly economic may be passed at that time. To that end I shall bend all my energies.

THE WHITE HOUSE,
June 2, 1924.

Treasury Department
June 4, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING
April 30, 1924

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 11,564,000,000	$ 1,735,000,000 (1)	$ 9,829,000,000
Territories, insular possessions, and District of Columbia	127,000,000	20,000,000 (2)	107,000,000
United States Government	2,294,000,000	757,000,000 (3)	1,537,000,000
Federal land banks intermediate credit banks, and joint stock land banks	1,324,000,000	104,000,000 (4)	1,220,000,000
Total April 30, 1924	$15,309,000,000	$ 2,616,000,000	$12,693,000,000
Comparative totals:			
December 31, 1923	$14,885,000,000	$ 2,564,000,000	$12,321,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.

(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.

(3) Amount held in trust by the Treasurer of the United States.

(4) See Note (3), also partly owned by the United States Government.

June 5, 1924.

Dear Mr. Chairman:

Mr. Means' testimony on May 29th and 31st before your Committee, while not material to the subject of the investigation, was obviously intended to give the impression that my conduct of the Treasury since I have been Secretary is subject to criticism. It is difficult to reply concisely to statements which are either partial, misleading, or false, and which depend for their entire effectiveness on innuendo and not on facts, but for the record some answer should undoubtedly be made. So far as I gather from the testimony, the following specific subjects were discussed by Mr. Means:

(1) He refers to the Guckenheimer Distillery in Pittsburgh. The owners of this distillery, through forged and counterfeited permits, withdrew and sold whiskey in violation of the National Prohibition Act. They were indicted and for the past three weeks have been on trial in the Federal courts. This is simply a case of violation of law and its prosecution by the properly constituted authorities. I was never interested in the distillery and the only interest I or the Treasury has in this case is the enforcement of law, which is being done.

(2) Mr. Means states that banks, particularly the line

of banks with which I was formerly connected, have large loans secured by whiskey certificates; that these banks are therefore interested in realizing on what Mr. Means calls "frozen assets" and therefore in "bootlegging". Since prohibition none of these banks has made or held any loan whatsoever on the security of whiskey certificates. Since the collateral cannot be realized upon and, therefore, loans secured by such collateral would not be sound loans for a bank to make, I question whether such loans exist in this country to any material extent.

(3) Mr. Means states that I had some arrangement with Mr. Rex Sheldon for the issuance of wholesale drug permits, conditioned upon contributions from the holders of these permits to the Republican campaign fund. Mr. Sheldon once did come to see me but as I recall not in connection with permits. I understand that his request, about which there was nothing unusual, was not granted by the official of the Treasury to whom I referred him. Senator Bursum did come to see me sometime in December, 1921, about granting permits just as others come in to recommend some action by the Treasury. The regulations under the Volstead Act provide for the issuance of permits to wholesale drug houses and to manufacturers using alcohol. Senator Bursum presented to me a list of applicants for such permits. I turned this list over to Mr. Blair, the Commissioner of Internal Revenue, for investigation to determine the responsibility and character of the applicants, as is the usual course. In three of the cases this

investigation was satisfactory and the permits issued. In the remaining cases, where applications were made, the permits were refused. There has been no intimation to me, directly or indirectly, that any campaign fund would be or has been benefited in any way by the issuance of the permits. The applications were handled on their merits and strictly in accordance with law.

(4) Mr. Means gives a circumstantial account of an alleged interview by him with former Under Secretary of the Treasury Gilbert at 6:55 in the morning. This is characteristic of Means' testimony. Mr. Gilbert has never met Mr. Means. No interview took place.

(5) Mr. Means mentions the La Montagues and the Green River Distillery cases in New York. These were violations of the Volstead Act, prosecuted by the Department of Justice, and resulting in jail sentences for the principals; a successful enforcement of the law in spite of what Mr. Means intimates in regard to their alleged influence.

(6) Mr. Means again raises the question of my connection with the Overholt Distillery Company. My interest in the company was explained in detail in the Senate on March 31st, last. Since 1916 the Overholt Company has not manufactured any liquor. Prior to my becoming Secretary of the Treasury, all of the assets of the company were transferred to a trust company as trustee with no authority to operate but only to dispose of the assets in accordance with law and distribute the proceeds. Since that time the trust company has sold or disposed of no whiskey whatsoever excepting 52 cases to a drug company as permitted by the Volstead Act.

(7) In addition to being a manufacturer of whiskey, the Overholt Company was a warehouse, holding whiskey belonging to other persons. After the passage of the National Prohibition Act, whiskey was released from the warehouse only on the production of the permits provided for by the regulations. These permits were sent first to the office of the company in Pittsburgh, where, in accordance with later regulations effective November 1, 1920, the permits were confirmed by direct correspondence with the Prohibition Director in Pittsburgh and then forwarded after confirmation to the warehouse at Broad Ford, about 60 miles out of Pittsburgh, with the company's authority for release of the whiskey. After release, the permits were returned to the office of the company in Pittsburgh for filing. In the Goodman case of January 6, 1921, referred to in Hearst's Magazine, the permit was not presented to the office in Pittsburgh and accordingly was not confirmed by the Prohibition Director. Goodman had acquired title to certain whiskey from the owners who had bought it prior to prohibition and which was in storage in the warehouse. He presented the forged permit and a forged letter of confirmation from the Prohibition Director to the Superintendent of the distillery at Broad Ford, who, acting on these documents and without the required authority from the office of the company in Pittsburgh, released the whiskey. Because of the violation of the instructions to him that permits must come from the Pittsburgh office, the Superintendent was promptly discharged. On account of this experience, the company thereafter adopted the further precaution of taking the permits personally to the Prohibition Director and verifying their regularity, as well as obtaining the required

letter of confirmation. Necessarily these permits were a part of the files of the company and when its assets were later transferred to the trust company, the trust company also took over these files. It was on the trust company, therefore, that the United States Attorney called for the permits for the presentation of the case of Goodman and the Superintendent to the Grand Jury. This transaction took place prior to my becoming Secretary of the Treasury, but neither I personally nor any banks with which I was then connected know the reason for or were interested in the subsequent disposition of the indictments.

Proof of the facts stated in this letter can be furnished your Committee by competent witnesses if you consider such proof material to the matters under investigation.

Very truly yours,

(Signed) A. W. MELLON,

Secretary of the Treasury.

Hon. S. W. Brookhart,
Chairman, Committee Investigating
the Department of Justice,
United States Senate.

June 18, 1924.

To Treasury officials and employees:

Roland A. Croxton entered the Government as a messenger; in 1907 he came to the Treasury; and since 1914 until his untimely death June 12, 1924, he has been in the office of the Secretary. A student of finance with complete grasp of his work, always reliable, loyal to those he worked for and with, and cheerful under physical suffering, his life is an example to us all. The battles of this world are not alone on the battlefields of war. Never of robust health, during the trying war years Croxton gave much of his strength. He died as truly a soldier fighting for his country as any man in France.

Each of us has his place in this machine of ours and in honoring him the Treasury acknowledges its debt to those who serve it and have maintained its high integrity.

A. W. MELLON

Secretary of the Treasury.

[This communication should be circulated for the attention of each official and employee.]

COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON

A-3336 June 21, 1924.

The Honorable

The Secretary of the Treasury.

Sir:

I have your letter of June 10, 1924, reading:

"The first session of the 68th Congress adjourned June 7, 1924, without passing the Second Deficiency Act of 1924 (H.R. 9559). There is included in said bill an item of $16,140,000 based upon an estimate for appropriation approved by the Director of the Bureau of the Budget and transmitted to Congress by the President as shown in the enclosed copy of H. R. Doc. No. 352, intended to provide the necessary funds to make the refunds of income taxes as required under Title 12 of the Revenue Act of 1924, approved June 2, 1924.

"The Treasury Department Appropriation Act of January 2, 1923, (42 Stat., 1098) made an appropriation of $12,000,000 for refunding taxes illegally collected under the provisions of sections 3220 and 3689 of the Revised Statutes of the United States, as amended by the Acts of February 24, 1919, and November 23, 1921.

"The Deficiency Act approved April 2, 1924, (43 Stat., 49) appropriated $105,467,000, as follows:

> 'Refunding taxes illegally collected: for refunding taxes illegally collected under the provisions of sections 3220 and 3689, Revised Statutes, as amended by the Acts of February 24, 1919, and November 23, 1921, including the payment of prior year claims, $105,467,000: Provided, That a report shall be made to Congress of the disbursements hereunder as required by the Acts of February 24, 1919, and November 23, 1921.'

Of these combined appropriations there remain on the books of the Treasury Department, on this date, unexpended balances of approximately $30,000,000.

"The Treasury Department and Post Office Appropriation Act for the fiscal year 1925, approved April 4, 1924, * * * (43 Stat., 72) provides an appropriation also of $12,000,000 for refunding taxes illegally collected.

"I shall be glad to receive your views as to the availability of the balances of the appropriations made by the acts of January 3, 1923, and April 2, 1924, for the purpose of making the refunds of income taxes which are required to be made under Title 12 of the Revenue Act of 1924, approved June 2, 1924, and also whether the appropriation of $12,000,000 contained in the Act of April 4, 1924, supra, for the fiscal year 1925 and prior years is also available for the refunds of income taxes authorized by the Act of June 2, 1924. As to the use of these appropriations for making refunds, reference is made to your decision of April 21, 1923, (Decisions of the Comptroller General of the United States, Vol. 2, p. 684)."

Title XII of the Revenue Act of 1924, approved June 2, 1924, section 1200(a), Public No. 176, page 113, provides:

"Any taxpayer making return, for the calendar year 1923, of the taxes imposed by Parts 1 and II of Title II of the Revenue Act of 1921 shall be entitled to an allowance by credit or refund of 25 per centum of the amount shown as the tax upon his return."

In a somewhat similar case, to wit, the one referred to in the instant submission, 2 Comp. Gen., 684, it was held, quoting from the syllabus, that:

"Overpayments of estate taxes made prior to November 23, 1921, consisting of certain deductions not authorized when the tax was paid but allowable under the act of November 23, 1921, 42 Stat., 279, are refundable under section 1324 (a) of that act, with interest thereon, from the appropriations available for the refund of internal revenue taxes illegally collected."

Though the taxes authorized to be refunded by the Revenue Act of June 2, 1924, were taxes legally collected, the word "illegally" as used in the phrase "Refunding taxes illegally collected", appearing in the appropriation acts in question, has not been considered or construed to have a restricted meaning so as to authorize refundment only of collections made contrary to law, but rather to authorize refundment when it should be definitely determined that there had been collected from a taxpayer funds not authorized to be retained. The appropriations cited are not limited to

payment of any particular refundments but are available for such refundments generally as the law authorizes. Therefore the refundments here under consideration, to be made pursuant to the Revenue Act of June 2,1924, would appear to be payable from such appropriations for making refunds, to the extent that such appropriations are otherwise available.

The taxpayer's right to a refund is an obligation upon the appropriation for the fiscal year when the right arose and not necessarily the appropriation for the fiscal year when the claim is approved. See 27 Comp. Dec. 20, in reply to a submission by the Secretary of the Treasury, June 29, 1920.

Answering the questions submitted, you are advised that the two appropriations in question, act of January 2, 1923, 42 Stat., 1098, and act of April 2, 1924, 43 Stat., 49, which are available for authorized refunds of other taxes illegally collected, are available also for making refunds, as provided in the Revenue Act of June 2, 1924, of the taxes collected during the fiscal year 1924, and the appropriation for the fiscal year 1925, act of April 4, 1924, 43 Stat., 72, being expressly made to include "the payments of prior year claims," will be likewise available on and after July 1, 1924, for making such refunds.

Respectfully,

J. R. MC CARL

Comptroller General.

June 30, 1924.

THE TREASURY UNDER A REPUBLICAN ADMINISTRATION.

Among the outstanding achievements of the present administration is the success with which it has handled the Government's fiscal affairs. Important economies in expenditures have been effected, the tax burden has been reduced, the budget has been kept balanced, substantial progress has been made in the liquidation of the debt, the first phase of the refunding operations has been completed, and a satisfactory settlement of the debt due the United States from the British Government has been effected.

The reduction in expenditures during the fiscal year ending June 30, 1924, as compared with the previous fiscal year, was approximately $190,000,000. At the close of the fiscal year 1924, it was found that ordinary receipts for the year amounted to about $4,012,000,000 on the basis of daily Treasury statements, while the total expenditures chargeable against ordinary receipts amounted to about $3,507,000,000, thus showing a surplus of receipts over expenditures amounting to over $505,000,000. The public debt was reduced during the year by nearly $458,000,000 on account of the sinking fund and other debt retirements chargeable against ordinary receipts; by a reduction in the general fund balance of nearly $136,000,000; and by use of the entire surplus of over $505,000,000, making a total debt reduction for the year of over $1,098,000,000. The annual interest charges on the debt represented by this reduction would be equivalent to over $45,000,000.

The following table shows for the fiscal years 1920-1924, on the basis of daily Treasury statements, the ordinary receipts of the Government, expenditures chargeable against ordinary receipts, and the surplus of receipts over expenditures.

	Receipts	Expenditures	Surplus
1920	$6,694,565,389	$6,482,090,191	$212,475,198
1921	5,624,932,961	5,538,209,189	86,723,772
1922	4,109,104,151	3,795,302,500	313,801,651
1923	4,007,135,480	3,697,478,020	309,657,460
1924	4,012,044,701	3,506,677,715	505,366,986

The determined efforts for economy made it possible nearly two years ago to proceed with a revision of internal taxes with a view to reducing the tax burden for all classes of the community. The result is that the revenue act of 1921, approved November 23, 1921, made a substantial reduction in the tax burden, running over $800,000,000 for the fiscal year 1923, as compared with what would have been collected under the old law, and at the same time provided for the repeal or reduction of several of the most vexatious and burdensome taxes and for the simplification of the taxes that remained in force.

In view of the estimated surpluses during the next few years, the Treasury in November, 1923, recommended a thorough revision of the taxes, together with a substantial reduction in rates. The revenue act of 1924, while providing a certain amount of tax reduction, failed to effect the needed reform of the tax system, thus necessitating a further revision of the tax laws if the country is to be provided with a sound, permanent tax policy.

One of the principal problems facing the administraion at the outset was the handling of the public debt, which at that time amounted to about $24,000,000,000. Of that amount about seven and one-half billion dollars was short-dated debt maturing within 2½ years. The administration's policy with respect to this short-dated debt was expressed by the late President Harding in his first address to Congress as one of "orderly funding and

gradual liquidation". Confronted by the necessity of relieving business and industry from the staggering tax burden imposed during the war, it was evident that a large part of this short-dated debt had to be refunded. The Liberty Loans had been floated under the stimulus of the war enthusiasm through great popular drives and with the help of a country-wide Liberty Loan organization that comprised 2 million persons. To conduct refunding operations on a similar scale in time of peace, to the amount of over 7 billions of dollars, was a task of unparalleled magnitude, and yet the Republican Administration has not only effected the gradual refunding of practically all of this short-dated debt without disturbance to business or interference with the normal activities of the people, but by June 30, 1924, had also effected a reduction in the gross public debt of about $2,800,000,000.

Shortly after the administration came into power steps were taken toward the refunding of a large part of the early maturing debt by successive issues of Treasury notes in moderate amounts with maturities of from three to five years, in order to distribute the short-dated debt through the years between the maturity of the Victory Liberty Loan in 1923 and the maturity of the Third Liberty Loan in 1928. Beginning in June, 1921, the Treasury has floated nine issues of Treasury notes, maturing at various dates in 1924, 1925, 1926, and 1927, to an aggregate amount of about $4,250,000,000.

The Treasury also offered on October 16, 1922, as part of its refunding program, an issue of 4¼ percent Treasury bonds of 1947-52. The offering was $500,000,000, or thereabouts, with the right reserved to allot additional bonds against exchanges of 4 3/4 per cent Victory notes and other maturing obligations. This refunding issue of bonds met with an immediate

response from investors all over the country, and was promptly over-subscribed. Total allotments on the offering aggregated slightly over $763,000,000.

Thus all the old seven and one-half billion dollars of short-dated debt has been retired or refunded, and in its place there is a new class of short-dated debt, aggregating on June 30, 1924, about $4,942,000,000, consisting of (1) $807,000,000, or thereabouts, of Treasury certificates of indebtedness, maturing on various quarterly tax-payment dates within the year; (2) about $3,735,000,000 in the aggregate of Treasury notes, maturing on various quarterly tax-payment dates in the years 1924, 1925, 1926, and 1927; and (3) about $400,000,000 of War Savings Certificates and Treasury Savings Certificates, maturing in moderate amounts each year. These maturities are arranged so as to permit their refinancing with the minimum of disturbance to business and industry, and, with the Government balancing its budget each year and showing a reasonable surplus, it should be possible to retire a substantial amount of them gradually out of surplus revenues, and thus relieve the heavy refinancing that will be necessary in connection with the maturity of the Third Liberty Loan, on September 15, 1928.

In addition to the refunding operations the Administration has effected substantial reductions in the debt. In fact the Government has now firmly established the principle of including in its ordinary budget certain fixed debt charges, including the sinking fund, and these fixed debt charges must be met before the budget will be balanced. The expenditures of the Government as given on page 2 of this statement, for example, include debt retirements as follows:

Fiscal year	Debt retirements chargeable against ordinary receipts.
1920	$ 78,746,000
1921	422,282,000
1922	422,695,000
1923	402,850,000
1924	458,000,000

In addition to these retirements included in the ordinary budget, the surplus receipts, except for temporary fluctuations in the net balance in the general fund, are applied directly to debt reduction. Total debt reductions since the present administration came into office are as follows:

Fiscal year	Debt Reduction.
1921 (Feb. 28 to June 30)...	$ 74,234,000
1922.....	1,014,069,000
1923.....	613,674,000
1924.....	1,098,894,000
Total from Feb. 28, 1921, to June 30, 1924.....	$ 2,800,871,000

Thus the Republican Administration has not only effected a material reduction in the gross public debt but by sound financing it has already completed the refunding of the old seven and one-half billions of short-dated debt, without either disturbance to business or strain on the financial market. On the contrary, what has been done has tended to relieve the markets of the fear of spectacular Government operations and has been helpful to the recovery of business. Moreover, the Government's financing has been conducted on a strict investment basis and at the lowest possible rates consistent with the proper distribution among the investing public of the securities offered. All new offerings of bonds, notes and certificates have been

met with a ready response from investors and all issues are selling today in the open market at or about par. Liberty bonds have risen fourteen points since March, 1921, and every issue is now selling substantially above par, reflecting the improvement which has taken place in the Government's credit and in the general investment market.

Passing from the field of domestic finance, the most striking accomplishment has been the settlement of the indebtedness of the British Government to the United States. This settlement was approved by an act of Congress February 28, 1923, and the formal proposal by the British Government, embodying in detail the terms of the agreement, was received by the Treasury on June 19, 1923, and was signed by the Secretary of the Treasury as Chairman of the World War Foreign Debt Commission. Bonds of the United Kingdom in the aggregate principal amount of $4,600,000,000 issued pursuant to the terms of the proposal and acceptance, were received by the Treasury on July 5, 1923. The Treasury thereupon canceled and surrendered to the British Government, through the British Embassy at Washington, demand obligations of Great Britain in the principal amount of $4,074,818,358.44, in accordance with the provisions of the proposal and acceptance. The settlement provides for the repayment in full of the British debt to the United States over a period of 62 years, with interest for the first ten years at three per cent and for the remainder of the period at three and one-half per cent. The World War Foreign Debt Commission in its report to the President has well expressed the significance of the settlement in the following terms:

"The Commission believes that a settlement of the British debt to the United States on this basis is fair and just to both Governments and that its prompt adoption will make a most important contribution to international stability. The extension of payment both of the principal and interest over a long period will make for stability in exchange and promotion of commerce between the two countries. The payment of principal has been established on a basis of positive instalments of increasing volume, firmly establishing the principle of repayment of the entire capital sum. The payment of interest has been established at the approximately normal rates payable by strong governments over long terms of years. It has not been the thought of the Commission that it would be just to demand over a long period the high rate of interest naturally maintained during the war and reconstruction , and that such an attempt would defeat our efforts at settlement. Beyond this, the Commission has felt that the present difficulties of unemployment and high taxation in the United Kingdom should be met with suitable consideration during the early years, and, therefore, the Commission considers it equitable and desirable that payments during the next few years should be made on such basis and with such flexibility as will encourage economic recuperation not only in the countries immediately concerned but throughout the world.

"This settlement between the British Government and the United States has the utmost significance. It is a business settlement, fully preserving the integrity of the obligations, and it represents the first great step in the readjustment of the intergovernmental obligations growing out of the war."

A settlement of the indebtedness of Finland to the United States, amounting to about $9,000,000, has been effected on terms similar to those of the British settlement.

The obligations of various foreign governments held by the Treasury on June 30, 1924, aggregated $10,546,086,131.22 principal amount. Total cash receipts by fiscal years from 1920 to date on account of principal and interest on foreign obligations are as follows:

Fiscal Year	Principal Payments	Interest Payments	Total
1920	$71,045,188.47	$ 4,487,821.11	$ 75,533,009.58
1921	84,128,723.38	31,826,863.30	115,955,586.68
1922	49,070,107.46	27,758,162.42	76,828,269.88
1923	31,616,907.64	201,311,960.77	232,928,868.41
1924	60,723,367.14	160,601,419.84	221,224,786.98
Total	$296,584,294.09	$425,886,227.44	$722,470,521.53

During 1923 an agreement was signed by representatives of the Allies and the United States for the payment of the cost of the American army of occupation. The settlement, which has not yet been signed by all the signatories, provides that the amount due the United States shall be paid in twelve annual instalments out of future cash payments credited to Germany, and it may be estimated roughly that the annuities when paid will amount to approximately $20,000,000 yearly.

Treasury Department
July 5, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING
May 31, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
tates, counties, cities, etc.	$ 11,658,000,000	$ 1,749,000,000 (1)	$ 9,909,000,000
erritories, insular possessions, and District of Columbia	128,000,000	20,000,000 (2)	108,000,000
nited States Government	2,294,000,000	757,000,000 (3)	1,537,000,000
ederal land banks intermediate credit banks, and joint stock land banks	1,336,000,000	105,000,000 (4)	1,231,000,000
otal May 31, 1924	$ 15,416,000,000	$ 2,631,000,000	$ 12,785,000,000
omparative totals:			
April 30, 1924	$ 15,309,000,000	$ 2,616,000,000	$ 12,693,000,000
December 31,1923	14,885,000,000	2,564,000,000	12,321,000,000
December 31,1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31,1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31,1913	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.

(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.

(3) Amount held in trust by the Treasurer of the United States.

(4) See Note (3), also partly owned by the United States Government.

Treasury Department,
August 1, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

June 30, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 11,918,000,000	$ 1,788,000,000(1)	$ 10,130,000,000
Territories, insular possessions, and District of Columbia	129,000,000	18,000,000(2)	111,000,000
United States Government	2,294,000,000	757,000,000(3)	1,537,000,000
Federal land banks intermediate credit banks, and joint stock land banks	1,343,000,000	105,000,000(4)	1,238,000,000
Total June 30, 1924	$ 15,684,000,000	$ 2,668,000,000	$ 13,016,000,000
Comparative totals:			
May 31, 1924	$ 15,416,000,000	$ 2,631,000,000	$ 12,785,000,000
December 31,1923	14,885,000,000	2,564,000,000	12,321,000,000
December 31,1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31,1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31,1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) See Note (3), also partly owned by the United States Government.

Treasury Department
September 4, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

July 31, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds.
States, counties, cities, etc.	$ 11,988,000,000	$ 1,798,000,000 (1)	$10,190,000,000
Territories, insular possessions, and District of Columbia	128,000,000	17,000,000 (2)	111,000,000
United States Government	2,294,000,000	753,000,000 (3)	1,541,000,000
Federal land banks, intermediate credit banks, and joint stock land banks	1,395,000,000	104,000,000 (4)	1,291,000,000
Total July 31, 1924	$15,805,000,000	$ 2,672,000,000	$13,133,000,000
Comparative totals:			
June 30, 1924	$15,684,000,000	$ 2,668,000,000	$13,016,000,000
December 31, 1923	14,885,000,000	2,564,000,000	12,321,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) See Note (3), also partly owned by the United States Government.

CHANGES MADE BY THE FEDERAL REVENUE ACT OF 1924

GARRARD B. WINSTON

Under Secretary of the United States Treasury

ADDRESS AT THE SEVENTEENTH NATIONAL TAX CONFERENCE
HELD AT ST. LOUIS, MO., SEPTEMBER 15–19, 1924

NATIONAL TAX ASSOCIATION
OFFICE OF SECRETARY
195 BROADWAY, NEW YORK CITY

CHANGES MADE BY THE REVENUE ACT OF 1924

GARRARD B. WINSTON
Under Secretary of the Treasury of the United States

Mr. Chairman, Ladies and Gentlemen: I was asked to come here and describe the changes in the Revenue Act of 1924, from a non-technical standpoint. I really know far less of this Revenue Act than the gentleman who introduced me. I do have the advantage of knowing something of what was in the mind of the treasury when they drafted the act and what they were trying to accomplish, what they did accomplish and what they did not.

We started drafting this revenue bill early in the summer of last year. We finally decided that we had to take the entire Revenue Act and rewrite it. We completed the bill in time to present it to Congress in December. It was an enormous effort. Personally, I did not do the drafting, but I was consulted on points of policy, which I took up with Mr. Mellon, and they were decided by him.

You can divide the changes, roughly, into three general branches: the political changes, the structural changes, and the administrative changes.

By political changes, I mean those particular things with which Congress has primarily to do, and over which they take complete control. I refer, of course, to the rates, to the imposition of the gift tax, to increasing the inheritance tax, and to the publicity provisions.

So far as the rates themselves are concerned, that subject I am sure is familiar to you. With the increase in the inheritance tax there was given a credit of up to twenty-five per cent for any state inheritance tax which was paid to the state. That, I think, is the only new feature besides the rates.

The gift tax is an entirely new proposition. It was designed on the theory that it would block up present holes in the act and bring more property subject to the estate taxes. We have an actuary down there in Washington by the name of McCoy, who is about the best estimator I have ever run into, and I think he has persuaded Congress that he is the best estimator. I can give him no greater praise. He says that the gift tax will not mean more than about two million dollars a year additional revenue to us. It is a new idea, and it may work and may not. It may be constitutional and may not.

The publicity proposition; under the old act, returns were secret. The treasury had an opportunity to see them; they could be brought into court in proper litigated cases and could be examined

by the officials of states which themselves imposed an income tax, but they were not open to the general inspection of the public. Congress has introduced into the law a modification. Formerly we were required to post in some public place the names of all taxpayers, upon the theory that by so posting, their neighbors would find someone who was not paying the tax and let us know. You perhaps do not know that we have a law which permits us to reward informers. This change, however, requires not only the posting of the name of the taxpayer, but the amount of the tax which he has paid.

We in the treasury see nothing to be gained. It is difficult enough now to get people to put in their true taxes. To put a further penalty on them of publicity, in addition to the payment of the tax, has been felt in the treasury, will encourage tax evasion.

In addition to publishing the amount, it is provided that any committee of Congress can have access to any returns, and we are required to produce them in the committee room. There is no prohibition against using those returns in the committee room, and on the floors of Congress, and of course if so used, they would undoubtedly be privileged; so there may be occasions in which individual income tax returns are made public.

So much for what I may call the political side of the changes. The structural changes may, in general, be divided into arrangements permitting a freer flow of business, and changes in the act to reach what the supreme court calls tax avoidance; to plug up, so far as we could, the holes, through which large amounts of government revenue escape. I think we can discuss those particular changes in a few sections. I do not know whether it is familiar to you gentlemen that in this federal law we have something which is not in income tax laws, in other countries. We have considered that what is known as a capital gain, is income; that is, the increment in the value of property, when realized, constitutes income. That is not the law in Canada or in England. When you consider that capital gain, increment value of property, is income, you immediately introduce into the act the necessity for exceptions to that rule, because if we were required to enforce the rule absolutely, we should stop all flow of business. By business I mean business, such as sales of real estate, exchanges of real estate, reorganization of corporations, and matters of that kind. So the most complicated and most difficult section we had to draw was the reorganization section of the act. We have drawn it upon this theory; that you can go through any kind of a reorganization which the necessities of the particular business require, provided the stockholders get no money out of the transaction or no different property than they had before. That is, you can take two corporations and merge them into one, and give the stockholders of the two the stock in

the single corporation. You can take a single corporation — and this is a most important change in the new law—and split it into two corporations and give the stock of each corporation to the original stockholders. If, however, in doing this, the stockholders realize additional cash, such cash is taxed to the proper parties in the proper way. That is, if it is in effect a dividend, it is taxed as a dividend; if it is in effect a capital gain, it is taxed as a capital gain. If you just get other pieces of paper, and no more than you had before, then the original value attaches to those pieces of paper, and when you dispose of those and realize your gain, you are taxed, as if the reorganization had not taken effect.

Perhaps I can illustrate the situation to you by what went on in the past two or three years. Under the old reorganization section, stockholders of a corporation which had, say, a value of a million dollars in 1913, and a million surplus, earned since that date, could reorganize, by simply conveying its assets to a new corporation, for stock in the new corporation, and $999,000 in cash, and there was no tax, because the amount of cash they received did not exceed the original value of their stock. That was closed in 1923, when it was provided that you had to take this cash as profit, but even then you took it as a capital gain; whereas it was in reality a dividend.

Take another illustration of the methods of avoidance. If a corporation had assets which cost a million dollars, it could take depreciation on the basis of one million dollars; if it conveyed the assets to a new corporation, through a consolidation, and they were then worth two million dollars, the new corporation could take its depreciation of the same assets on a basis of two million dollars.

It is to correct those holes in the act, and also to permit a freer play of business, that this particular section was rewritten.

It is the belief in the treasury that we shall make more in taxes, if we keep business running than we shall if we are a drag on its wheels. (Applause)

The next section is what is known as Section 220. This provided that if you organized a corporation, for the purpose of evading the surtax of the individual stockholders, we might penalize the corporation, by assessing a tax against it of twenty-five per cent of its income. There were two fundamental difficulties with the section as it then existed. The section provided that if the amount of surplus was beyond the ordinary needs of the business, you could levy this penalty. If you organize a corporation solely to invest and re-invest, nobody can tell when the earnings are beyond the ordinary needs of the business, because its sole purpose is to invest and re-invest. Under the section as it now is, if the corporation does nothing but invest and re-invest, that is *prima*

facie evidence that it is used to evade the imposition of the surtax on the stockholders.

Another fundamental objection to the old section was this; the penalty was twenty-five per cent of the income of the corporation, such income to be ascertained as the income of other corporations were ascertained, which were subject to the income tax law. In ascertaining the income of a corporation, you do not take into account the dividends it receives from other domestic corporations. As a result, if your holding company was organized and its assets consisted solely in the stock of other domestic corporations, you could admit that you were organized for the purpose of saving the surtax to your stockholders, and the government was permitted to levy a twenty-five per cent fine on nothing, because, calculating its income as the incomes of other corporations were calculated, the holding company had no income. We have changed the law by saying that the income of the corporation which is subject to this penalty is its income from all sources, which includes its income from domestic corporations and its income on government securities, which are exempt as to normal tax.

The capital gain section was an innovation in 1921. It is another exception to the rule that an increment value is regular income. We found that if we left the law as it was—that is, when you sold a piece of property, and made a profit, you paid surtaxes on the profit, at the top rate of your income — business did not move. The law was therefore amended, so that these profits can be taxed, at the option of the taxpayer, at twelve and one-half per cent. The immediate result of the change is interesting. As I happened to remark today, 165 of the people who were in the $300,000 class in 1922, but who were not in it in 1921, were brought in solely by taking capital gains, and, as a matter of fact, the government realized some thirty-four millions of dollars of taxes at twelve and one-half per cent. It would probably have received only a small portion of that revenue if the law had not been amended and the tax on these gains reduced.

There was one slight difficulty, or rather hardship, about the tax. As it was originally drafted, you could take advantage of the twelve and one-half per cent capital gain provision, if the tax on all your income was twelve and one-half per cent. Cases occurred, where the tax on a man's income, outside of his capital gain, would be only ten per cent, and he could not take advantage of this twelve and one-half per cent capital gain, until he had raised the average rate of tax on his income to twelve and one-half per cent. So, if a man had a very large income, the capital gain had clear value to him, but if he had an intermediate income, he might have to pay more than twelve and one-half per cent tax on his capital gain. This has been corrected, by providing that a man may take

the option absolutely, no matter what his income is, of twelve and one-half per cent on any capital gain.

There has been in the law no provision for capital losses, and we had the situation of a taxpayer selling a piece of property, in which he had a profit, and taking a capital gain and paying twelve and one-half per cent on it. On the other hand, if he sold another piece of property on which he had a loss, he was allowed to deduct his loss in full, thereby often saving more than 12½% surtaxes. That did not seem equitable to the government, so it is now provided that a capital loss is deductible from the income tax, to the extent of twelve and one-half per cent of the loss.

We found another method of evasion in the creation of trusts; a man would create a trust in favor of, say, his children, with the right on his part to revoke the trust in favor of himself. In other words, it was a gift with a very substantial string tied to it, and it simply meant that the man would support his wife or his children, as long as he wanted to, by creating these trusts, and still keep absolute control. It was felt that that was not a real parting with the income; that the man, having the power to bring the income back to himself, should be taxed as if he had brought it back; and that is now provided in the law.

It was also found that there were a large number of trusts created for the purpose of paying insurance premiums; the taxpayer put a certain amount in trust, paid his insurance premiums with it, and did not have the income. If he had not created the trust, he could not have deducted his insurance premiums from the income, and he would have to pay more tax. That particular hole has been blocked up.

There are one or two means of avoidance that the treasury desired to fill up, or to correct, but which got into the political field. One of these was on community property. Most of you, I think, are familiar with the fact that in certain states—I think there are six or seven of them—the wife has a half-interest in everything that the husband owns, and *vice versa;* therefore, in those states the wife can file a return for one-half the husband's income, and he files a return for the other half. With a progressive tax, this brings down the total income out of the high brackets and it means a very substantial saving. It did not seem equitable to us that a resident of some particular state should have that privilege, when it was not general; but Congress declined to follow our recommendations in that regard.

There was one other feature which was a means of abuse. We had a provision in the old law, and it is in the present law, that if a man borrowed to purchase or carry tax-exempt securities, the interest paid was not deductible as an expense. But nobody borrowed money to purchase tax-exempt securities or to carry them.

They bought the tax-exempt securities, and then borrowed the money for something else, and, as a matter of fact, we could never reach them.

I think in one of the Rockefeller estates there were about forty or forty-five millions of tax-exempt securities, the income on which was entirely exempt, and about thirty or forty millions of debts, the interest on which was deducted from the income. The provision to correct this was a very close question in Congress. I think it was in and out in the Senate two or three times, and finally by one vote or more—not much more—it was finally stricken out. That was part of the old fight on whether or not tax-exempt securities should be made taxable.

Except for those features in the structural parts of the act, Congress followed almost word for word the treasury recommendations. We had a very free hand in the drawing of the language and in the methods of approach to these various means of avoidance. Of course we have not closed them all. There are two or three lawyers who were working on this bill, and thirty or forty thousand lawyers shooting at it, and as long as that condition exists, we shall not be able to close all the holes in the act. We might do it as a matter of statute, but if we did, no business would go on in this country and we should get few taxes.

Now, coming to the administrative features of the act, the entire act has been rewritten. The statutes of limitations are put in some sort of order. There were half a dozen of them. We have restored the requirement that there shall be a report of the tax-exempt income. That is simply for statistical information and for the use of Congress in future legislation. In the administrative features, lots of different questions that have disturbed the administration of the act were cleared. Just to mention one of these. The question of whether you could file a consolidated return, and whether corporations were affiliated or not, depended, under the old act, on control. There was a dispute in the department as to whether control meant legal control or actual control. I think that has been ended by the statute providing that it means legal control of ninety-five per cent of the stock.

The only other important administrative feature is the board of tax appeals, about which you are going to hear later. I simply want to tell you what was in the mind of the treasury when we made that suggestion.

Under the law as it existed prior to this act, the procedure through the department was this: A man filed his return; it was examined and audited, generally in the field; then it came into the department. The department, for example, would say that he owed ten thousand dollars additional tax, and wrote the taxpayer a letter. He would object and appear before the unit, and most

questions of fact were determined there. They generally reached what was the truth of the situation, although not what was the law of the situation; and then the case went to the committee of appeals and review, of which Mr. Brewster was the head. The committee reviewed what the unit had done, and then the commissioner assessed the tax.

Now, both the unit and the committee of appeals and review were simply machinery to enable the commissioner of internal revenue to determine what the tax should be. They acted for him. If the commissioner decided that the tax was not due, he would levy no assessment, and the case would never get into court for a determination. These two pieces of machinery of the commissioner's naturally, therefore, had to decide every doubtful question in favor of the treasury. Now, the difficulty was this; that having decided the question in favor of the treasury, just as all tax assessors would decide a doubtful question in their own favor, the taxpayer, under our federal law, had to pay the tax, and sue to get it back. It is not possible, under the federal statutes, to enjoin the collection of a tax, as you can do in many states. That meant that the taxpayer had to find the cash and pay the tax, and then sue to recover. It is sometimes a difficult matter to find cash. So we recommended this board as an independent administrative tribunal, which could find either for the taxpayer or for the government. If they found for the government, the taxpayer had to pay his tax—he had had his hearing before an independent board—and then he could go into court and sue to recover. If the board found for the taxpayer, then the government was to be permitted to go into court and sue for the tax, but the tax could not be arbitrarily assessed. We believed that this plan would protect both the government and the taxpayer, and furnish a tribunal that would have no interest in any decision, except to decide it correctly.

The original board was fixed at twenty-eight. That figure was set so as to provide for minor boards, of three men each, to ride circuit in each of the nine federal judicial circuits in the country, and for one Chief Justice or Chairman. When it got into Congress the character of the board was changed completely. The board was made a court. It was a board to sit and hear evidence; it was not a board to sit around a table and decide a question in an informal conference. It has been the opinion of the treasury, that is, since I have been familiar with it, that it is a better thing to get your taxes settled and get them over and behind you than it is to get the last nickel out of the taxpayer or for the taxpayer to save the last nickel from the government. We thought that if a board could be created and could sit informally—a board of sufficiently high character, so that the taxpayer would be satisfied and the government satisfied—the board would expedite the settlement

of taxes, and we should have these taxes through and not be, as we are now, still worried with 1917, 1918, and 1919 taxes. But Congress decided otherwise, and the board is now functioning, and functioning, so far as it has had the opportunity, very well.

I do not know of any other particular changes. There are, of course, a great many detail changes throughout the entire bill, but not such as will affect the principles of taxation. As I said before, this bill, in its structural and administrative features, is as good a bill as we could draw. We have as against that, the great complication brought into our income tax law by the fact that we consider capital gain as income. If we had that feature out, we could write a bill of one-tenth the length. We could take out all about reorganization; we could take out amortization, capital gain and depreciation; you can just see what it means when you begin to treat capital increment as income.

I have been speaking to you informally, and mostly from my recollection. If there is anything that I can answer in regard to the act, I shall be very glad to do so.

TREASURY DEPARTMENT

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

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.

There is possibly no group of men in the country more familiar than yourselves with the Government's war financing, its refunding operations and the various reductions which have been effected in the public debt. For this reason, I shall not touch on these questions, but will confine myself to saying a few words regarding a matter which is of constant interest to us in the Treasury Department and must also, I feel sure, be of considerable interest to the investment banking business, namely, the Government's program for a steady and orderly reduction of the public debt.

It has been the traditional policy of this Government to apply surplus revenues to the reduction of the debt; and since the close of the last war this policy has been closely adhereddto. Certain sources of revenue, however, which have been used by the Government to purchase its own securities and retire them, are no longer available. I refer particularly to the sale of excess war supplies. For this reason our future reductions must depend upon the annual sinking fund with the operations of which you are well versed, and upon the surplus of Governmental receipts over expenditures at the end of each fiscal year. These surpluses have, in the past five years, amounted to very substantial figures, which are in round numbers as follows:

In the year	1920 - - - -	$212,000,000
" "	" 1921 - - - -	86,000,000
" "	" 1922 - - - -	313,000,000
" "	" 1923 - - - -	309,000,000
" "	" 1924 - - - -	505,000,000

These amounts, which were used to reduce the public debt, reflect the economies of this administration in the face of a gradual decline in revenue.

With the adoption of the Budget System, which has been most faithfully and efficiently administered by General Lord, Director of the Bureau of the Budget, economy has been the watch-word of the Government's operations; and it is due entirely to such economy that the surpluses just mentioned have been achieved. It will become more and more difficult, however, in the fiscal years to come to show a surplus of receipts above expenditures, due to the fact that taxes are gradually being reduced. It must be remembered that a reduction in taxes is dependent upon a reduction in expenditures, and a reduction in expenditures is dependent, to a large extent, upon the continued, steady retirement of the public debt. Interest on the debt is the largest single item in our budget. It amounted in 1924 to nearly one billion dollars or more than one-fourth of all expenditures. It is obvious, therefore, that, if expenditures are to be reduced and likewise taxes, the public debt must be gradually paid off, so that these great

carrying charges may eventually be eliminated.

It is with a view to this situation that the Treasury has mapped out a program looking to the ultimate retirement of the public debt in about twenty-five years. Through the use of the Sinking Fund and other known revenues, this can be accomplished, provided we maintain the popularity of the Government securities. But it is absolutely necessary, if this program is to be successfully carried out, that the Government should be able to sell its securities bearing a low rate of interest and conduct its vast refunding operations under favorable circumstances without undue disturbance of market conditions. It will seriously interfere with this program if a successful effort is made to dislodge government securities from the hands of their present holders.

One of the unforeseen results of the war was the creation, by means of the Liberty Loan drives, of a large body of investors in Government securities. In building up this great body of investors, as in all its work of war-time financing, the Treasury received invaluable assistance from the investment bankers of the country, who now are benefitting from the patriotic and unselfish service which they rendered during and after the war. The Liberty Loans were well and widely distributed; and the notes issued in the refunding of these loans have, in a large majority of cases, gone back into the same hands.

People have become accustomed to including among their investments a very substantial proportion of Government obligations. They appreciate the security of these obligations and for such security are willing to take a lower interest yield.

This lower yield and the gradual retirement of the public debt have made it possible for the Government to reduce taxes and thereby to leave with the public more money to find its way into the usual channels of investment. Furthermore, the money collected in taxes for the repayment of the war loans is available now for the investment market. Since its highest point in August, 1919, the public debt has been reduced five billion dollars, and during the last fiscal year the debt reduction has amounted to over one billion dollars. A very great proportion of this money is flowing into the investment market and thus adding to the capital wealth of the country.

The question has arisen whether the time has not come when investment bankers can properly suggest to holders of Liberty Bonds that they exchange such investments for other securities. The Treasury is willing to view this question entirely apart from the patriotic angle, although there is no question of the fact that we are still - and for some time will be involved in the later phases of wartime financing. It is necessary only to point out that during the next four years more than eight billion dollars in Government obligations will mature and practically three-fourths of this amount will have to be refunded.

What would be the effect on the Government's refunding program if holders of Liberty Bonds were induced to trade them for other investments? If such bonds in an appreciable amount are dislodged and come upon the market, they would undoubtedly have a tendency to decrease the price of Government bonds and consequently to increase the interest rate which the Treasury must offer in floating new issues of securities. Those formerly holding Government securities would be unable to exchange their maturing obligations for new issues offered by the Government; and the Treasury would have to look elsewhere for customers for its bonds.

It is easy to see that such a course would result eventually in breaking up the great body of investors in Government securities so painstakingly built up during the war. Would not such a result be more serious in its consequences than any possible temporary advantage which might accrue to investment bankers from an invasion of this field?

For one thing, confidence, which is so necessary on the part of the small investor, would ultimately be impaired. While the members of the Investment Bankers' Association would offer sound securities in exchange for Liberty Bonds, this would not be true of many unscrupulous dealers not members of the Association, who would take advantage of the situation to trade the small investor out of his Government securities in exchange for highly speculative stocks and bonds.

In the end, we would have stricter and more complicated Governmental regulation of the sale of all stocks, bonds and securities, perhaps along the lines already proposed in Congress. Legitimate business might find itself unreasonably hampered as the result of efforts to protect unthinking investors from the activities of unscrupulous promoters. While the Treasury is heartily in favor, as I am sure you are, of any legislation which would protect the investing public against fraudulent salesmen, we must at the same time make sure that such legislation does not unduly burden and restrict legitimate business transactions.

All these factors should be given careful consideration before entering upon a policy which has for its object the dislodging of Government bonds from the small investor. If the public should be won away from holding and investing in these securities or be traded out of them for industrial or railroad obligations, it might become necessary for the Treasury Department, in order to repopularize Government bonds and notes, to increase the rate of interest thereon. This would necessitate the levying of taxes to meet the interest charges and would have the effect of taking money out of the investment market.

The Treasury Department appreciates the support and cooperation which it has received in its financing from your organization, particularly during the war period. Time passes, however, and I believe we are all

apt to forget that, although the war is over, the public debt remains with us and must be constantly considered. For this reason, we still ask for your support in fostering the popularity of our offerings and in creating a belief among yourselves that it is bad form to trade an investor out of his Government securities. I feel that we can ask this not so much from the viewpoint of patriotism but because our interests are identical and, in the end, it will be to your own benefit no less than to the Government's. The logic of the situation is inescapable. The more popular Government bonds and notes become, the lower will be the interest rate; the lower the interest rate, the lower will be the taxes; and the lower the taxes, the more money will be available for business and investment.

Letter to the Editor of the Chicago Daily News from the Under Secretary of the Treasury.

September 24, 1924.

Dear Sir:

In accordance with your request, I am sending you a short statement showing what the Republican Administration has done to save money for the taxpayers.

The present Administration has practically cut Government expenditures in half since it came into power. In 1920, the last full fiscal year of Democratic rule, the cost of running the Government amounted to $6,482,000,000. In 1924, under President Coolidge, Government expenditures had been reduced to $3,506,000,000. In other words the Harding and Coolidge Administration, backed by an efficient Budget Bureau, organized by General Dawes, has succeeded within a four-year period in reducing the annual budget over $3,000,000,000. Such a record is one of which any government can be proud.

How has this been accomplished? Mainly by conscientious and unremitting efforts at economy. This Administration was elected to get the country - and particularly the finances - back to a peace-time basis, and it has made good its promises.

Let us see how this economy in government has helped the citizen. When the Administration came into office on March 4, 1921, the country was staggering under the high tax rates of the 1918 Revenue Act. President Harding immediately called upon Congress to reduce taxes, which was first done in

the Revenue Act of 1921. This was followed three years later under President Coolidge by the 1924 Act granting still further tax reductions. These two tax relief measures have effected tremendous savings to the taxpayers. Under the 1924 Act, more than $400,000,000 will be saved to the taxpayers annually over the amount which would have been collected if the 1921 rates had remained in force; and it is estimated that during the fiscal year 1926, (the first full fiscal year in which the entire effect of the reductions will be felt), total Federal tax collections will aggregate a billion and a half dollars less than would have been collected from the taxpayers if the 1918 rates had been in effect. That gives some idea of what tax reduction has actually saved to the people of the country.

Another way of showing this is to list the total internal revenue receipts, collected in taxes, during the last three fiscal years under the 1918 Act and compare them with the three fiscal years following under the 1921 Act. These amounts of taxes were as follows:

	Fiscal year	Receipts	
Under 1918 Act	(1919	$3,850,000,000	
	(1920	5,407,000,000	
	(1921	4,595,000,000	
		Total	$13,852,000,000
Under 1921 Act (except part of year 1922 under 1918 Act).	(1922	$3,197,000,000	
	(1923	2,621,000,000	
	(1924	2,615,000,000	
		Total	$ 8,433,000,000

Saving to Taxpayers ..... $ 5,419,000,000

To this must be added the estimated saving for the fiscal year 1925 under the 1924 Act, and also refunds to taxpayers under Section 1200 of the Revenue Act

of
/ 1924 authorizing the credit of 25% of taxes payable in 1924, making a total saving of nearly $6,000,000,000 in the four years of the present Administration.

In what did these tax reductions consist? Most important of all, normal taxes and surtaxes were reduced, as may be seen from the following table showing a steady lowering of rates:

Comparison of tax rates under 1918, 1921 and 1924 Acts.

Net income	Total of normal and surtaxes of man and wife under Revenue Act of 1918.	Total of normal and surtaxes of man and wife under Revenue Act of 1921.	Total of normal and surtaxes of man and wife with $5,000 earned income under Revenue Act of 1924.
$ 1,000	--	--	--
2,000	--	--	--
3,000	$ 40	$ 20	$ 7.50
4,000	80	60	22.50
5,000	120	100	37.50
10,000	590	520	207.50
20,000	1,990	1,720	1,017.50
100,000	31,190	30,140	22,617.50

Tables like these make dull reading for anycne except the harassed taxpayer, but to him they read like the scoreboard when the home team has a chance for the pennant and is ahead. They show that each year an increasingly large amount of money was left in the taxpayers' pockets, instead of being taken for the support of the Government.

In addition to reducing the smaller income taxes and the surtaxes and repealing the excess profits tax imposed by the Act of 1918, the 1921 Act repealed most of the transportation tax and some of the nuisance taxes. On the item of transportation alone, the public saved $273,000,000. Over $48,000,000 was saved by the repeal of the tax on soft drinks and ice cream; nearly $19,000,000 on life, fire, marine and casualty insurance; $1,332,000

on chewing gum; over $4,000,000 on sporting goods and $11,000,000 on pianos and phonographs. In addition, the taxpayers saved nearly $19,000,000 by a reduction of the tax on wearing apparel, carpets, trunks and umbrellas; $7,543,000 on candy, and very considerable amounts on other articles such as electric fans, thermos bottles, toilet soap, perfumes, etc. The total of these reductions amounted to $408,732,000.

Statistics like these explain to the taxpayer why, about January, 1922, he found it possible to buy things he needed without having a tax added to the price. For instance, if he bought a piano about that time, he saved the 5% tax which otherwise he would have paid to the Government. All this makes an appreciable saving in the family budget.

The Revenue Act of 1924 effected even more sweeping reductions in taxes. The greatest savings, of course, were made in the direct taxes levied on small incomes. On incomes of $8,000 or less, taxes were reduced 62.5% and on incomes from $8,000 to $13,000 the reductions ranged from 61% to 50.9%. The surtaxes were also revised, so that the rates ranged from 1% on $10,000 to a maximum of 40% on incomes in excess of $500,000. The amount of personal exemption in the case of heads of families was increased to $2500 in all cases; and a reduction of 25% was allowed in the tax on earned income not exceeding $10,000.

Many taxes, such as those on telegraph and telephone messages, were repealed. It is estimated that the repeal of this tax alone will save to the taxpayer $34,000,000. Another $10,000,000 will be saved by the repeal of the tax on beverages; $13,000,000 by the repeal of the candy tax; $33,000,000 by taxing only admissions in excess of fifty cents. This last item means

that practically all taxes on moving pictures are eliminated. If, for instance, a taxpayer takes his wife and two children to a 50-cent movie, he pays not $2.20 as formerly, but $2.00 for the four tickets. Certain exemptions were allowed in the tax on automobile trucks and bodies, effecting an estimated saving to the taxpayer of $5,000,000, and a saving of $20,000,000 will result from cutting in half the tax on tires, inner tubes, parts and accessories. Many other taxes, such as those on knives, hunting garments, carpets, trunks, valises, purses, lighting fixtures and fans and the stamp tax on checks, drafts and promissory notes were repealed. The broker's occupational tax is no longer imposed on those engaged in selling produce and merchandise and the tax on jewelry has been greatly reduced. These miscellaneous taxes, which have been repealed or reduced, aggregate about $118,620,000, and represent a direct saving to the taxpayer in so far as such reductions are reflected in prices.

The theory on which the Republican Administration has based its tax policy is that high taxes increase the cost of living; and that, so far as the condition of the Treasury permits, taxes should be reduced and the cost of living lowered. It must be remembered, however, that reductions in taxes are dependent on reductions in expenditures; and, with the utmost possible economy in Government, it is not possible to reduce taxes below the amounts required to meet the fixed obligations of the Government.

One of these is the payment of interest on the public debt. That item alone in the fiscal year 1924 amounted to nearly one billion dollars, or over one-fourth of all Government expenditures. It is obvious that, in order eventually to be rid of this immense interest charge, we must pay off the public debt as rapidly as possible.

The Treasury, under the brilliant administration of Secretary Mellon, has arranged to do this. Since the Republican Administration assumed office in March, 1921, about $2,800,000,000 of the debt has been paid off without the public even being aware of the tremendous financial feat which the Treasury has so quietly accomplished. As the debt is reduced interest expense becomes less and with this saving in Governmental expenditures another billion dollars a year can be taken off the taxpayers' shoulders.

In 1920 the average tax burden paid the Federal Government was $53.71 for each person in the country; in 1924 it was $29.83, and by 1926 it should be $26.96, a reduction of 50% in per capita tax. Think what it means to cut taxes squarely in half.

The Republican Administration has gone far toward putting the country back on a peace-time basis. In getting down to brass tacks and effecting real economy in Government, it has given a notable instance of platform pledges which have been carried out and promises which have been made good by performance. It has proved itself a party of constructive ability and shown that it deserves the continued confidence and support of the American taxpayer whose interests it has so well served.

Very truly yours,

(Signed) GARRARD B. WINSTON

Under Secretary of the Treasury

The Editor,
Chicago Daily News,
Chicago, Illinois.

October 1, 1924.

My dear Mr. Head:

The Treasury has been concerned recently with the need for improving the currency. In solving this problem, I feel sure that we can count on the cooperation of the members of the American Bankers' Association, for the questions involved are of interest to bankers no less than to the Government and to the public.

During the last three years an unprecedented demand has developed for paper currency of the smaller denominations. This is particularly true of $1 notes, which are being used in increasingly large numbers. In order to supply the demand and to meet redemptions of unfit and mutilated dollar bills, it is necessary to print and put into circulation 48,000,000 of these bills each month. A note which is thus rushed through the process of manufacture becomes unfit for circulation within seven or eight months of issue, whereas notes which have been given a reasonable period of seasoning, will continue in circulation from ten to eleven months. Bankers throughout the country are constantly complaining of the poor quality of the paper money; and, while the Treasury is aware of the situation and is doing all in its power to rectify it, we must ask your cooperation if the desired results are to be obtained.

Obviously we must build up a reserve supply of currency sufficiently large in amount to keep a portion of it in process of seasoning. This is what the Treasury intends to do. It will be necessary to obtain from Congress an additional appropriation with which to build up an adequate

Congress an additional appropriation with which to build up an adequate reserve stock, but in the end such a program will result in increased saving to the taxpayers. A dollar note costs today 1 7/10¢ to manufacture and keep in circulation. If its life can be prolonged by two months, so that it remains in circulation ten months instead of eight, a yearly saving of $1,666,000 will be effected in this denomination alone.

The building up of an adequate currency reserve will take time. One way of facilitating the operation is to increase the number of standard silver dollars in circulation, and this also the Treasury hopes to do. In this way we shall be able immediately to pile up a reserve of paper dollars in the amount of the standard silver dollars which are put into circulation.

The number of silver dollars in use today is far below normal. During the war, as you know, Congress passed the Pittman Act, authorizing the Treasury to melt standard silver dollars and sell them as bullion for use of the British Government in India. The greater portion of the silver thus sold was represented in currency circulation by silver certificates which were withdrawn from circulation. In addition to this decrease in the circulating medium, the number of silver dollars in current use has dropped from 84,000,000 in 1919 to 54,000,000 on July 1, 1924.

When silver again became available for purchase, the Treasury was required by law to buy silver and coin new standard silver dollars, which would replace those sold during the war. These repurchases are now completed but the Treasury has not succeeded in restoring, by at least 30,000,000, the number of silver dollars in circulation in 1919.

There are many reasons why the silver dollar should be restored to its former importance in the currency structure. In the first place, the life of a standard silver dollar has no reasonable limit, whereas that of a paper dollar does not at most exceed ten months. A paper dollar, as was pointed out above, costs 1 7/10¢ to manufacture and keep in circulation. If the Treasury, therefore can restore to circulation 30,000,000 dollars in continental United States and 10,000,000 in our insular possessions, we can displace equal amounts of paper currency and effect an annual saving on this item alone of $828,000, which is equivalent to the interest at 4% on $21,000,000 of the public debt.

The use of the silver dollar is not an innovation. It has merely lost its place temporarily in the circulation in certain localities; and all that is proposed is to restore a very limited amount of these coins as auxiliary to the paper currency. If we are to succeed in this plan, we must have your cooperation. It is necessary for the banks, through their cashiers and paying tellers, to explain to their customers the Government's reasons for wanting everyone to take at least one or two silver dollars with their paper currency. I am fully convinced that the public will cooperate if they know

that such action on their part will result, first, in a direct saving to the Government through a reduction of expenditures for currency, and, second, in an improvement in the quality of paper currency by making possible the accumulation of a currency reserve in process of seasoning. Silver dollars can not be forced upon an unwilling public. If a proper appeal is made, however, and the appeal is backed by logic and reason, the American public can be counted upon to cooperate with the Government in its effort to supply the currency requirements of the country.

Sincerely yours,

A. W. MELLON,
Secretary of the Treasury.

W. W. Head, Esq.,
President, American Bankers' Association,
Chicago, Illinois.

Treasury Department
October 13, 1924.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

August 31, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 12,077,000,000	$1,812,000,000 (1)	$10,265,000,000
Territories, insular possessions, and District of Columbia	125,000,000	15,000,000 (2)	110,000,000
United States Government	2,294,000,000	748,000,000 (3)	1,546,000,000
Federal land banks, intermediate credit banks, and joint stock land banks	1,399,000,000	104,000,000 (4)	1,295,000,000
Total August 31, 1924	$15,895,000,000	$2,679,000,000	$13,216,000,000
Comparative totals:			
July 31, 1924	$15,805,000,000	$2,672,000,000	$13,133,000,000
December 31, 1923	14,885,000,000	2,564,000,000	12,321,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) See Note (3), also partly owned by the United States Government.

Statement given to Hearst Papers
by the Secretary October 31, 1924.

It might be said that the general policy controlling the financial management of the nation's affairs, during the Harding-Coolidge administration, has been dictated by a desire to economize, to improve methods of operation and to cut down the demands of the Government upon the money market of the country.

That economy has been practiced is clearly shown by a reduction in the total expenses of the Government from approximately 5½ billion dollars in 1921 to 3½ billion dollars in 1924.

In its operating methods, the Federal Government has been given the greatest polishing and speeding up of its entire life. President Harding and President Coolidge have never ceased in their demand for progress in this direction. The Bureau of the Budget, the Cabinet and the heads of the independent bureaus and establishments have sought in every way to adopt up-to-date business procedure.

As for cutting down the demands of the Government upon the money market, only one practical way was available, namely, to pay off part of the debt. The only way to obtain money for such a purpose was to spend less than was taken in and apply the surplus to paying liabilities. That course has been followed with a firm hand for the past four years, with the result that over 3 billion dollars which had been borrowed from banks, insurance companies, trustees and individuals, has been paid back and not borrowed again, of which over one billion was paid in the past year.

What have been the results of this paying back of our borrowed money?

First, the money which has been paid back has sought investment in other fields, thereby doing much to revive industry.

Second, purchase in the market of Liberty Bonds for cancellation by the Government has contributed to the continual advance in their market value from about 86 in 1921 to well over 100 af the present time.

Third, the reduced volume of borrowing has made it possible to steadily reduce the interest rate on new offerings of Treasury notes.

In May of 1921, it was necessary to pay 5⅜ per cent to borrow the money with which to meet this liability. In those days, there was a clamor for more credit for the home builder, the farmer, the exporter. How could such credit be found at any reasonable rate when the strongest borrower in the world was forced to pay nearly 6 per cent?

Today, when Treasury certificates can be placed on a 3 per cent basis and Liberty Bonds are selling on a 4 per cent basis, the Federal Government practically has ceased to interfere with farmers, business and industry in the money market. In the broadest sense, this is the outstanding benefit to the people of the country resulting from a conservative financial policy.

A negative, but none the less important element, has been the determination of the Administration to steer clear of economic and financial experiments which could only prove disastrous in the long run. The country was not lacking in those who would have liked to prospect in the wild places and seek "cure-alls" for our financial troubles. Some would have used the same surplus twice, once to reduce taxes and again to buy and hold the surplus products of one or another broup of citizens. Some would have had the Government guarantee prices on certain commodities, at the risk of the taxpayer. Some would have used the Federal Treasury to finance exports on long-time credits to buyers of doubtful financial responsibility. That the Administration has constantly set its face against any quack remedy, however attractive it might

appear at a given moment, is a very large contributing factor to the permanently improved conditions which the country now enjoys. Any such remedy might have seemed to bring an improvement by serving as a momentary stimulant. The sure aftermath of depression and uncertainty would have followed and no lasting benefit would have resulted.

The Harding-Coolidge administration adopted the common-sense policy that any man should follow when he finds himself spending more money than he can afford and involved in debt more heavily than should be justified. It is one thing to adopt a policy of retrenchment but quite another to carry it out. The fact that there is a surplus of income is a standing temptation to unnecessary expenditure. The administration has resisted that temptation and has continued to save and to apply the savings to a reduction of the debt.

The war left many problems, not the least of which is the paying off of the war debt standing at the enormous figure of 22 billion dollars. As long as this debt is outstanding it will be a check on our progress. By paying that debt off, the capital which it now locks up will be released for other fields of investment and the development of the natural resources of the world. It would be unwise to attempt to pay off the debt too fast but until it is paid in full, we should never allow a year to pass which does not see a substantial reduction made. Economy and efficiency in the management of the Government, a substantial payment each year on account of the national debt will lay a foundation upon which we may confidently build for a great future.

ADDRESS OF HON. CHARLES S. DEWEY,

Assistant Secretary of the Treasury

Delivered in Boston, Mass.

Nov. 19, 1924.

Mr. Chairman and representatives of the stockholders of member banks of the New England Federal Reserve districts, officers and directors of the Federal Reserve Bank of Boston:

I have been instructed by my chief, Mr. Andrew W. Mellon, Secretary of the Treasury, to convey to you his respects and good wishes to this meeting and for the business of this district during the ensuing year. (Applause)

It is only an expression of human nature that one's personal problems always seem greatest. To the banker money represents credit and the conservative maintenance thereof. To us in the Treasury Department, outside of our large physical operations, money represents currency and its supply. I am going to endeavor to say a few words in regard to our problems in supplying the banks throughout the United States and the general public with currency.

The currency system in the United States consists of eight types. We have silver certificates, gold certificates, United States legal tender or greenbacks, Federal Reserve notes, gold coin, silver coin, and subsidiary coin; and National Bank notes. It may interest you if I read from the circulation statement of the United States money of the first of November 1924, the amount of these various kinds that are outstanding at the present time. Gold coin and bullion $436,000,000; gold certificates $904,000,000.

I am giving them in round numbers, gentlemen. Standard silver dollars $55,000,000; silver certificates $389,000,000; treasury notes of 1890, $1,000,000. These are being retired and there are just a small number outstanding. Subsidiary silver $259,000,000; United States notes or legal tender $305,000,000; Federal Reserve notes $1,784,000,000; Federal Reserve banknotes, $8,000,000. These are also being retired and called in as fast as is possible. National bank notes $734,000,000. For all these types of currency the United States Government bears the printing expenses except those in connection with the Federal Reserve notes which are reimbursed to us. In regard to the National bank notes, while we bear the cost of printing, the cost of the plates is paid by the National banks themselves.

The multiplicity of these types of currency, their manufacture and cost of redemption and reissue adds greatly to the expenses of the Government. Under the law we are required to keep out in constant circulation $346,000,000 in round numbers, of the legal tenders or greenbacks. In other words, as fast as they are sent in to the Federal Reserve Banks and from them to the Treasury of the United States for redemption they must be reissued either in the same denomination or in an aggregate denomination which will keep $346,000,000 in circulation.

A further complication is that there are at present outstanding $842,900,000 of bonds available to secure National Bank notes circulation. The National banks have at present outstanding about $734,000,000 National Bank notes. These notes as they come in must be reissued in the same form and denomination as required by the National Banks issuing them. There are about 7500 national banks at the present time that have such circulation, so you can readily imagine how difficult

it is to keep constantly printing and keeping sufficient stocks of the various notes of the various national banks of the required denominations on hand. The present policy of the Treasury, - and of course its maintenance depends upon the policy of future administrations--- but the present policy of this administration and the Treasury is the gradual retirement of National Bank notes and the United States Notes which will simplify the currency system of the United States. This has been advocated by practically all economists and the simplification will cause a great saving to the Government.

The first move in the retirement of National Bank notes was the calling of $118,000,000, in round numbers, of the four per cent bonds of 1925, which have been called for retirement as of February 1, 1925. Against these bonds there are about $75,000,000 National Bank notes in circulation. This is the first step towards the retirement of the circulation. Any further step I think will depend a great deal upon the possible passage of the McFadden bill or some other remedial legislation which will be beneficial to the National Banks.

With the gradual retirement of the National Bank notes, and possibly the United States legals, we will be left with only silver certificates, gold certificates and Federal Reserve notes, and of course including metal coin, gold, silver and subsidiary coin. This will make a much more simple structure for our currency, and will cause a great saving to the Government in printing, redeeming, and reissuing, and we believe will make the currency much more elastic.

All the paper currency of the United States as well as all of our securities, notes, stamps, State Department passports, everything that is of the distinctive paper type, are printed in the Bureau of Engraving and Printing in Washington. The Bureau of Engraving and Printing is the largest establishment,-- and we consider it the most up-to-date one of its type, in the world. It employs about

five thousand men and women. Unfortunately, it is not a distinctly elastic type of manufacturing establishment. It is not easily expanded and contracted, but is built to take care of the normal demand of paper currency and securities. Therefore, you can imagine the sudden difficulties that arose during the war, when we were called on to print and manufacture the enormous issues of Liberty Bonds, Treasury Certificates, War Savings Certificates, War Savings Stamps, and various other types of issue of this kind. This in addition to the printing of our requirements for national currency. As a result the Bureau of Engraving and Printing was run day and night.

During the war period over two hundred million pieces of bonds and securities of that type were turned out, this not taking into account the War Savings Certificates and the Thrift Stamps. The natural result of the emergency caused us to first take care of those securities which were most needed. We gave most of our time to the turning out of the bonds and securities and somewhat neglected the printing of currency. As a result our currency reserve stocks gradually fell off.

It has always been customary to keep on hand at least a month's supply of distinctive paper, a month's supply of currency in the process of manufacture, and a month's supply of completed currency in the vaults of the Treasurer of the United States, but with the great demand for currency and the great demand on the part of the Government for the turning out of its securities our reserve stock was very speedily eaten up.

Immediately following the war came the expansion of 1919 and 1920. Our outstanding currency rose to the large figure of $5,628,000,000. To supply

this exceptional demand we had to cut down the period of manufacture of the currency from three months to three weeks. In other words, prior to the war period it took about three months time for a piece of United States money, from the time it entered the Bureau of Engraving and Printing in the form of distinctive paper, to emerge at the other end into the Treasurer's vault. The demand was so great that the process of manufacture was speeded up more and more until we got down to printing our paper currency in from three to four weeks. Now this resulted in a number of things. In the first place we were unable to season our distinctive paper or completed currency. In the second place, a number of processes had to be cut out which took a little too much time and as a result the life of our currency was very materially shortened.

The problem of the currency structure is the one dollar bill, and in any other reference I make to the paper currency I refer to the dollar bill as a standard. The life of a one dollar paper bill prior to the war was between eleven and twelve months. This was when we were capable of having an orderly process of manufacture, seasoning the distinctive paper and the bills themselves. During this great demand for currency the life of the dollar bill gradually was reduced until it got down to as low as four months in some districts. The cost of manufacture of a dollar bill is 1.7 cents. That manufactures it and keeps it in circulation during its life. Now you can readily figure with between $375,000,000 and $380,000,000 of one dollar bills in circulation what every month's additional life of a dollar bill means to the United States at a cost of 1.7 cents. The average life of the dollar bill several months ago was only six months, so that really means that a dollar bill costs the Government three per cent to keep out a year, which is savings bank interest.

We are doing everything in our power now to rebuild the stocks of all classes of currency. We feel by July 1, 1925, we will have again built up our reserve stock and brought back our process of manufacture to the orderly method which maintained prior to the war, so that if for a short time to come the money that is received by you from the Federal Reserve Bank is not as clean as you would like to have it you will have to bear with us a little longer. We are doing the best we can, and we hope in due course we will bring the money back to the condition it used to be in, the condition that you may expect and we to be proud of.

The Treasury Department, and Mr. Mellon himself, is vitally interested in doing anything that will create a saving, as you know. As I have said, the cost of a dollar bill is 1.7 cents. The life of the dollar bill at the most we can possibly expect would be eleven to twelve months. The cost of a standard silver dollar to Mint is one cent and its life is almost indefinite. You find the standard silver dollar in perfectly good condition after it is in circulation twenty or thirty years. It is Mr. Mellon's desire to put some more standard silver dollars back into circulation. In 1919 there were about $85,000,000 of standard silver dollars in actual circulation throughout the United States. For various causes, which I will not go into, the standard silver dollars were gradually reduced in circulation until now there are only $54,000,000 of them in actual hand to hand use, about $30,000,000 less than in 1919.

It is the desire of the Treasury Department to put back these standard silver dollars to the extent of $30,000,000 into their old place in the currency structure. On top of that we are going to try and put out $10,000,000 into our

insular possessions. If we can do this it may surprise you to learn of the saving that will accrue to the Government based on a cost of 1.7 cents for a dollar bill for if we can put back these $40,000,000 into circulation in the United States; there will be an annual saving of $1,000,000 to the Government, and we think that is well worth while saving.

The plan does not mean that any one man is obliged to have a large pocketful of silver dollars to carry around. That $40,000,000 is to be spread to the insular possessions and throughout the United States, and would not mean more than an occasional dollar or two in ones pocket. I am going to ask you gentlemen to co-operate with us in putting these dollars out. It can only be done through your co-operation and your help. The greatest co-operation would be given by the tellers in the individual banks. A customer comes in and cashes a ten dollar check. He is handed back nine dollars in paper and one dollar in silver. He grumbles. Now, if your teller will only tell him,-- and we contemplate providing you with the information so that he will have the story well in hand,-- just what saving will accrue to the Government, I think the customer will be willing to help us. It is not asking a great deal.

We would like to try this plan out. In due course we contemplate sending to the various member banks through the medium of the Federal Reserve bank monthly bulletin information on this subject and we ask for your co-operation. If the standard silver dollar will not go out and will not stay in circulation, then we will have to give up the plan. If they will stay out their increased circulation will provide a saving well worth while making.

I wish to thank you gentlemen for the co-operation that I know you will give and for listening to what I have had to say. (Applause)

Brief outline of the activities of the Federal Farm Loan System, the War Finance Corporation, the Agricultural Credit Corporation, and the Federal Reserve System, in so far as it relates to Agriculture, prepared for the President's Agricultural Conference.

Treasury Department

December 5, 1924.

FEDERAL FARM LOAN SYSTEM

Federal land banks, joint-stock land banks, and Federal intermediate credit banks operate under the supervision of the Federal Farm Loan Board according to the provisions of the Federal Farm Loan Act as amended. (Copy of Act and amendments attached.) The Federal land banks and joint-stock land banks extend long-term credits ranging from five to forty years on farm mortgage security, while Federal intermediate credit banks make loans, discounts and advances on agricultural and live-stock paper having a maturity of not less than six months and not more than three years.

Federal land banks and joint-stock land banks are authorized to make loans not exceeding certain specified amounts, up to 50 per cent of the value of farm land and 20 per cent of the value of permanent improvements of farm property pledged as mortgage security. The proceeds of the loans must be used for certain agricultural purposes. Repayment of interest and principal is made on an amortization plan. The rate of interest may not exceed 6 per cent nor exceed by more than one per cent the rate on the last series of farm loan bonds issued by the land bank making the loan.

Federal Land Banks:

Federal land banks receive applications for loans only through National Farm Loan Associations and through agents approved by the

Farm Loan Board (Paragraph 2, section 14, Farm Loan Act) and make loans only to persons "actually engaged or about to become engaged in the cultivation of the land mortgaged". (Sixth restriction, Section 12, Farm Loan Act). Loans may range in amount from $100 to $25,000. Ten or more borrowers wanting loans amounting to at least $20,000 are required to organize a farm loan association. There are now in operation 4635 National farm loan associations through which applications for loans may be made to the Federal land banks.

Funds for making loans are provided through the issue of farm loan bonds against hypotheticated farm mortgages. For the past three years the Federal land banks have been at all times in ample funds to make all loans offered to them by eligible borrowers whose security was approved upon appraisal and consideration by the banks, - and there seems every prospect that this supply of funds will continue. The Federal land banks had outstanding as of October 31, 1924, $918,568,473.25 loans.

Further information as to the organization, operations, and nature of loans made by these institutions will be found in the Act as amended and in the rulings and regulations of the Federal Farm Loan Board, copies of which are attached. There are also attached copies of the annual reports of the Federal Farm Loan Board for 1921, 1922 and 1923, which give a detailed account of the operations of both Federal land banks and joint-stock land banks during those years.

Joint-Stock Land Banks:

Joint-stock land banks are organized by private capital under Federal charter. Loans are made to borrowers directly on farm mortgage security without regard to the vocation of the borrower. (Section 16 Farm Loan Act). Acting in its supervisory power, the Farm Loan Board has made other regulations regarding loans similar to those for loans through Federal land banks except that the maximum limit is $50,000. These banks secure their loanable funds - other than the paid-in capital - from the sale of joint-stock land bank bonds.

There are now sixty-five joint-stock land banks in operation and their total outstanding loans aggregated $4[illegible]5,828,681 on October 31, 1924.

Intermediate Credit Banks:

The agricultural credits act of 1923 amended the Federal farm loan act and the Federal reserve act, for the purpose of increasing the facilities for extending credit to the farming and live stock industries. It provided for 12 Federal intermediate credit banks to be established in the same cities as the 12 Federal land banks. The officers and directors of the several Federal land banks are ex officio officers and directors of the intermediate credit banks, which are placed under the supervision and control of the Federal Farm Loan Board.

As the name suggests, the purpose of these banks is to furnish

credits of intermediate maturities, not covered either by the short-time credits of the Federal reserve banks or the long-time loans of the Federal land banks. They may make direct loans only to cooperative marketing organizations, and such loans have constituted their major operations. (Paragraph 7, sub-section a, Section 202 Agricultural Credits Act of 1923). Agricultural paper may be rediscounted by the intermediate credit banks for State and National banks and trust companies, live stock loan companies, agricultural credit corporations, organized under the laws of the several states, (Paragraph 1, Section 202 (a) Agricultural Credits Act of 1923), and other intermediate credit banks. A limitation is placed upon the paper that may be rediscounted by banks, and also by agricultural credit corporations, (sub-section b, section 202 Agricultural Credits Act of 1923). The major portion of the rediscounts have been made for agricultural credit corporations and live stock loan companies. Intermediate credit banks may also purchase agricultural and live stock paper from the above named institutions.

The loans, advances, and discounts made by the intermediate credit banks must have a maturity at the time they are made of not less than six months and not more than three years. To provide necessary funds for making discounts, loans, or advances, intermediate credit banks are authorized to issue and sell collateral trust notes, or debentures, with a maturity of not more than five years. The rate of interest on such notes or debentures may not exceed six per cent and the amount outstanding at any time must not exceed ten times the paid-in capital and surplus of the bank. These notes have found a ready and satisfactory market to commercial banks when issued for a term of six months or less, and a market is

gradually being developed for longer term debentures as an accumulation of business justifies their issuance.

Each intermediate credit bank has a subscribed capital stock of $5,000,000, all subscribed by the Secretary of the Treasury. These subscriptions are subject to call in whole or in part by the directors of the banks upon 30 days' notice to the Secretary of the Treasury and with the approval of the Federal Farm Loan Board. Calls to the extent of $2,000,000 for each bank have been made by the banks and paid in by the Secretary of the Treasury on behalf of the Government. The additional $26,000,000 - $3,000,000 to each bank - remains subject to call.

As of October 31, 1924, the Federal intermediate credit banks had outstanding $62,797,894.67 loans of which $43,567,318.68 represented direct loans to cooperative marketing organizations, - $19,230,575.99 represented rediscounts, divided between the agencies offering them as follows:

Agricultural credit corporations	$11,158,038.96
National banks	89,211.07
State banks	891,957.69
Savings banks and trust companies	210,499.25
Live stock loan companies	6,940,679.02
	$19,230,575.99

The money market has so far readily supplied the funds needed for the operation of these institutions, and there seems every reason to anticipate a continuing supply. These banks have met every call upon them which came through qualified agencies, supported by securities which stood the test of proper investigation. Considerable assistance was given in the South Atlantic and Gulf states during the past season in providing funds for crop production, and this service seems capable of substantial development along perfectly sound and practical business lines.

Substantial service has been rendered the live stock interests although in this direction some difficulty has been experienced because of the lack of proper local rediscounting agencies. It is felt that some system of more direct contact with the borrower in loans of this type could be worked out to the great improvement of the service, without impairing the fundamental soundness of the paper, which must always be the first consideration with institutions which depend upon the public for their loanable funds.

A more comprehensive report on the intermediate credit banks is being prepared by the Federal Farm Loan Board and will be submitted directly to the conference.

THE WAR FINANCE CORPORATION.

The Act of March 3, 1919, authorized the War Finance Corporation to make advances to American exporters and American banking institutions for the purpose of financing the exportation of domestic products; and the Act of August 24, 1921, gave the Corporation authority to make loans for agricultural purposes to banking and financing institutions, including live stock loan companies, and to cooperative marketing associations. Originally, the period during which the Corporation could make loans, both for export and for agricultural purposes, was limited to June 30, 1922. This period, however, was extended to June 30, 1923, by the Act approved June 10, 1922; to March 31, 1924, by the Agricultural Credits Act of 1923; and to December 31, 1924, by the Act approved February 20, 1924.

Under the terms of the Act of February 20, 1924, the time for receiving applications expired on November 20, 1924, and no new loans can be made after December 31, 1924. The Corporation, however, will still have authority to renew or extend outstanding loans, in proper cases, within the limits prescribed in the Act; that is to say, it may renew for a period not extending beyond January 1, 1926, any loan made on or before January 1, 1924, or it may renew any loan made after January 1, 1923, for a period not extending beyond three years from the date upon which the loan was originally made. It will also have authority to incur necessary expenditures incident to the orderly liquidation of its assets.

Copies of the last three annual reports of the War Finance Corporation, together with a copy of the War Finance Corporation Act with all amendments thereto, are attached. Copies of Circulars No. 1 and No. 2 which were issued in 1921 containing information for prospective applicants for advances under sections 21 and 24, respectively, of the War Finance Corporation Act are also attached. The seventh annual report, covering the operations of the Corporation during the year ended November 20, 1924, will be submitted to the Congress in the near future.

The War Finance Corporation is not a part of the permanent machinery of the Government. It is a temporary organization and will cease active operations on December 31, 1924. In creating the Federal intermediate credit banks it was the intention of the Congress to provide for a permanent system of agricultural financing to take the place of the War Finance Corporation.

THE AGRICULTURAL CREDIT CORPORATION

In a special message to the Congress on January 23, 1924, the President discussed the economic situation in certain wheat-growing sections of the Northwest - a situation rendered the more acute by a considerable number of bank failures in those sections. He recommended the enactment of the so-called Norbeck-Burtness bill, then pending in Congress, to assist wheat farmers in diversifying their operations, and also an extension of the time during which the War Finance Corporation could make advances for the benefit of agriculture and the livestock industry. He pointed out, however, that there was a distinct limit to the scope of the assistance which the Federal Government could render and suggested that it might be necessary to provide systematically, on a well-organized and extensive scale, for the restoration or strengthening of the capital resources of the country banks and financing institutions necessary to the proper service of the farmer. He said:

> The Government can not supply banking capital, nor can it organize loan companies, but it can properly call upon those large business concerns, the railroads, the mercantile establishments, the agricultural supply houses, and all those large business establishments whose welfare is immediately connected with the welfare of the farmer. It can ask them, in their own interest as well as in the interests of the country, to cooperate with Federal agencies in attacking the problem in a large way.

In line with this thought, the President called a conference in Washington on February 4, 1924, "to consider the pressing agricultural needs of the Northwest." The meeting was attended by a representative group of business men, bankers, and farm leaders, as well as by officials of interested branches of the Government service, including the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Agriculture, the Managing Director of the War Finance Corporation, the Comptroller of

the Currency, and members of the Federal Reserve Board and the Federal Farm Loan Board. The President in addressing the conference indicated the steps which, in his opinion, the Federal Government properly could take as its share of the work to be done, and emphasized the necessity of full and complete cooperation on the part of the interests represented at the conference. He said:

> Agriculture and banking, like all other interests, are not the business of the Government but the business of the people. Primarily they must assume responsibility for them. The Government can help, should help, and will help; but it will be entirely ineffective unless the main impulse comes from the people.
>
> The principal purpose of this conference is to secure cooperation. Agriculture can not stand alone. The banks can not stand alone. A great amount of money has been spent to establish the population in the area affected. It represents some of the best elements of our citizenship. In this day of distress and adversity it ought to be saved because it is worth saving. It can be saved if all of you who are interested are willing to do what you can do. Without you the Government can do practically nothing. With you the Government can save the situation.

In response to the President's appeal for their cooperation, the banking and business interests represented at the conference agreed to organize a corporation, with a capital of $10,000,000 privately subscribed, to aid in meeting the emergency financial needs of the Northwest which could not be met by existing agencies. A committee consisting of C. T. Jaffray, president of the Soo Line, Minneapolis; John McHugh, president Mechanics Metals National Bank, New York City; Ralph Van Vechten, vice president Continental & Commercial National Bank, Chicago; Clarence M. Woolley, chairman of the board, American Radiator Co., New York City; E. W. Decker, president Northwestern National Bank, Minneapolis; Alexander Legge, president International Harvester Co., Chicago; and R. P. Lamont, president

American Steel Foundries, Chicago, was designated to proceed with the work of organization and of obtaining the necessary subscriptions. Following a meeting of the organization committee in Chicago 10 days later, or on February 14, 1924, it was announced that the entire $10,000,000 had been subscribed. Approximately $5,000,000 was provided by the business and financial interests centering in and around New York, Philadelphia, Hartford and Boston, while the remainder was subscribed by similar interests in and around Minneapolis, St. Paul, Duluth, Milwaukee, Chicago, Detroit, Cleveland and Pittsburgh. It was decided to organize an operating company under the name of the Agricultural Credit Corporation, with a holding company known as the Agricultural Securities Co., both companies being formed under the laws of the State of Delaware, with headquarters in Minneapolis. It was understood that, in case of necessity, the Agricultural Credit Corporation would be able to rediscount some of its agricultural paper, within certain limits, with the War Finance Corporation.

The officers and directors were promptly selected, temporary offices were opened in Minneapolis on February 26, and the first loan was completed and made on March 20. Two million dollars of the capital was called in the beginning, and subsequently, as the corporation's operations progressed, two additional calls of $2,000,000 each were made.

The corporation devoted its initial efforts to the checking of bank suspensions and to the reopening of some of the closed banks in key communities, for it was felt that in this way it would be able to render the most effective assistance to a larger number of people within a short time. To September 26, 1924, the latest date for which figures are available, the corporation had assisted 230 banks, having deposits totaling $54,000,000, by making loans aggregating $5,142,000 either directly to them

or through

their directors or stockholders. These loans not only kept in operation a number of banks which otherwise would have suspended, and enabled 16 to resume business, but were a material factor in stabilizing the banking situation in the Northwest. It has been estimated, for example, that, in addition to safeguarding the deposits of the banks in question, the loans have helped to safeguard at least $25,000,000 of deposits in banks which received no direct aid from the corporation.

The activities of the Agricultural Credit Corporation, however, were not confined to the making of advances to banks in the agricultural districts. It also purchased the tax certificates of a considerable number of farmer taxpayers, thus relieving them of excessive charges on their past due taxes, and made advances, through a seed wheat distributing association, to assist farmers in obtaining seed. When the Norbeck-Burtness bill, already referred to, failed to pass the Senate, the President suggested that the Agricultural Credit Corporation undertake along sound and effective lines, some of the work which he had hoped the Department of Agriculture would be permitted to undertake under the terms of that measure, and he expressed the opinion that no more effective service could be rendered to the agricultural interests of the central Northwest. The corporation promptly formulated plans for making loans to farmers for the purchase of livestock, with the view of encouraging and facilitating the program of diversification. On September 26, 1924, the corporation had financed the purchase of 2,509 dairy cows for distribution in 104 localities and was arranging to place from 30,000 to 40,000 sheep in Minnesota and North and South Dakota.

By the early part of September the agricultural and banking conditions in the Northwest had improved to such an extent that the Agricultural Credit corporation was receiving only scattering applications from banks, and C. T. Jaffray, chairman of the board, stated

that the emergency functions of the corporation were no longer required. Since then the corporation has been devoting its efforts largely to those activities which seek to make farming more profitable through diversification, and it is understood that these activities will be continued.

The results of the operations of the Agricultural Credit Corporation can not be measured by the amount of its loans, for its mere creation and existence helped to restore confidence and exerted a stabilizing influence on the general situation. Without question, the corporation has rendered an important service to the agricultural interests of the Northwest during a critical period.

RELATION OF THE FEDERAL RESERVE SYSTEM TO AGRICULTURE.

Purpose and Structure of the Federal Reserve System:

The Federal reserve system is a banking system organized for the purpose of uniting the reserves of many banks for the protection of all, of furnishing an elastic currency, and of accommodating agriculture, industry, and commerce. It consists of twelve regional banks serving twelve Federal reserve districts into which the country is divided. These banks are owned by the member banks in each district and managed by boards of directors consisting of three members appointed by the Federal Reserve Board, three representing the banks, and three selected by the member banks to represent the industrial, commercial, and agricultural interests. General supervision over the Federal reserve banks is vested in the Federal Reserve Board in Washington, appointed by the President of the United States. The Secretary of the Treasury and the Comptroller of the Currency are ex-officio members of the Board, which has six other members, in the selection

of whom the President is required by law to consider the financial, agricultural, industrial, and commercial interests and geographical divisions of the country. There is thus provision for representatives of agriculture both on the directorates of the Federal reserve banks and on the Federal Reserve Board, as a matter of fact, there are farmers among the members of the boards of directors and since the June 3, 1922, amendment of the Federal Reserve Act, agriculture is represented by a membership on the Federal Reserve Board.

How Credits are Extended.

The operations of Federal reserve banks in extending credit to agricultural interests are regulated by the Federal reserve act with its various amendments. Neither farmers nor other individuals can obtain credit directly from the Federal reserve banks, but must apply for loans to their own local banks, which, if they are members of the Federal reserve system may in turn rediscount with the Federal reserve bank the notes, drafts, or bills of exchange acquired from customers. The Federal reserve act places certain limitations on the character of paper that the reserve banks may discount and places upon the Federal Reserve Board the duty of issuing regulations putting into effect the provisions of the law. Following is a brief summary of the provisions of the act and of the board's regulations with special reference to the credit facilities offered to agricultural interests.

General Character of Eligible Paper.

The character of the paper which Federal reserve banks may discount is generally defined in section 13 of the Federal reserve act. This provision of law authorizes Federal reserve banks to discount notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used or are to be used for such purposes. The law does not permit the reserve banks to discount paper the proceeds of which are (1) to be loaned to some other borrower, or (2) to be used for permanent investment, or (3) for speculation. Exceptions to (1) in favor of certain kinds of agricultural loans are discussed later.

Agricultural Paper in General.

Agricultural paper is given by the act an important advantage over commercial paper, since the latter can be discounted only for a period not exceeding 90 days, while paper which is issued or drawn for an agricultural purpose, or is based on live stock, may now be discounted by Federal reserve banks even though it has nine months to run from the date of discount. The Federal Reserve Board has made appropriate provision for this in its new regulations in which the definition of agricultural paper has been clarified and broadened so as to incorporate the latest and most liberal principles adopted by the board in determining what constitutes agricultural paper. Nine months' paper will thus be eligible for discount if the proceeds have been or are to be used by a farmer in any one or more of the steps of planting, cultiviating, harvesting, or marketing a crop, or of breeding, fattening, or marketing live stock, and the Federal Reserve Board has held that the marketing of crops or live stock includes carrying them for a reasonable time in order to market them in an orderly manner, instead of dumping large quantities on the market at one time in order to get money with which to meet current expenses. Under this provision of the law, member banks which have loaned money for nine months to wheat growers and other farmers for the purpose of raising, carrying, and marketing their crops, will be able to rediscount the farmers notes with the Federal reserve banks.

Paper of Cooperative Marketing Associations.

In recent years cooperative marketing associations have been coming more and more into prominence as agencies that enable the farmer to market

his crops to better advantage. The service which such associations can render to agriculture is clearly recognized and the Federal reserve act makes special provisions for the extension of credit to such associations. Under the act, as amended by the agricultural credits act of March 4, 1923, cooperative marketing associations can issue paper which is eligible for discount with maturities up to 9 months, if the proceeds of the paper are advanced to members of the association for an agricultural purpose, or are used to pay members for agricultural products delivered to the association, or finance the association in packing, preparing for market, or marketing products grown by its members. Paper of cooperative marketing associations by which money is borrowed to be in turn loaned to individual members of the association would ordinarily be ineligible for discount, but it was felt that the ability to issue such paper and have it available for discount would be of such assistance in the cooperative marketing movement that a special exception to the general rule is made in the law. The law also specifically defines as agricultural certain classes of paper of cooperative marketing associations which otherwise would be construed as commercial paper. This provision makes the paper in question eligible for discount with Federal reserve banks for a maximum period of 9 months, instead of 90 days.

Sight and Demand Drafts.

Another feature of the law which should prove of great assistance to the agricultural interests is the new provision making sight and demand drafts eligible for discount under certain circumstances. Under the original act such paper would be ineligible for discount because it has no definite maturity. It appears, however, that it is the custom of many member banks during crop-moving periods to discount large volumes of sight drafts secured by bills of lading covering the shipment of wheat, cotton, or other agricul-

tural products. These drafts, although having no definite maturity, are usually paid with great promptness, and actually constitute a liquid and desirable form of paper. At the suggestion of the Federal Reserve Board an amendment was made to the Federal reserve act by the agricultural credits act of March 4, 1923, permitting Federal reserve banks to discount sight or demand drafts drawn to finance the domestic shipment of nonperishable, readily marketable staples and secured by bills of lading or similar shipping documents conveying or securing title to such staples. In order to assure the liquidity of the Federal reserve banks' assets it is provided that such paper must be presented for payment with reasonable promptness and that in no event may a Federal reserve bank hold such paper longer than 90 days.

Factors' Paper.

The law as recently amended also provides that notes, drafts, and bills of exchange of factors issued for the purpose of making advances to producers of staple agricultural products in their raw state shall be eligible for discount. Under normal circumstances, paper the proceeds of which are loaned to some other borrower would be ineligible for discount, but this kind of factors' paper may now be discounted with maturities up to 90 days. This facility should prove of much assistance in financing agricultural production, because in addition to borrowing from their banks, farmers can also borrow from their factors who will be the more ready to lend on account of the privilege given them of making notes and drafts which may be discounted by Federal reserve bank.

Bankers' Acceptances.

In addition to the ordinary classes of credit instruments -- that is, note, drafts, and bills of exchange -- a type of paper known as bankers' acceptances has recently been coming into more common use as a means of financing agricultural operations, both by individual farmers and more particularly by cooperative marketing associations. Bankers' acceptances are drafts or bills of exchange

drawn on and accepted by a bank or trust company or other banking institution, and the law authorizes Federal reserve banks to discount bankers' acceptances under certain conditions. For this purpose such acceptances must be indorsed by a member bank and must be drawn to finance the importation or exportation of goods, the domestic shipment of goods, or the storage of readily marketable staples. Acceptances which are drawn to finance the domestic shipment of goods or the storage of readily marketable staples must also be secured by shipping documents or warehouse receipts conveying or securing title to the goods or staples in question. With regard to bankers' acceptances, the law also discriminates in favor of those drawn to finance agricultural operations by making them eligible for discount with maturities up to six months, provided they are secured by warehouse receipts conveying title to readily marketable staples, while bankers' acceptances drawn for other purposes may be discounted by Federal reserve banks with maturities up to 90 days only. Thus individual farmers and cooperative marketing associations can obtain funds to finance their operations by drawing on their banks and discounting the accepted drafts with other banks. This additional means of getting credit is a very valuable one, because bankers' acceptances are normally the best type of credit instrument and carry the lowest rate of interest.

Admission of Small Banks to Membership.

With a view to increasing the availability of credit through the Federal reserve banks, the agricultural credits act of March 4, 1923, contained a provision designed to enable many smaller banks, which formerly had insufficient capital to become member banks, to join the Federal Reserve system. Under this provision banks having 60 per cent of the

capital normally required as a qualification for membership may join the system under certain conditions relating to the increase of their capital within a reasonable time, and it is hoped that many of the small country banks will take advantage of this provision and thereby put themselves in a position to offer their customers the benefits of membership and the increased credit facilities afforded by the rediscount privilege.

Open Market Purchases of Paper.

In addition to the discount of agricultural paper for member banks, Federal reserve banks are also enabled to extend credit facilities to the agricultural interests by means of purchasing such paper in the open market. Under section 14 of the Federal reserve act the power is given to Federal reserve banks to purchase in the open market bankers' acceptances and bills of exchange of the kinds and maturities made eligible for discount. By virtue of this provision Federal reserve banks may purchase, as well as discount, bills of exchange drawn for agricultural purposes and having maturities up to nine months, and secured bankers' acceptances drawn to finance agricultural operations with maturities up to six months.

Five-Year Loans on Farm Land.

The Federal reserve act also makes provision for long-time borrowing on real-estate security. Section 24 of the act authorizes national banks to make loans for periods up to five years when secured by improved and unencumbered farm land, and for periods up to one year when secured by improved and unencumbered real estate.

Naturally, land thus used as security for loans must be located within reasonable proximity to the lending bank--the exact limits are prescribed in the law--and it is further provided, as a matter of sound banking, that these loans may not exceed 50 per cent of the actual value of the property offered as security. The law also places a reasonable limitation on the aggregate amount of farm land and real estate loans which national banks may have outstanding, for otherwise they might tie up too much of their funds in long-time nonliquid loans and not be able to meet the current requirements of other
their/borrowers. Thus, farmers who need long-time loans can borrow for five years from national banks in their locality on the security of their farm lands, and the Federal Reserve Board has provided in its regulations that at maturity such loans may be renewed for other five-year periods, although a national bank must not obligate itself in advance to make a renewal.

Other Credit Facilities.

The above gives a brief description of the more important provisions of the Federal reserve act which provide for the extension of credit facilities to the agricultural interests. There are also certain other provisions dealing with the relations between the Federal reserve banks and the new intermediate credit institutions which were set up by the agricultural credits act of 1923, and by virtue of which Federal reserve banks, through discounting and open-market purchases, are enabled to extend certain additional credits to agriculture.

Agricultural Loans by National Banks.

Attention should also be called to the provisions of section 5200 of the Revised Statutes. This is not part of the Federal reserve act and applies only to national banks, but it has an important bearing on the amount of credit which farmers and cooperative marketing associations may obtain from national banks.

Section 5200 of the Revised Statutes contains the limitation on the amount of money which a national bank may lend to any one person. This is, in general, 10 per cent of the lending bank's capital and surplus, with certain classes of paper excluded as not being considered loans of money. An exception is made, however, with respect to loans on readily marketable nonperishable staples, including live stock. Such loans may be made to any one person up to 25 per cent of the lending bank's capital and surplus, provided the loans over and above 10 per cent are represented by notes, secured by shipping documents or warehouse receipts covering staples or live stock. National banks may also discount in unlimited amounts certain kinds of paper classified broadly as "bills of exchange drawn in good faith against actually existing values." Section 5200 of the Revised Statures includes in this broad classification drafts secured by shipping documents conveying or securing title to goods shipped, demand obligations when secured by documents covering commodities in process of shipment, and bankers' acceptances of the kinds described in section 13 of the Federal reserve act, so that national banks may extend credit on these classes of paper without limitation. These provisions, which were inserted on the recommendation of the Federal Reserve Board, give broad powers to national banks to extend accommodation on the security of farm products and live stock and have proven of great value to farmers and cattlemen in their financing problems.

The Federal Reserve Board's Part.

A discussion of the provisions of the law in this connection would not be complete without reference to the functions of the Federal Reserve Board, in construing and administering the law. There is not space here for a critical study of the board's rulings and regulations with respect to agricultural credits, but it can be stated with emphasis that the board has

so construed and administered the law as to improve in the highest possible degree the credit standing and economic position of the agricultural interests, placing at their disposal, through its discounts for member banks and its open-market operations, the vast resources of the Federal Reserve System to the fullest extent permitted by the law and by the principles of sound banking.

TREASURY CERTIFICATES OF INDEBTEDNESS AND TREASURY NOTES
OUTSTANDING DECEMBER 16, 1924.

SERIES	INTEREST RATE	DATED AND BEARING INTEREST FROM	DUE
		(Tax Certificates)	
TM-1925	4%	March 15, 1924	March 15, 1925
TS-1925	2¾%	Sept. 15, 1924	Sept. 15, 1925
		(Treasury Notes)	
A-1925	4¾%	Feb. 1, 1922	March 15, 1925
C-1925	4½%	Dec. 15, 1922	June 15, 1925
B-1925	4-3/8%	June 15, 1922	Dec. 15, 1925
A-1926	4¾%	March 15, 1922	March 15, 1926
B-1926	4¼%	Aug. 1, 1922	Sept. 15, 1926
B-1927	4¾%	May 15, 1923	March 15, 1927
A-1927	4½%	Jan. 15, 1923	Dec. 15, 1927

Office of
Director of the Mint

Treasury Department
Washington, D. C.
December 31, 1924.

Production of Gold and Silver in the United States in 1924.

(Arrivals at United States Mints and Assay Offices and at private refineries)

The Bureau of the Mint, with the cooperation of the Geological Survey, has issued the following statement of the preliminary estimate of the refinery production of gold and silver in the United States during the calendar year 1924:

States	Gold		Silver	
	Ounces	Value	Ounces	Value 1/
Alaska	300,907	$ 6,220,300	666,165	$ 447,663
Arizona	232,113	4,798,200	6,349,265	4,266,706
California	630,882	13,041,500	3,366,959	2,262,596
Colorado	408,667	8,447,900	3,286,996	2,208,861
Georgia	20	400	- -	- -
Idaho	26,809	554,200	8,035,193	5,399,650
Illinois	- -	- -	9,500	6,384
Michigan	- -	- -	153,201	102,951
Missouri	- -	- -	97,379	65,439
Montana	93,088	1,924,300	13,154,937	8,840,118
Nevada	223,159	4,613,100	9,523,846	6,400,025
New Mexico	24,207	500,400	783,338	526,403
North Carolina	14	300	- -	- -
Oregon	27,511	568,700	47,475	31,903
Pennsylvania	218	4,500	1,932	1,298
South Dakota	296,781	6,135,000	90,809	61,024
Tennessee	324	6,700	93,049	62,529
Texas	- -	- -	719,500	483,504
Utah	152,376	3,149,900	18,178,768	12,216,132
Washington	13,187	272,600	194,317	130,581
Wyoming	5	100	- -	- -
Porto Rico	10	200	11	7
Philippine Islands	80,965	1,673,700	39,576	26,595
Totals	2,511,243	$51,912,000	64,792,216	$ 43,540,369

1/ At average New York price, $0.672 per ounce.

The 1924 gold production exceeded that of 1923 by $178,000 and is the largest since 1919. The silver output was 8,542,954 ounces less than 1923, but materially greater than during the years 1919 to 1922 inclusive. The high record product of 1915 was: Gold $101,035,700; Silver 74,961,075 ounces.

EXTRACT FROM REPORT OF THE SECRETARY OF THE TREASURY ON THE STATE OF THE FINANCES FOR THE FISCAL YEAR 1924

TAXATION

1924

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

TAXATION

The President on signing the revenue act of 1924 issued a statement (Exhibit 56, page 13) in which he pointed out its defects and indicated that he viewed the bill as a measure of temporary relief but not a genuine tax reform. I am in hearty accord with those views. This act, while granting many desirable reductions in taxes, failed to provide changes in the tax system for which there is a pressing need. The problem, therefore, before us now is not so much one of tax reduction as of tax reform. The attention of the Congress should be directed principally to the excessive surtax rates and the confiscatory estate tax rates. The gift tax is unworkable and unduly hampers legitimate business. The publicity provision in the revenue law, in my opinion, is a mistake of policy and will be detrimental to the revenue.

Taxation should not be used as a field for socialistic experiment, or as a club to punish success, but as a means of raising revenue to support the Government. The controlling elements are not political. The last two preceding Secretaries of the Treasury, both under another political administration, presented to the Congress the same economic viewpoint with respect to high surtaxes as that which was advanced by the Treasury and raised the greatest controversy during the recent tax legislation. It is a fair supposition that, except for the exigencies of partisan advantage in a session of the Congress before a presidential election, there would not have been a very great difference of opinion as to the evil of these excessive taxes. The solution of the problem, and it is one which must ultimately be solved, lies not in partisanship but in an impartial consideration of a subject economic in its essence, no matter how much it may be political in its appeal.

The purpose of taxation is to raise money, not only in the particular year in which the tax is assessed, but to leave the source from which the revenue is to be derived permanently unharmed, so that in the next year and in the years following similar taxes will produce adequate revenue from this source. The power to tax has been well called the power to destroy. But the continued existence, not the destruction, of its source of revenue is the object of the Treasury. If experience shows that a policy of taxation has harmful conse-

quences, and if we wish to maintain the particular source as a means of revenue, we must adjust our policy to meet the facts, regardless of how pleasant a different policy may have seemed. If land is continually over-cropped, less and less will the harvest be in the succeeding years until the land is valueless and its owner must abandon it and move to other fields if he would live. So in taxation there are limits to taxable capacity. The enemies of the income tax are not those seeking to reduce its excessive rates but those who insist that the high rates, which have proved economically incorrect, shall remain.

The argument is made that the wealthy should bear substantially the whole burden. It is quite obvious that we could not collect solely from those having incomes in excess of $300,000 a year the $861,000,000 of personal income tax which we received from all classes in 1922, because the total income of the $300,000 class, reported for taxation, was but $365,000,000, and even a 100 per cent tax would be ineffective to produce the revenue required. The income is not there. We must also tax smaller incomes if the Government's requirements are to be met. While the example given above may seem extreme, it illustrates the fact that it is impossible for the Government to live by taxing the wealthy alone. A broader base of taxation must be found. Again, if we attempt to levy taxes inherently too high, those whom we seek to tax will find some of the many ways of avoiding the realization of an income which can be reached by taxation, and the source of the revenue will decline. Those having incomes in excess of $300,000 had in 1916 aggregate incomes of nearly $1,000,000,000 under a 15 per cent maximum tax. This would have been more than sufficient to provide for the total income tax collected in 1922 from all classes, but by 1922 the aggregate income of this wealthy class, with the maximum rate of tax at 58 per cent, had dropped to $365,000,000. There was less income upon which taxes could be levied. As a matter of fact, about as much tax was collected from this class in 1916 with the 15 per cent maximum tax as in 1921 with the maximum rate of 73 per cent.

Taxation in America is not the simple question of garnering a tithe of the product of a purely agricultural people. We are a nation of 48 States, each with its own laws of property and corporate organization, none of which is subject to the Federal Government. We are notably ingenious in finding ways and means to accomplish our purposes. We are becoming experienced in investments outside the country, where the Federal tax collector's hand does not reach. We have the anomaly of a Government seeking to collect income taxes and at the same time providing legally authorized means of avoiding payment of the tax by the issuance of fully tax-exempt securities

through its own agencies and a refusal to tax the income from the enormous mass of securities being issued by State and municipal governments. It is an interesting commentary on the method of approach by some to an economic question that the means of tax avoidance by the wealthy are promoted by the very persons who most vehemently demand that the wealthy shall pay. Differing from the ideas of other countries, we have a theory of income tax which treats realized increment in capital values as income. The theory may be correct, but when we come to practice we find that, in order not to put all business and dealing in property in a strait-jacket, page after page of exceptions must be written into the law. With so many doors to the house, the effort to close them all has given us the most intricate tax law in history. At the apex of this structure, we have maximum rates of tax and a publicity provision which not only encourage tax avoidance but make its avoidance, unless human nature be changed, inevitable.

Ways will always be found to avoid a tax so inherently excessive. America presents no exception in the history of taxation. The solution of the problem lies not in passing more laws but in adopting laws with more reason. A reasonable rate of tax will make elaborate, expensive methods of avoidance unprofitable. A reasonable rate of tax will make the administration of the tax laws more simple of accomplishment.

There is, in addition to the intricacies of our income tax and the impossibility of a strict enforcement, a much more serious effect of excessive taxation, both income and estate, on our industry and initiative. To make a new venture, to start a new business, to build a new building, to construct and not just sit passive, means risk. Where that risk involves capital, the probable rate of return must compensate for the risk taken. Yet the law now says to the man of large income: "If you lose on your venture, you will pay 100 per cent of the loss; if you win, the law will take 50 per cent of your profit." These are not the odds which encourage adventure or the production of income which will yield its revenue to the Government. No man will continue to sow where he can not reap. We have, then, the blighting effect of excessive rates, which compel avoidance and destroy initiative, and by both means diminish the returns from the upper brackets, from which the Government has been taking a large part of its revenue. If these brackets become unproductive, the revenue can be made up only by higher taxes in the lower brackets and by decreasing the present exemptions so that the tax will apply upon smaller incomes. This is a condition which can not be escaped—more scientific taxes on the larger incomes or more taxes on the lower incomes.

While it is true that income and estate taxes will always yield revenue, it is not true that they will yield sufficient revenue to contribute their share to the support of the Government, unless adjusted economically. In the seven-year period from 1916 to 1922, as to which we now have income-tax statistics, the reported income of those having incomes in excess of $300,000 dropped from $992,000,000 to $365,000,000, and the percentage of income of this class to all income reported dropped from 15.77 to 1.71 per cent. During the four years in which the 25 per cent maximum tax on estates has been felt in revenue, receipts from this source have dropped from $154,000,000 in 1921 to $102,000,000 in 1924. Should this tendency continue, and the evidence is that it will and be accelerated in the estate tax where the maximum has been raised from 25 to 40 per cent, then both taxes will be indeed unproductive.

It may be truly said, therefore, that the man with small income is more interested than are the wealthy themselves in seeing that the tax upon high incomes and large estates is economically sound. With all the world opening to investment, with new tax-exempt securities being issued at the rate of more than $1,000,000,000 a year, and with other means of escaping, the wealthy need no guardian. But to the extent that they are encouraged and do avoid taxation, the burden will inevitably be shifted to those with small or moderate incomes. The Government must live. The inevitable result of uneconomic taxation is to raise the price level, so that 97 per cent of the people in the country, who pay no income tax directly, must make their payments indirectly in what they buy. They, too, are vitally interested.

The importance of getting our taxing system on a sound basis is not a subject which with safety to our future can be long postponed. During the war and in the period of readjustment immediately succeeding, large investments were made by the Government in what might be termed capital assets, and we have been living partly upon these assets in the past few years. War supplies became surplus and were available for sale; large loans were made to the railroads, which are being repaid; the War Finance Corporation is collecting its loans and returning them to the Treasury. The earlier income and excess profits taxes were exceedingly complicated, new in theory, and extremely difficult to administer. The Treasury is still collecting for the earlier years, which have yielded much in additional taxes. In the past fiscal year, for example, $44,000,000 was received from the sale of war supplies, the Railroad Administration showed a net excess of $58,000,000 of receipts over expenditures, and the War Finance Corporation an excess of $52,000,000. It is estimated that the back taxes collected in the year were between $350,000,000 and $400,000,000, from which should be deducted $127,000,000 of tax re-

funds. This means that last year's receipts reflected about $400,000,000 of such realization, against which can be offset $12,000,000 of new investment in stock of the Intermediate Credit Banks. The sale of surplus war properties has been substantially completed. Most of the railroads able to do so have repaid their loans, and the great bulk of securities still held will be slow in realization. The War Finance Corporation has returned to the Government almost all of the Government's investment in that corporation. Back taxes have not yet been exhausted, but within the next year the Bureau of Internal Revenue should become substantially current. In the meantime there are several tax questions pending in court, decision of which against the Government would involve very large tax refunds. It is clear that we must look carefully to the productivity of our existing taxes and to their economic stability if we are to have further tax reduction and if we are not to be forced in less prosperous times to actual tax increases. We can not afford to lose revenue.

The adoption of the Dawes plan presages industrial activity to those European countries who are our greatest competitors in foreign trade. All of these countries have a lower standard of wage and of living than this country. Their production costs generally will be less than ours. If we are to continue to compete successfully abroad, we must be sure that our taxation system does not put too heavy a a handicap upon our industry and our trade.

In approaching the subject of rates the Treasury has been concerned solely with recommending those rates which will produce, and continue to produce, the most revenue with the least disturbance. The problem in its essential features does not differ from the problem of any sales manager attempting to price the article he has to sell. If the price is too high, his customers are few or none and he makes nothing; if the price is too low, he has many customers but small or no profit. Somewhere between the two extremes lies the belt within the bounds of which is the maximum profit. What the exact rate of maximum profit may be is a matter of judgment. In all probability the recommendation of the Treasury of 25 per cent maximum surtax plus a 6 per cent normal tax, a total of 31 per cent, is above this belt of profit. A total maximum tax of 15 per cent might be on the lower side of this belt of profit. But at least the maximum rate should be brought within the limits of the belt. It would be more profitable to collect 30 per cent of the $1,856,000,000 of aggregate net income of those having incomes above $100,000 in 1916 (a year of 15 per cent maximum tax) than to collect 50 per cent from similar incomes aggregating $892,000,000 in 1922 (a year of 58 per cent maximum tax).

It has been the belief of the Treasury, and it is borne out by experience, that, if taxes are too high, the source of revenue diminishes and the tax becomes less and less productive. If taxes are reduced,

the source of taxation expands and the lower rate may be even more productive than the higher rate and the source of revenue assured for the future. The table [1] appearing as a footnote gives a comparison of incomes in the $100,000 and the $300,000 classes which is extremely interesting. During the period covered by available statistics, the percentage of aggregate income reported by those with incomes of $100,000 or more to the total income of all classes reporting dropped from 29.47 to 4.18 per cent, and in the $300,000 or more class from 15.77 to 1.71 per cent. In 1922, however, the maximum rate was reduced from 73 to 58 per cent, and the higher brackets recovered somewhat, the $100,000 class increasing its percentage from 2.37 to 4.18 per cent, and the $300,000 class from .78 to 1.71 per cent. This illustrates clearly the advisability of reducing the rates on the higher incomes so that more income proportionately may be available for taxation and the burden not have to be borne by the smaller incomes.

An even more striking example is the case of capital gains. Prior to 1922 these were taxed at the regular surtax rates. In 1922 for the first time a flat rate of 12½ per cent was levied. 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 would not have been in that class except for 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 rate of tax was reduced to 12½ per cent, however, the Government opened up a vein of revenue which in that one year yielded over $31,000,000 in taxes. It is quite obviously of as much advantage to the Government that the tax on capital gains be reduced as to the taxpayer and to business. Most of all is the moderate taxpayer benefited by removing some of the load from him. The rate was such as permitted the traffic to move, and it did move, to everybody's advantage.

[1] *Tax returns of those with net income in excess of $100,000 and $300,000, as compared with total of all net incomes returned, for the calendar years in which the tax accrues; latest available figures*

Year	Income tax, maximum rate	Total amount of net income returned	Number of returns of net income in excess of $100,000	Net income returned by those returning in excess of $100,000	Per cent (5) is of (3)	Number of returns in excess of $300,000	Net income returned by those returning in excess of $300,000	Per cent (8) is of (3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Per ct.							
1916	15	$6,298,577,620	6,633	$1,856,187.710	29.47	1,296	$992,972,986	15.77
1917	67	13,652,383,207	6,664	1,606,516,153	11.77	1,015	731,372,153	5.36
1918	77	15,924,639,355	4,499	990,239,425	6.22	627	401,107,868	2.52
1919	73	19,859,491,448	5,526	1,169,553,048	5.89	679	440,011,589	2.22
1920	73	23,735,629,183	3,649	727,004,763	3.06	395	246,354,585	1.04
1921	73	19,577,212,528	2,352	463,003,351	2.37	246	153,534,305	.78
1922	58	21,336,212,530	4,031	892,747,680	4.18	537	365,729,746	1.71

One of the most difficult problems the income tax presents is the tax-exempt security question. There are two solutions: First, eliminate the tax-exemption privilege; second, adjust the income-tax rates, so that the value of tax exemption as a means of tax avoidance shall be lessened. The first solution requires a constitutional amendment, and its adoption has met with serious political opposition. Also, in the last session of the Congress there was defeated a recommendation of the Secretary of the Treasury that a taxpayer should not be permitted to take as a deduction, in figuring his net income, interest paid by him except to the extent it exceeded the tax-exempt interest received by him and which he did not include in his gross income. While the Treasury renews the recommendation made heretofore that a constitutional amendment to reach tax exemption be proposed by the Congress, it feels that the recognition of the necessity for this action by Congress may be delayed and that an immediate remedy should be adopted.

Fully tax-exempt securities outstanding in the hands of the public now amount to $13,284,000,000, and are increasing at the rate of about $1,000,000,000 a year. The value of a tax-exempt security to a man of large income lies wholly in the fact that the tax-exemption feature gives him more free income than another equally safe investment, part of the return from which the Government takes. Under the present law, if a man has an income of $100,000 and is asked to invest money in some constructive project, the new project must return to him $1.75 for every $1 he would receive from investing the same money in tax-exempt securities. To express this another way, it takes about an 8 per cent return on a taxable investment to be equivalent to a 4½ per cent return on one that is tax-exempt. With higher incomes, the disparity is even greater. If the Treasury's recommendation for a maximum aggregate tax of 31 per cent should be adopted, the relative values would be $1.44 to $1, or 6½ per cent taxable as compared with 4½ per cent exempt. The difference between an investment in ordinary productive business returning 8 per cent, the requirement under the present law, and 6½ per cent, the requirement under the Treasury rates, to equal a 4½ per cent tax exempt, is the difference between a sound investment and a speculative investment. One will be accepted, the other not. If the income-tax rates are reduced to a reasonable figure, the lure of tax-exempt securities to the wealthy becomes less appealing and many will put their money into business or new projects and be content with less return because it will give them as much free income as would a tax-exempt security. From such investments the Government gets revenue; from tax-exempt securities it gets none. By such investments capital is provided for industry at lower rates and the appalling increase of State and municipal indebtedness, with its

inevitable taxation of the people to pay this indebtedness, is not encouraged.

The adoption of the solution of the tax-exempt evil by taking from it the wholly artificial attraction of high income taxes on other investments is within the immediate power of the Congress. This would prove advantageous to constructive business and to all who use capital, would remove the incentive for the most notorious avoidance by the wealthy of income taxes, and would assist in accomplishing the purpose of taxation—that is, to raise revenue. A continuation of the high artificial value to this legal means of escape must end, or the graduated income tax will cease to be productive.

Estate taxes

This is a field of taxation which has been occupied by the Federal Government four times in its history, and each time until the present was promptly relinquished to the States when the particular emergency for which additional taxation was then required had passed. The first time was immediately after the Revolution; the second, during the Civil War; the third, during the Spanish War; and the present tax was inaugurated during the World War. The present tax is duplicated by similar taxes of every State in the Union except one or two. There arises, then, on this feature of our taxing law the question whether or not this particular field is one for Federal or State taxation, or whether the field is open to both. This is a political phase of the subject. Discussing the economic feature, it is necessary to consider the effect of both Federal and State taxes. The greater burden is, of course, the Federal tax.

It is true that the present law gives a credit of any tax paid to the States up to 25 per cent of the Federal tax, but the effect of this will only be for all States to raise their taxes to a point which will equal this 25 per cent. If a State imposes no inheritance tax, then the Federal Government takes its full Federal tax. If a State imposes a small tax, then the State tax plus the Federal tax is equivalent to the full Federal tax. It is not until the State tax exceeds 25 per cent of the Federal tax that additional burdens are laid upon the estates of decedents domiciled in the particular State imposing such a tax. The incentive is for each State to adopt rates which will be equivalent to 25 per cent of the Federal tax. The credit, therefore, is not necessarily a material decrease in the total tax of both jurisdictions.

There is conflict between the States themselves. It is quite possible under our complex system of property ownership in America for the various States and the Federal Government to take by death taxes more than 100 per cent of a particular estate. The elimination of this manifest injustice will require the working out of some reciprocal exercise of the taxing power by the States and the Federal

Government in the interest of the good of the whole. A consideration of this feature might well have the attention of the Congress.

In addition, there seems to be a well-defined view on the part of State authorities that the occupation of the field of death taxes by the Federal Government when the war emergency has ceased is unfair to the States, since the Federal tax cuts very materially into the revenue which the State can obtain through this type of taxation. In many States Federal taxes are a deduction from the gross estate before the State's death duty is levied. The direct effect of the Federal tax, therefore, is to decrease the amount of the estate subject to the State tax. A $10,000,000 estate is reduced to less than $7,500,000 if the Federal tax is first deducted. Indirectly the Federal tax is so high that it has a strong tendency to decrease both the size of the estate, which is the usual result of avoidance of excessive taxes, and the value of the property in the estate, which is the economic effect of a capital tax, so that graduated death duties of the States are much less productive. The importance of this matter to the States is so great that they will undoubtedly present their own views to the Congress. If, however, we are to retain the estate tax as a source of Federal revenue, there must in any event be a change in policy and the rates made more reasonable.

In 1921 the 25 per cent maximum estate tax was first fully reflected in revenue. The return from Federal estate taxes for that and subsequent years has been as follows:

1921	$154,000,000
1922	139,000,000
1923	126,000,000
1924	102,000,000

For the first three months of the current fiscal year estate taxes have aggregated $19,703,126, as against $23,357,400 for the first three months of the previous fiscal year. This is a clear showing of the progressive failure of a tax inherently excessive. With a 40 per cent maximum rate in the revenue act of 1924 we may expect an acceleration of this tendency. Again, it must be remembered that not only is the effect of the loss of productivity of this character of taxation felt by the Federal Government, but it is even more serious to many State governments, where inheritance taxes are a more important part of the State revenue, than such taxes are to the Federal Government.

This excessively high taxation should be considered 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. Death taxes are taxes upon capital. It is obvious that, if the 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 an important difference in Government revenue whether a wealthy man dies when the market for the assets 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 would be 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.

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. Any tax which thus materially lowers values destroys itself.

The dynamic or moving effect of high taxes is not so immediate 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. A man will not seek to build up a large fortune just to have it taken away from his family at his death.

Gift tax

The gift-tax provision was adopted upon the floor of Congress without reference to committee. In consequence it was never thoroughly studied and not tied up with the other provisions of the law. As an example, if a donor should give away a piece of property which cost him $50,000 and which at the time of the gift was worth $100,000, he is taxed on the basis of $100,000. If the donee should then sell this property for $100,000, he would be taxed on the basis of what the property cost the donor and be obliged to report $50,000 profit for income tax purposes, although the property was sold at the same price which fixed its value for taxation as a gift.

Aside from the grave constitutional question of the right of Congress to tax gifts at all, the gift tax is an excellent illustration of the futility of trying to prevent avoidance of excessive taxes and still not penalize legitimate transactions. Under the statute, if property is sold or exchanged, the difference between the value of the property and what is received is considered a gift. So, if a seller makes a bad bargain, he suffers not only his loss on the bargain but he must pay a gift tax on this loss. The more he has lost the more tax he has to pay. The duty devolves upon the taxpayer to report every transaction where he received less in value than he gave, and upon the Bureau of Internal Revenue, therefore, to pass upon innumerable straight business transactions.

The tax applies to corporations, and must necessarily do so or its avoidance would be too simple. A corporation would be reluctant to give pensions to its injured or superannuated employees, or to pay bonuses, if its gifts to these employees are taxed; and, of course, the larger the number of employees it wishes to benefit the more the corporation would be taxed for each employee. Although the tax is a tax on capital, it is on an annual basis. If a man should give $50,000 a year for 10 years there would be no tax, but if he gave $500,000 in one year the tax would be $19,000. A man might receive a gift of $50,000 from each of 10 corporations without tax; but if one corporation gave him $500,000, again the tax would be $19,000. Under the law, after the aggregate of such gifts is in excess of $50,000, every gift of over $500 to any one person even to members of one's immediate family must be reported and is taxable. Examples of the unsound nature of this attempt to close loopholes for the avoidance of excessive taxes could well be multiplied. It is better to adopt reasonable rates of taxation which do not compel avoidance, and to avoid indirect and artificial restraints upon usual and proper transactions. Something is wrong with our tax policy if legislation such as this is necessary to make the collection of revenue effective.

Publicity

The revenue act of 1924 added to the requirement that the names and addresses of all taxpayers be open to public inspection the additional requirement that the amount of tax paid by each be also open to inspection. At the same time Congress specifically reenacted section 3167, which penalizes the printing or publication of any part of a return. No attempt was made to reconcile these two sections. Whatever the law may be, the printing has been done, and we can now view, in the light of actual experience, the undesirability of the publicity provision.

Aside from the question of the unnecessary violation of the right of privacy which should be insured to all citizens in the spirit of the fifth amendment to the Constitution, it would be interesting to know what good will be accomplished by the provision. The Treasury has every means of access to the complete returns and all books and papers of each of these taxpayers. Publicity is wholly unnecessary from an administrative standpoint. Publicity serves one purpose, however. It gives to business rivals and to those having some ulterior motive information which is of value to them solely to the extent it is detrimental to the taxpayer. They gain by the taxpayer being hurt. It is difficult to imagine any one thing which would be a greater spur to the efforts of all taxpayers to avoid a taxable income than the threat that the amount they pay will be pilloried. To the direct monetary value of saving payment of an inherently high tax is added the incentive, in many cases much stronger, of preserving business privacy. Immediately upon the recent publication of this information opened to the public, the newspapers reported a stimulation in the market for tax-exempt securities. We may promptly expect renewed use of the many means of tax avoidance, with the consequent decrease in the productivity of the income tax. The provision should be repealed.

Board of Tax Appeals

In June, 1924, the President appointed 12 members of the Board of Tax Appeals, and the nucleus of the board thus appointed promptly undertook the preparation of rules of practice and methods of procedure. The new law gave taxpayers an additional 60 days within which to determine whether they desired to go to the Board of Tax Appeals, and thereafter an additional 30 days was given by the board's rules for getting the case at issue. As the result of the necessary delay in getting cases at issue and the unfamiliarity of all, both within the Bureau of Internal Revenue and among taxpayers generally with the new law, the number of cases on the board's dockets have not yet necessitated the appointment of additional

members within the maximum of 28 authorized under the law. The board is functioning satisfactorily, and at present is keeping up to date with its calendar. The experiment is one which is yet too new to provide a basis for comment, and the board should be permitted to continue along the lines indicated by the Congress without further amendment to the law until it has an opportunity to demonstrate its value to the taxpayer and to the Government.

EXHIBIT 56

STATEMENT BY PRESIDENT COOLIDGE CONCERNING THE REVENUE BILL OF 1924

The passage of a new Revenue Bill was required for two reasons, the reduction of taxation and the reform of taxation. The bill as passed provides a certain amount of tax reduction. It improves some of the features of administration. But it is not only lacking in tax reform, it actually adds some undesirable features to the present law. As a permanent expression of Government fiscal policy this bill contains provisions which, in my opinion, are not only unsatisfactory but are harmful to the future of this country.

The reduction of high surtaxes from 50 to 40 per cent is quite immaterial to accomplish a real improvement in the law. The resolution for a constitutional amendment giving to the States and the Federal Government reciprocal rights of taxation on securities issued by the other, which was urged in my Annual Message to the Congress, failed of passage. The suggestion of reaching in part the abuse of tax-exemption by limiting the deduction for interest of a non-business character to the amount that such interest exceeds the tax-exempt revenue of the taxpayer, has not been adopted. With some $12,000,000,000 of tax-exempt securities now outstanding, and $1,000,000,000 of new issues each year, it is idle to propose high surtaxes. A man with large inherited or accumulated capital is told he must pay one-half of his income to the Government if he invests it in productive business, but he is invited to be relieved of all tax by the simple expedient of withdrawing from business and investing in tax-exempt securities. This does not mean that wealth in existence is taxed; it is not. It escapes. It does mean, however, that initiative and new enterprises are throttled.

While the inconsistency of high surtaxes existing side by side with a lawfully authorized means of avoidance is obvious, it is not simply through tax exemption that high surtaxes are uneconomical. The experience for the few years under high surtaxes shows the increasing failure of these taxes as a source of revenue. There are many means of escaping the tax, and with the settlement of conditions abroad we may anticipate the movement of capital from this country to other parts of the world where income is not so penalized. Ways will always be found to avoid taxation inherently excessive. We are presented, then, with a plan of taxation which punishes energy and initiative and must decrease revenue. Such a plan will ultimately work harm to the country and should not be permitted to continue much longer. The cure does not lie in attacking the symptoms by other unsound penalties worse than the disease itself, such as an undistributed surplus tax, but in correcting the cause. The remedy is

such a reduction in the peak of the surtaxes as will attract capital to new enterprises and prevent the continual diminution of taxable income in the higher brackets. In this way alone can high living costs, the indirect tax paid by all of the people, be reduced and the productivity of a graduated income tax maintained.

The principles applicable to high surtaxes apply similarly to high estate taxes. The bill raises the estate tax to 40 per cent. As a concomitant is added a gift tax which is a further invasion of the rights of the citizen, both unusual in nature and of doubtful legality. When there is added to this the inheritance taxes levied by the States, there amounts to a practical confiscation of capital. To meet these taxes executors must realize cash on forced sales of property, with a general lowering of all values upon which the credit structure of our country is based, and diminishing the very source from which this revenue comes. It is proposed to take capital and to use it in the ordinary operating expenses of Government. We are thus to live, not on income, but on principal, and to that extent we exhaust our resources and prevent the industrial expansion essential to our increasing population and our high standard of living. Heretofore estate taxes in the Federal Government have been war measures. It is now proposed to use these reserves in times of peace. They should be kept for emergencies.

The States have a very real interest in this tax. Inheritance taxes constitute a material part of State revenue. They are a comparatively small factor in Federal revenue. As the Federal Government invades this sphere, belonging primarily to the States, it will cut down the flow of income to the States from this tax, and thus force the States to higher taxes from other sources, which will mean increased land taxes. For the sake of $12,000,000 of additional revenue the Federal Government in its strength should not further handicap the States, already heavily burdened with expenditures which can be met only by taxation. I believe also it would be advisable to call a conference of the taxing authorities of the States and the Treasury, before the next session of the Congress, to give consideration to some comprehensive plan of division of this field of taxation between the various States and the Federal Government and the elimination of overlapping and unfair taxes.

Our institutions guarantee to our citizens sanctity in their private affairs, a right giving way only to the needs of Government. Under the law as it now exists, the Treasury has access to all information useful in determining the liability of the taxpayer. For the needs of revenue, publicity is unnecessary. While the bill purports not to give full publicity this is scarcely true, and it still sacrifices without reason the rights of the taxpayer. In each post office the amount which the citizen contributes to the Treasury must be exhibited to the curious and to the taxpayer's business rivals. Committees in Congress have access to returns and other private papers, without any restriction as to their publication in open committee or on the floor of Congress, the most certain means of publicity. If a taxpayer desires a hearing before the Board of Tax Appeals he must expose to the public the complete details of his income. To put this price upon the fair determination of tax liability in its regular administrative course, is entirely unjustifiable. Yet, such is done in the publicity provisions of the Board of Tax Appeals.

It is not alone in the unwarranted interference with the right of the citizen to privacy that these provisions are hurtful. It is believed that far from increasing revenue, the desire to avoid the gratification of the idle curiosity of others or the exposure of one's personal affairs to one's competitor will result in the concealment of millions of dollars of income which would otherwise be reported. This means a change in the fundamental policy of our laws, violative of private rights, and harmful to Government revenues.

Criticism of the income tax and a large part of the dissatisfaction with it are the result of delay and uncertainty in the final determination of a taxpayer's liability. Taxes can usually be paid within a short time after the receipt of the income on which the tax is based without serious embarrassment. The payment, however, of a large additional tax on income received several years previous and which may have since its receipt either been wiped out by subsequent losses or invested in nonliquid assets may force a taxpayer into bankruptcy and often causes financial sacrifice and hardship. Provision should be made for the prompt and final determination of a taxpayer's liability and such was the purpose in the suggestion for a Board of Tax Appeals.

The provisions of the bill, however, with reference to the Board, make it in all its essentials practically a court of record. The Board is to be bound by formal rules of evidence and procedure. In each case a formal record must be prepared and all oral testimony in cases involving more than $10,000 must be reduced to writing and an opinion in addition to the findings of fact and a decision must be written. A taxpayer is entitled to appeal to the Board before any assessment can be made. The reduction in the salary of the members of the Board from $10,000 as recommended by the Treasury to $7,500, and the reduction of the term of office of the original appointees from the 10 years recommended to 2 years, make it difficult to secure for membership on the Board men with training, experience and ability. This Board of Tax Appeals, unable to secure the proper type of men for membership, hampered and burdened with rules of procedure and evidence and forced to prepare a record, a finding of fact, and a decision in practically every case, will be unable to handle the business which will come to it. The result will be greater delay in the final settlement of tax cases, and may ultimately result in the complete breakdown of the administrative machinery for the collection of taxes.

The purpose of a tax bill is to provide the Government with revenue, and the primary consideration on tax reduction is the probable receipts and expenditures of the Government after the bill becomes a law. We shall close the fiscal year ending June 30th, next with a surplus, but it is the next fiscal year that must have consideration. By far the greater part of the loss of revenue which will be brought about by the bill is in income taxes. Aside from the 25 per cent credit in 1924 taxes the bill applies to incomes received in 1924, the tax on which is payable in the calendar year 1925. So this income tax reduction will not be felt until the last half of the fiscal year 1925. Under these circumstances, after giving effect to the bonus law and the reductions contemplated by the bill, and provided no further commitments in large amounts are made by the Congress, the Treasury may reasonably expect to conclude the fiscal year 1925 without a deficit.

Looking beyond 1925 to later years, there are certain factors which deserve consideration. The excess profits and income tax laws of the war period were new in principle and exceedingly complicated in practice. The Treasury has not yet become current in the ascertainment of tax liability and collection of taxes for this period. We must, therefore, consider the establishment for the future of such a policy of taxation as will insure the maintenance of the sources of taxation without the aid of these reservoirs which will soon be empty. This means that the policy must be so framed that it will encourage the creation of income subject to tax, will close the most obvious methods of avoidance, will not diminish by excessive estate taxes the very values upon which the Federal and the State Governments must rely for revenue, and will bring about a reduction in the high cost of living as a means of meeting world competition. 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. These conditions the present bill does not meet.

High taxes were adopted as a war measure in 1918. We have had but six years experience under them and their detrimental effect upon our fiscal structure is not yet fully appreciated. To the intelligent observer tendencies are already apparent which indicate the stress to which this structure is being put. I mention as an instance the increased cost of capital for new industrial enterprises. These influences are being felt even in our present prosperity. During the after-the-war period of adjustment, the other great nations of the world have been disturbed more than this country. They are not yet restored. As a consequence, we have been relieved of much of the world competition. When other countries return to productivity and become again the serious commercial rivals of our people, and when we experience those periods of depression, which normally follow periods of prosperity, we should have our house in order by so establishing our tax system that its economic effects will be beneficial and not harmful. The bill represents tax reduction, not tax reform. If we are to maintain the American standard of living and hold our place in the world, we must adjust our taxes upon an economic and not a political basis.

The bill comes to me for consideration less than two weeks before the contemplated adjournment of Congress, and it provides for a credit on 1924 taxes which should become effective before June 15th next. No different bill can be passed before adjournment. The question before me is the present law or the bill in the shape it has passed the Congress. As it stands, in its administrative features generally it is an improvement on the existing law. It will meet the needs of revenue through the fiscal year 1925, and probably be sufficient for some time if no unforeseen expenses arise. The immediate relief by credit on 1924 taxes of 25 per cent is due, is expected by the people, and should be promptly given, and the determination of the taxes to which 1924 incomes will be subject should be made certain while the income is still being received.

These opinions are supported by the Treasury Department.

As I have said, the bill does not represent a sound permanent tax policy and in its passage has been subject to unfortunate influence

which ought not to control fiscal questions. Still, in spite of its obvious defects, its advantages as a temporary relief and a temporary adjustment of business conditions, in view of the uncertainty of a better law within a reasonable time, lead me to believe that the best interests of the country would be subserved if this bill became a law. A correction of its defects may be left to the next session of the Congress. I trust a bill less political and more truly economic may be passed at that time. To that end I shall bend all my energies.

THE WHITE HOUSE,
June 2, 1924.

○

RECEIPTS AND EXPENDITURES

AND

THE PUBLIC DEBT

▽

EXTRACT FROM
THE REPORT OF THE SECRETARY OF THE TREASURY
ON THE STATE OF THE FINANCES FOR
THE FISCAL YEAR 1924

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

RECEIPTS AND EXPENDITURES

The Treasury closed the fiscal year 1924 with the largest surplus in the history of the Government. Total ordinary receipts during the year aggregated $4,012,044,701 and total expenditures chargeable against such receipts were $3,506,677,715, showing a surplus of $505,366,986. This compares with an estimated surplus of $329,639,624 in my previous annual report, the actual surplus being about $175,000,000 in excess of the estimate. The two accounts which varied the greatest from estimates and which were largely responsible for the additional surplus were "Railroads" and "Receipts from foreign governments." Both of these accounts were affected by changes in the money and investment markets. While total receipts from foreign governments corresponded closely with estimates, the method of payment changed. After Liberty bonds went above par they were no longer used in payment of foreign obligations. In June $50,000,000 in payment of interest was received in cash instead of in our own securities as expected. This amount, therefore, did not appear as a corresponding expenditure on account of the cancellation of securities. With the decline in interest rates, moreover, the 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. These two factors, therefore, are responsible for about $170,000,000 of the increase in the actual surplus over the estimate.

On the other hand, income taxes, which aggregated $1,842,000,000, were only $8,000,000 less than the estimate although a 25 per cent reduction had been made on six months of the 1924 payments of personal income taxes. This reduction amounted to something over $100,000,000, it is estimated. In spite of the reduction, income taxes were approximately $163,000,000 larger than in 1923, due mainly to the increase in business activity over the previous year and the consequent growth of profits. Customs receipts were $545,637,504, or about $24,000,000 less than estimated, and miscellaneous internal revenue was $953,012,617, or about $20,000,000 in excess of the estimate.

In view of the discussion during the past year regarding the degree of accuracy of the Treasury's estimates, attention may be further directed to the closeness with which estimates correspond with actual tax receipts and general expenditures. Without the 25 per cent reduction in personal income taxes paid during 1924, total receipts from customs and internal revenue would have been about $100,000,000 in excess of estimates, a difference of only 3 per cent. The amount appears large only when viewed alone and disassociated from the tremendous totals of Government receipts. Ninety-seven per cent accuracy in pre-war estimates would have been considered exceptional and the total discrepancy would have been less than $24,000,000. The showing has been especially creditable in view of the rapid changes in business activity during recent years and the consequent wide fluctuations in incomes. In order to maintain the same degree of accuracy of estimates of receipts, or to attain greater accuracy if possible, the Treasury has recently undertaken a detailed statistical analysis of the various taxes as related to the business cycle. The purpose is to determine as nearly as possible the relative degree to which a change in business activity affects tax receipts and to work out a statistical basis for estimating which will give due weight to such changes. A change of 10 per cent in business activity, for example, means a much greater change relatively in profits and income taxes. Estimating income taxes, therefore, requires the measurement not only of the change in business activity but also of the effects of these changes on corporate and personal profits, including the shifting of personal incomes from one bracket to another.

If the special accounts, such as "Railroads" and "Receipts from foreign governments," changes in which are not foreseeable by the Treasury, are omitted, estimates of expenditures correspond much more closely with actual figures than receipts. In the case of general governmental expenditures, for example, which include all administrative expenditures of the various departments, the Army and Navy, and the various special bureaus and offices, the actual figures were $1,833,000,000, as compared with estimates of $1,828,000,000.

A detailed statement of receipts and expenditures during the fiscal year 1924, as compared with 1923, appears on pages 131 to 143 of this report. Of the total expenditures, $457,999,750 were on account of the sinking fund and other debt retirements chargeable against ordinary receipts. Total ordinary expenditures other than public debt retirements were $3,048,677,965, compared with $3,294,627,529 during the previous fiscal year, a reduction of about $246,000,000. The decrease in interest payments accounts for $115,000,000 of this, while general expenditures showed a reduction from the previous year of $117,000,000, due mainly to further Government economies.

DIAGRAM 1

ORDINARY RECEIPTS OF THE GOVERNMENT

FISCAL YEAR ENDED JUNE 30, 1924

TOTAL = $4,012,044,701

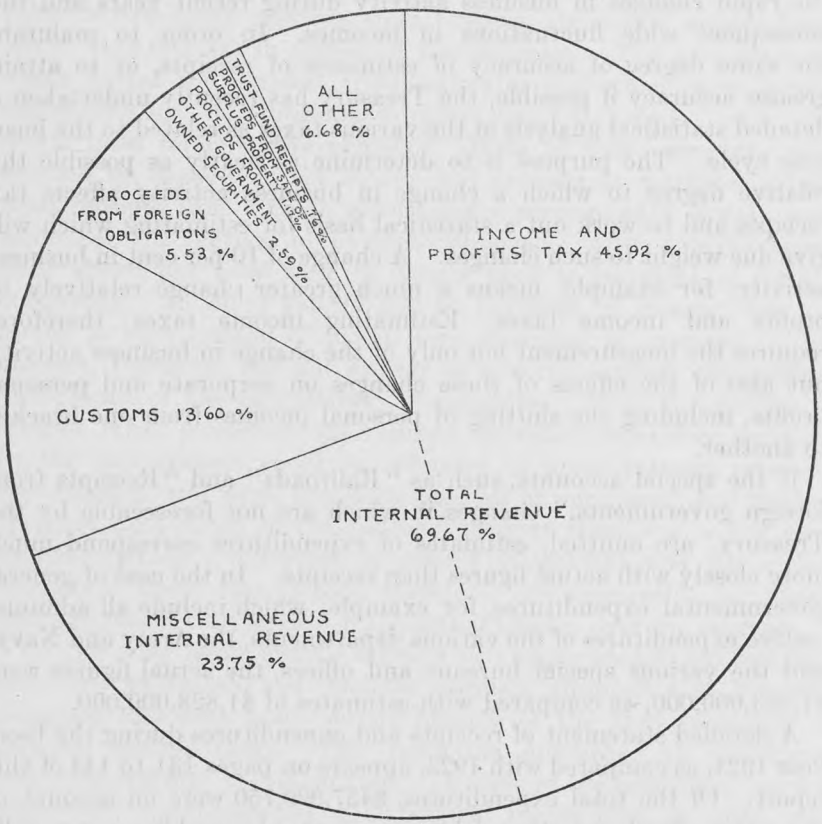
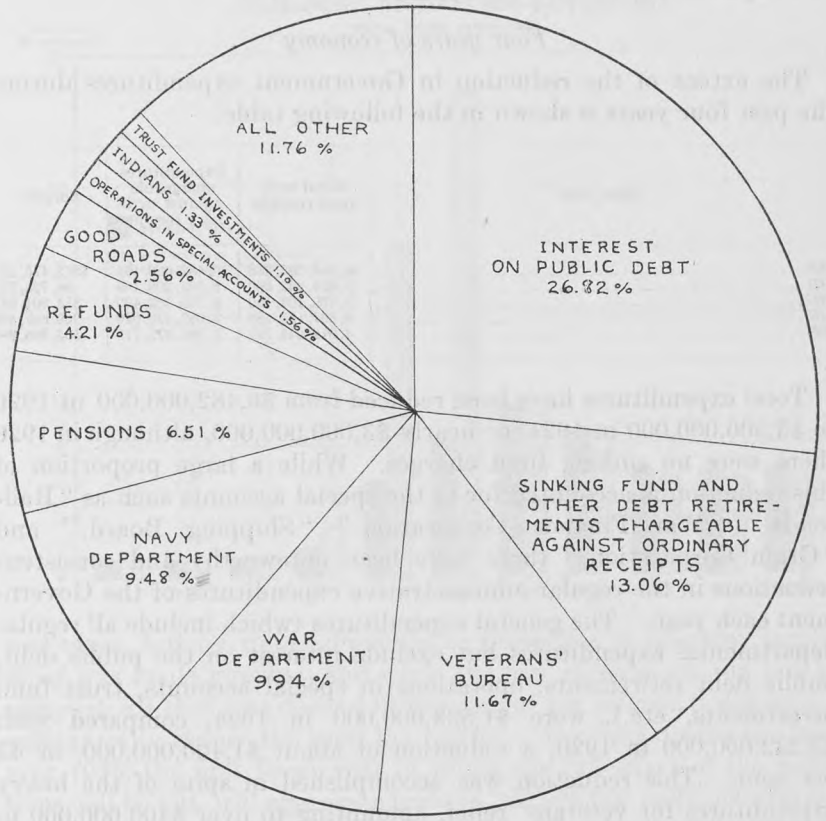


DIAGRAM 2

GOVERNMENT EXPENDITURES CHARGEABLE AGAINST ORDINARY RECEIPTS

FISCAL YEAR ENDED JUNE 30, 1924

TOTAL = $ 3,506,677,715



Reductions are shown in nearly all departments and independent bureaus. Expenditures for the Treasury Department, for example, were reduced from $145,016,859 in 1923 to $137,411,205 in 1924, and for the War Department from $392,733,634 to $348,629,778. In fact, the only major department which did not show a decrease was Agriculture, whose expenditures increased from $128,745,677 in 1923 to $141,116,440 in 1924, due to additional expenditures for good roads. There were slight increases in the expenditures of the legislative establishment, the executive proper, the District of Columbia, and some of the independent offices and commissions. Diagrams 1 and 2, pages 4 and 5, show the percentage distribution of receipts and expenditures for the fiscal year under review.

Four years of economy

The extent of the reduction in Government expenditures during the past four years is shown in the following table:

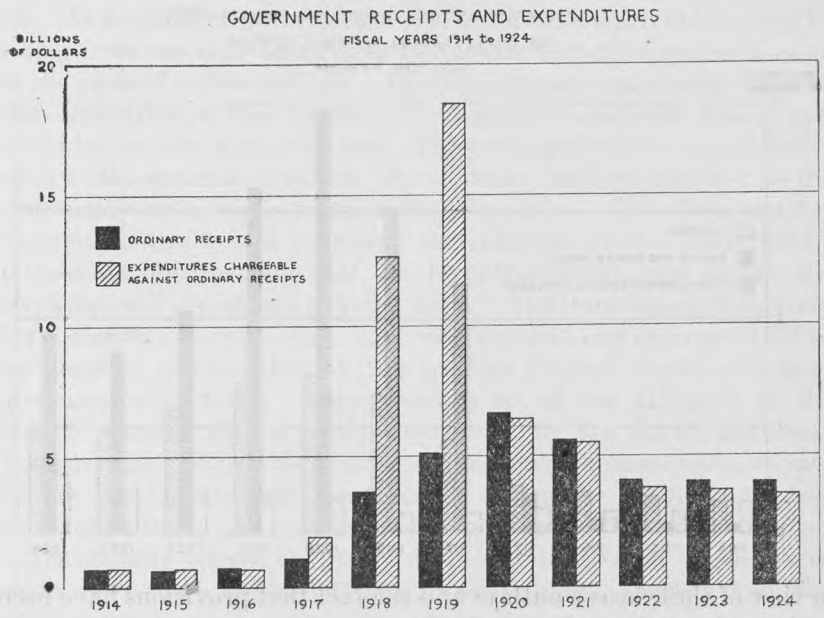
Fiscal year	Total ordinary receipts	Expenditures chargeable against ordinary receipts	Surplus
1920	$6,694,565,388	$6,482,090,191	$212,475,197
1921	5,624,932,960	5,538,209,189	86,723,771
1922	4,109,104,150	3,795,302,499	313,801,651
1923	4,007,135,480	3,697,478,020	309,657,460
1924	4,012,044,701	3,506,677,715	505,366,986

Total expenditures have been reduced from $6,482,000,000 in 1920 to $3,506,000,000 in 1924, or nearly $3,000,000,000, although in 1920 there were no sinking fund charges. While a large proportion of this reduction is accounted for in the special accounts such as "Railroads," "War Finance Corporation," "Shipping Board," and "Grain Corporation," there have been noteworthy and consistent reductions in the regular administrative expenditures of the Government each year. The general expenditures (which include all regular departmental expenditures but exclude interest on the public debt, public debt retirements, operations in special accounts, trust fund investments, etc.), were $1,833,000,000 in 1924, compared with $3,232,000,000 in 1920, a reduction of about $1,400,000,000, or 43 per cent. This reduction was accomplished in spite of the heavy expenditures for veterans' relief, amounting to over $400,000,000 in 1924. Moreover, the outlays for good roads have practically doubled the disbursements of the Department of Agriculture, and the amount paid out in pensions increased about $15,000,000 between the two dates, thereby increasing total disbursements of the Interior Department. Expenditures of the War Department alone were reduced about $1,260,000,000 from 1920 to 1924, and for the Navy Depart-

ıment the reduction was about $400,000,000. The table on page 17, shows the expenditures of the various departments each year from 1917 to 1924. Diagram 3, below, gives a comparison of cash receipts and expenditures each year from 1914 to 1924, and diagram 4, page 8, shows receipts from customs, income and profits taxes, and miscellaneous internal revenue from 1914 to 1924.

It was the annual surplus of receipts over and above the regular budget expenditures which formed the basis of the Treasury's recommendations last November for further tax revision and tax reduction. The revenue act of 1921 had already given substantial relief from the

DIAGRAM 3



war taxes, but by rigid adherence to principles of economy further relief was made possible; and while the new revenue act did not accomplish all that was desired in the way of tax reform, it did further substantially reduce the total tax burden. Receipts during the fiscal year 1926, the first fiscal year in which the full effect of the reductions will be felt, will aggregate from $1,200,000,000 to $1,500,000,000 less than they would have been under the rates in effect at the beginning of this administration.

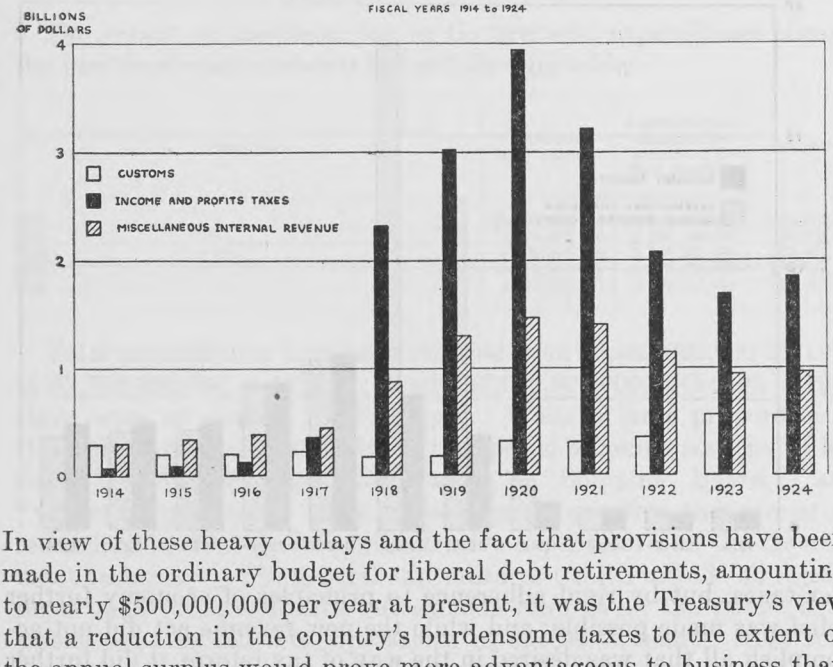
The annual surplus might well have been allowed to continue to accumulate for the purpose of additional debt retirements if the necessity for tax revision had not been so urgent and if extraneous influences for additional expenditures could have been avoided. Tax collec-

tions for the purpose of debt retirements do not lessen the country's capital supply. The funds are put back into productive channels, and, moreover, the annual interest charge is lessened by the additional retirements. There are limits, however, to taxation even for debt-paying purposes. The disturbing influence of an excessive rate of redistribution through debt liquidation might more than offset the advantages of debt reduction. This is especially true under present conditions of unusually heavy ordinary expenditures incident to the war, such as interest on the public debt, care of disabled veterans, and other enlarged governmental outlays from which there is no relief.

DIAGRAM 4

RECEIPTS FROM CUSTOMS, INCOME AND PROFITS TAXES, AND MISCELLANEOUS INTERNAL REVENUE

FISCAL YEARS 1914 to 1924



In view of these heavy outlays and the fact that provisions have been made in the ordinary budget for liberal debt retirements, amounting to nearly $500,000,000 per year at present, it was the Treasury's view that a reduction in the country's burdensome taxes to the extent of the annual surplus would prove more advantageous to business than the additional debt retirements, and would facilitate the much-needed program of tax reform.

The accomplishments of the Treasury during the past three years have been made possible only through determined and persistent adherence to the policy of economy laid down at the beginning of the administration. It has not always been easy, however, to follow the charted course and to resist the numerous demands made on the Public Treasury for private aid. It has been necessary to oppose

vigorously numerous proposals for additional outlays, proposals which undoubtedly seem worthy to those sponsoring them. These proposals are frequently for small amounts and the argument is advanced in each case that the small additional expense could be easily provided without deleterious consequences. But they are sufficient in the aggregate to upset completely the whole fiscal program of the administration and to produce an annual deficit, or additional taxation, instead of a surplus or tax reduction.

Organized and influential groups of interests are sometimes able to advance their selfish aims with dangerous effectiveness to the detriment of the unorganized masses. Nothing is more certain than that when special advantages of this kind are secured somebody pays the bill. It is in effect an arbitrary redistribution of private income by taking from one class and giving to another without any justification on the basis of public welfare. This Government has always opposed class legislation of this nature, and to pursue a different course now would be suicidal in my opinion. When one group of the community gains at the expense of others, the efficiency and productivity of the community as a whole must inevitably suffer. The Treasury has sincerely attempted to represent the interests of the whole public in these matters, realizing that, whatever the undertaking may be, the taxpayers and consumers pay the price. The importance of Government economy may be seen from the fact that out of every $100 of the national income about $12 is paid to Federal, State, and local governments in taxes. Approximately $5 of the $12 goes to the Federal Government and the remainder to the State and local Governments. With this already serious encroachment upon private income the Government hesitates to undertake further activities even for worthy and commendable purposes. Therefore it must conscientiously oppose the many unsocial measures for expenditures which have been proposed and pressed upon Congress and the administration.

THE PUBLIC DEBT

The gross public debt was reduced $1,098,894,375 during the fiscal year ended June 30, 1924, and stood at $21,250,812,989 on the latter date. 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) the use of the entire surplus of $505,366,986.31. The annual interest charges on the debt represented by this reduction are equivalent to over $45,000,000.

The total reduction in the debt since the high point of $26,594,000,000 on August 31, 1919, amounted to $5,343,000,000 at the close of the last fiscal year. At the peak of the debt, however, there was an

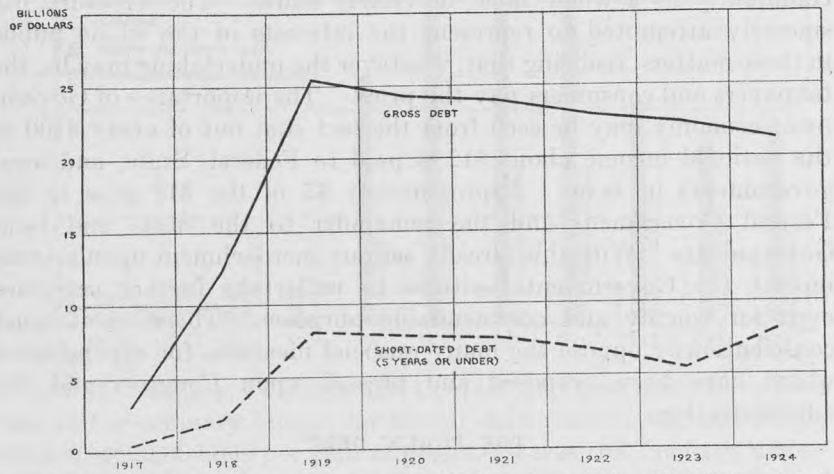
unusually large amount of temporary borrowing in anticipation of the next tax payment date and the debt figures on that date give a somewhat exaggerated impression of the true situation. The debt on June 30, 1919, a more representative date, was $25,484,000,000, and the reductions by fiscal years since that time are shown in the following table:

Fiscal year	Retirements chargeable against ordinary receipts	Retirements through surplus	Retirements through reductions in the net balance in general fund	Total debt reductions
1920	$79,000,000	$212,000,000	$894,000,000	$1,185,000,000
1921	422,000,000	87,000,000	[1] 187,000,000	[2] 322,000,000
1922	423,000,000	314,000,000	277,000,000	1,014,000,000
1923	403,000,000	310,000,000	[1] 99,000,000	614,000,000
1924	458,000,000	505,000,000	136,000,000	1,099,000,000
Total	1,785,000,000	1,428,000,000	1,021,000,000	4,234,000,000

[1] Debt issues resulting in increase in net balance in general fund.
[2] Includes a reduction of $4,842,000 on account of a revised estimate of the amount of fractional currency outstanding.

DIAGRAM 5

THE PUBLIC DEBT.



Details as to debt retirements will be found in Exhibits 12 to 17, pages 179 to 189 and in Tables D and F, pages 369 and 375. Diagram 5 above shows the course of the gross public debt and the short-dated debt from 1917 to the present time.

It will be noted that about three-fourths of the debt reduction during the fiscal year 1920 was due to the decrease in the net balance in the general fund of the Treasury. During the war, financial operations were on such a large scale that it was necessary for the Treasury to have always available a working cash balance of a billion dollars or more. This balance was obviously much too large for peace-time operations, and consequently it was reduced $894,000,000 during the fiscal year 1920, effecting a corresponding reduc-

tion in the debt. During the years 1921–1924, however, the reductions have been effected almost entirely, taking the four-year period as a whole, through fixed-debt retirements chargeable against ordinary receipts and through the use of the surplus.

The fixed-debt charges are included in the regular budget of the Government under a definite plan worked out soon after the close of the war for the gradual retirement of the public debt, and must be met before the budget can balance. The most important of these fixed-debt charges is the cumulative sinking fund provided in the Victory Liberty loan act. Retirements through this fund during the past fiscal year were about $296,000,000. The next items in size among the fixed charges are the retirements of securities received from foreign Governments under debt settlements and the purchases from foreign repayments. These two accounts amounted to about $150,000,000 during the fiscal year 1924. The following table shows for each fiscal year from 1920 to 1924 the debt retirements chargeable against ordinary receipts classified according to the source of the funds:

Debt retirements chargeable against ordinary receipts

[In thousands of dollars]

Fiscal year	Sinking fund	Purchases from foreign repayments	Received from foreign governments under debt settlements	Received for estate taxes	Purchases from franchise tax receipts	Forfeitures, gifts, etc.	Total
1920	----------	$72,670	----------	$3,141	$2,922	$13	$78,746
1921	$261,100	73,939	----------	26,349	60,725	169	422,282
1922	276,046	64,838	----------	21,085	60,333	393	422,695
1923	284,019	32,140	$68,753	6,568	10,815	555	402,850
1924	295,987	38,509	110,879	8,897	3,635	93	458,000
Total	1,117,152	282,096	179,632	66,040	138,430	1,223	1,784,573

See Exhibit 24, page 200, for the specific issues of securities retired under each of the above accounts.

Retirements through the sinking fund increase each year, but this means no increase in the total amount devoted to the debt service, because the increase in the sinking fund each year represents interest saved on previous retirements from the fund. There can be little or no further reduction in the general-fund balance for some years to come, because it is as low now as the Treasury's activities will safely permit. The total balance, moreover, fluctuates around $200,000,000, a small figure when compared with the public debt. It is not contemplated, furthermore, that there will be further surpluses of any significance. The revenue act of 1924 will reduce tax receipts over $450,000,000 annually, it is estimated, and in addition some of the sources of revenue during the past few years, such as realizations on war assets and back taxes, are rapidly becoming exhausted.

The total debt retirements from the peak have effected a saving in interest amounting to approximately $225,000,000 annually, a saving which equals nearly one-third of the total annual pre-war expenditures of the Government. This strict adherence to a rigorous debt-paying program has not only strengthened the public credit and put the Government's finances in a more manageable shape, but has greatly added to the strength of the general investment and money markets. Retrenchment in current Government expenditures which does not impair governmental efficiency and the application of the surplus thus created to debt retirements increase the country's capital supply by that amount, the funds being released for private enterprise. Sound Government finance, including a rigid debt-paying policy, is absolutely indispensable to the best interests of business and private finance. Private credit can not continue to flourish if the public credit is in a state of chaos. Therefore, a debt-paying program has been the only consistent policy to follow. The necessity for such a policy is obvious when it is realized that this country came out of the war with a debt at its peak in 1919 equal approximately to the total expenditures of the Government during its entire existence prior to 1917. The debt per capita had risen from $12 at the beginning of the war to about $250 at the middle of 1919. Interest alone on this debt has been about a quarter of a billion dollars more each year since 1920 than the total Government expenditures during the fiscal year 1916, the last pre-war year.

The nation which does not follow a policy of paying its debts, but allows them to accumulate, may be compared to an individual who follows a similar course. It is a sign of debility and denotes the absence of essential vigor and foresight. The public debt is a mortgage or lien upon national wealth, and unless the country pursues a policy of paying off this mortgage it is bound to become more and more burdensome as time goes on. Debt reduction, in fact, is the best method of bringing about tax reduction. Aside from gradual refunding at lower rates of interest, it is the only method of reducing the heavy annual interest charges.

The question of how rapidly the public debt shall be liquidated is not a question of what proportion of the cost of the war shall be paid by the present generation and what proportion shall be shifted to future generations. The view sometimes advanced that the present generation can avoid in part the burden of the cost of the war by passing the war debt on to future generations is fallacious when the debt is entirely domestic, as in the case of the present debt of the United States. A domestic debt is simply a liability of the people to pay themselves, or rather to pay the group holding Government securities; and while this liability may be handed down to the next generation, equivalent assets in the form of Government securities

would also be handed down, and that generation, viewed as a whole, would be neither richer nor poorer. From the viewpoint of the country as a whole, the war was paid for when it was fought. The equipment, munitions, ships, food, clothing, and all other materials and supplies necessary for carrying on the war had to be produced before they could be utilized. If the war had been financed entirely through taxation, as some suggested at the time, or if the supplies needed by the Government had simply been commandeered and not paid for, it can readily be seen that the whole burden of the war would have been borne at that time. The financing of the conflict in part by loans was simply an arrangement under Government supervision whereby those who were in position could pay more than their proper proportion of the cost and be reimbursed later with interest by those who were not in position at the time to meet their proper proportion under the tax system without too great sacrifices and hardships.

If every citizen had subscribed to the Government war securities in the proportion of his tax payments to total tax collections, the process of financing the war in part by loans would have been a useless expense because in that event the Government would return to each individual in debt payments just the amount it collects from him in taxes. There are doubtless some who are in approximately this position and are unaffected by debt payments. On the other hand, there is one group who hold Government war obligations in excess of the amount which they will ultimately pay in taxes for debt redemptions, as contrasted with another group who will pay in taxes for debt redemptions an amount greater than their holdings of Government obligations. What constitutes an asset to the one group in the form of Government obligations is in effect an equal liability on the other group in the form of a tax lien on their future earnings. The Government is simply an intermediary or agent who collects from the debtor and pays the creditor. This situation is analagous to the supposititious case where A, not being able to meet his tax payments, borrows from B, giving his note with interest. A has not evaded the burden but has simply increased his liabilities instead of reducing his cash assets. He must meet the new obligation, principal and interest.

The problem of the public debt, then, is largely a question as to how rapidly the redistribution may be effected without undue disturbance to business and general economic conditions. The obligations must be met, but the rate of payment must be adjusted to produce the greatest good and the least disturbance. To the extent that tax collections for debt-paying purposes promote saving and

reduce unnecessary expenditures, and to the extent that a debt-paying program promotes Government economy, the net result is an actual net increase in the country's capital supply and general welfare. On the other hand, if a business or an individual is forced to liquidate its or his obligations too rapidly, the result is needless sacrifice and loss. The present program calls for fixed-debt retirements chargeable against ordinary receipts aggregating about $500,000,000 annually. This constitutes at present about 14 per cent of the Government's expenditures, but the amount will increase progressively each year by the amount of the reduction in interest charges due to debt retirements through the sinking fund. The Treasury believes that this program, while providing for substantial retirements, is not unduly burdensome and should not be interfered with by additional or extraordinary governmental expenditures.

Changes in the composition of the debt

In my previous annual report I reviewed the refunding operations and pointed out that the entire short-dated debt of seven and one-half billion dollars outstanding at the beginning of this administration had either been retired or refunded into more manageable maturities. The effectiveness of that refunding program is illustrated in the operations of the past year. Maturities have fallen only on quarterly tax payment dates and, due to the heavy retirements from ordinary receipts, only comparatively small new issues have been necessary. All new issues since the previous annual report have been certificates of indebtedness. The following table gives the principal facts regarding these issues:

Series	Interest rate	Term	Date of issue	Due	Amount allotted
TJ-1924	4	6 months	Dec. 15, 1923	June 16, 1924	$135,128,500
TD-1924	4¼	1 year	do	Dec. 15, 1924	214,149,000
TM-1925	4	do	Mar. 15, 1924	Mar. 15, 1925	400,299,000
TD2-1924	2¾	6 months	June 16, 1924	Dec. 15, 1924	193,065,500
TS-1925	2¾	1 year	Sept. 15, 1924	Sept. 15, 1925	391,369,500

The article on pages 81 to 83 of this report, entitled "Certificates of indebtedness," gives the details regarding these various issues. Circulars announcing the issues are included as Exhibits 26 to 29, pages 208 to 213. The table following shows in summary form the changes in the various items of the short-dated debt (maturing within five years) since August 31, 1919.

Short-dated debt, August 31, 1919, to October 31, 1924[1]

[Millions of dollars]

Date	Total short-dated debt (maturing within five years)	Third Liberty loan bonds	Victory notes	Treasury notes	Loan and tax certificates of indebtedness	Pittman Act and special certificates of indebtedness	Treasury (war) savings securities	4 per cent loan of 1925
Aug. 31, 1919	9,246		4,113		3,938	263	931	
Apr. 30, 1921	7,602		4,069		2,548	272	713	
June 30, 1921	7,618		3,914	311	2,451	249	694	
June 30, 1922	6,746		1,991	2,247	1,755	74	679	
June 30, 1923	5,473			4,104	1,031		337	
June 30, 1924	8,072	2,997		3,736	808		413	118
Oct. 31, 1924 [2]	8,068	2,979		3,358	1,196		417	118

[1] Exclusive of debt on which interest has ceased and interest-bearing obligations redeemable at the pleasure of the Government but not maturing within the period covered.
[2] From Preliminary Statement of the Public Debt, Oct. 31, 1924.

On November 1 of this year the Secretary of the Treasury announced that he had called for redemption and payment on February 2, 1925, the 4 per cent loan of 1925, and that such bonds will cease to bear interest on that date. This issue has therefore been included in the short-dated debt. The text of the official circular calling those bonds for redemption is incorporated in this report as Exhibit 33, page 218.

The details of the various issues of the debt outstanding on June 30, 1924, are shown in Exhibit 1, page 150, and in Table A, pages 356 to 363. Operations during the year and other information regarding the debt will be found in Tables B to E, pages 364 to 374, and in Exhibits 2 to 25, pages 155 to 207.

Treasury saving certificates were withdrawn from sale at the close of business July 15, 1924, and until further notice will not be issued except for exchange of denominations or for reissue in case of the death of the registered owner prior to the maturity of the securities. A statement regarding the withdrawal and the details of the sales and exchanges of the series of 1924 up to the date of the withdrawal is given on pages 83 and 84 of this report in the article entitled "Government savings securities."

The table following shows the distribution of the interest-bearing debt by maturities at various dates since August 31, 1919, when the gross debt reached the peak.

Interest-bearing debt, distributed by maturities, and total gross debt August 31, 1919, to October 31, 1924 [1]

[Millions of dollars]

Date	Maturing within five years				Maturing after five years	Total interest-bearing debt	Total gross debt
	Within one year	One year to two years	Two years to five years	Total within five years			
Aug. 31, 1919	4,201	----------	5,045	9,246	17,103	26,349	26,594
Apr. 30, 1921	2,820	572	4,209	7,602	16,158	23,760	23,994
June 30, 1921	2,699	4,494	425	7,618	16,119	23,737	23,976
June 30, 1922	4,336	366	2,044	6,746	15,965	22,711	22,964
June 30, 1923	1,393	1,432	2,647	5,473	16,535	22,008	22,350
June 30, 1924	2,328	927	4,817	8,072	12,910	20,982	21,251
Oct. 31, 1924 [2]	2,338	1,342	4,388	8,068	12,910	20,978	21,242

[1] Exclusive of interest-bearing obligations redeemable at the pleasure of the Government, but not maturing within the period covered.
[2] From Preliminary Statement of the Public Debt, Oct. 31, 1924.

The increase between June 30, 1923, and June 30, 1924, in the debt maturing within five years and the like decline in the longer-term obligations are due to the fact that on September 15, 1923, the maturity of the third Liberty bonds moved into the five-year period. The following table shows in more detail the distribution of debt maturities from October 31, 1924, to November 1, 1929:

Public debt maturities to November 1, 1929 [1]

[Amounts as of October 31, 1924]

Date of maturity	Certificates of indebtedness [2]	Notes and bonds [2]	Treasury (war) savings certificates (including interest)	Total	Cumulative total
Dec. 15, 1924	$407,197,500	----------	----------	$407,197,500	$407,197,500
Jan. 1, 1925	----------	----------	[3] $25,144,494	25,144,494	432,341,994
Feb. 1, 1925	----------	[4] $118,489,900	----------	118,489,900	550,831,894
Mar. 15, 1925	400,299,000	597,325,900	----------	997,624,900	1,548,456,794
June 15, 1925	----------	406,031,000	----------	406,031,000	1,954,487,794
Sept. 15, 1925	388,869,500	----------	----------	388,869,500	2,343,357,294
Dec. 15, 1925	----------	299,659,900	----------	299,659,900	2,643,017,194
Jan. 1, 1926	----------	----------	[3] 13,715,592	13,715,592	2,656,732,786
Mar. 15, 1926	----------	615,707,900	----------	615,707,900	3,272,440,686
Sept. 15, 1926	----------	414,922,300	----------	414,922,300	3,687,362,986
Dec. 15–31, 1926	----------	----------	[2] 1,805,047	1,805,047	3,689,168,033
January–September, 1927	----------	----------	[2] 98,740,349	98,740,349	3,787,908,382
Mar. 15, 1927	----------	668,201,400	----------	668,201,400	4,456,109,782
October–December, 1927	----------	----------	[2] 15,548,160	15,548,160	4,471,657,942
Dec. 15, 1927	----------	355,779,900	----------	355,779,900	4,827,437,842
Jan. 1, 1928, to Nov. 1, 1929	----------	[5] 2,978,776,300	[2] 265,179,538	3,243,955,838	8,071,393,680
Total	1,196,366,000	6,454,894,500	[6] 420,133,180	[6] 8,071,393,680	----------

[1] Exclusive of debt on which interest has ceased amounting to $19,703,420.26; second Liberty loan bonds amounting to $3,104,574,800, which are redeemable, but do not mature, within the period; other interest-bearing obligations redeemable at the pleasure of the Government but not maturing within the period covered and not called for redemption, amounting to $86,804,660; and thrift and Treasury savings stamps, unclassified sales, etc., amounting to $4,040,947.69.
[2] From Preliminary Statement of the Public Debt, Oct. 31, 1924.
[3] From Preliminary Statement of the Public Debt, Oct. 31, 1924, plus accrued interest as shown on the Statement of the Public Debt, Aug. 31, 1924.
[4] 4 per cent loan of 1925, called for redemption Feb. 2, 1925.
[5] Third Liberty loan, maturing Sept. 15, 1928.
[6] These totals differ somewhat from the corresponding figures in the table above and also in the table on page 29 because they include the accrued interest on Treasury (war) savings certificates.

Receipts and expenditures for the fiscal years 1923 and 1924, and estimated receipts and expenditures for the fiscal years 1925 and 1926 (on the basis of daily Treasury statements, unrevised)

	Fiscal year 1923		Fiscal year 1924		Fiscal year 1925		Fiscal year 1926	
RECEIPTS								
Ordinary								
Customs		$561,928,866.66		$545,637,503.99		$550,000,000		$535,000,000
Internal revenue:								
Income tax	$1,678,607,428.22		$1,842,144,418.46		$1,660,000,000		$1,710,000,000	
Miscellaneous internal revenue	945,865,332.61		953,012,617.62		826,325,000		890,875,000	
		2,624,472,760.83		2,795,157,036.08		2,486,325,000		2,600,875,000
Miscellaneous receipts:								
Proceeds of Government-owned securities—								
Foreign obligations—								
Principal	31,656,907.64		61,089,867.14		23,088,687		24,086,800	
Interest	201,332,247.86		160,684,807.75		159,215,670		158,508,099	
Railroad securities	99,297,348.01		94,373,535.52		110,000,000		26,000,000	
All other securities	46,361,371.60		9,602,404.53		17,253,825		30,621,160	
Trust fund receipts (reappropriated for investment)	26,862,679.69		30,643,799.16		46,492,841		59,636,792	
Proceeds sale of surplus property	91,706,388.29		46,774,600.22		26,850,159		20,102,059	
Panama Canal tolls, etc	17,271,855.23		27,063,204.24		21,009,000		21,000,000	
Receipts from miscellaneous sources credited direct to appropriations	65,911,405.93		29,609,735.46		18,180,154		18,492,126	
Other miscellaneous	240,333,648.82		211,408,207.56		143,552,961		146,973,056	
		820,733,853.07		671,250,161.58		565,643,297		505,420,092
Total ordinary receipts		4,007,135,480.56		4,012,044,701.65		3,601,968,297		3,641,295,092

Receipts and expenditures for the fiscal years 1923 and 1924, and estimated receipts and expentdiures for the fiscal years 1925 and 1926 (on the basis of daily Treasury statements, unrevised)—Continued

	Fiscal year 1923	Fiscal year 1924	Fiscal year 1925	Fiscal year 1926
EXPENDITURES				
Ordinary (checks and warrants paid, etc.)				
General expenditures:				
Legislative establishment	$14,165,243.89	$14,315,684.73	$13,784,866	$14,783,065
Executive proper	349,380.15	450,952.65	431,474	436,567
State Department	15,463,276.30	14,669,456.89	16,077,257	16,033,783
Treasury Department	[1] 145,016,859.60	[1] 137,411,205.17	145,303,399	131,241,338
War Department	392,733,634.86	348,629,778.55	344,431,634	322,891,798
Department of Justice	23,521,485.79	21,134,228.10	22,690,160	25,047,660
Post Office Department	146,942.46	186,789.29	----------	----------
Navy Department	333,201,362.31	332,249,136.67	330,150,000	292,000,000
Interior Department	354,623,058.88	328,227,697.11	300,516,363	279,924,857
Department of Agriculture	128,745,677.33	141,116,440.69	154,859,950	145,370,450
Department of Commerce	21,783,508.71	21,429,678.93	25,529,300	22,729,000
Department of Labor	7,241,466.73	6,620,052.55	7,843,410	8,152,998
U. S. Veterans' Bureau	461,719,433.83	409,120,863.66	411,979,821	387,490,261
Other independent offices and commissions	28,712,285.42	32,846,244.39	26,680,423	27,452,889
District of Columbia	24,053,705.47	25,873,115.19	30,559,284	32,055,927
Total	1,951,477,321.73	1,834,281,324.57	1,830,837,341	1,705,610,593
Deduct unclassified items	1,436,386.81	1,234,150.47	----------	----------
Total	1,950,040,934.92	1,833,047,174.10	1,830,837,341	1,705,610,593
Interest on public debt	[2] 1,055,923,689.61	[2] 940,602,912.92	865,000,000	830,000,000
Refunds of receipts:				
Customs	28,736,711.58	20,566,638.33	20,012,500	19,622,500
Internal revenue	125,279,043.35	127,220,151.47	127,310,000	91,905,000
Postal deficiency	32,526,914.89	12,638,849.75	10,130,931	[3] 10,033,995
Panama Canal	4,316,961.30	8,387,099.90	9,799,805	8,560,659
Operations in special accounts:				
Railroads	100,618,067.12	22,771,167.74	15,733,489	3,317,699
War Finance Corporation	[3] 109,436,238.13	[3] 52,539,947.20	[3] 30,000,000	[3] 20,000,000
Shipping Board	57,023,838.18	85,491,358.71	54,500,000	39,000,000
Alien property funds	[3] 1,365,554.16	[3] 1,150,576.16	----------	----------
Sugar Equalization Board	2,482,476.33	----------	----------	----------
Loans to railroads	13,526,587.00	12,971,000.00	6,000,000	----------
Investment of trust and special funds:				
Government life insurance fund	26,672,161.78	30,410,378.80	39,659,841	52,497,792
Civil-service retirement fund	8,091,417.48	8,028,336.62	8,000,000	7,000,000

District of Columbia teachers' retirement fund	190,517.91		233,420.36		230,000		235,000	
Foreign Service retirement fund					63,500		70,000	
General Railroad contingent fund			(4)		5,000,000		5,000,000	
Adjusted Service certificate fund					100,000,000		50,000,000	
		3,294,627,529.16		3,048,677,965.34		3,062,277,407		2,782,785,248
Public debt retirements chargeable against ordinary receipts:								
Sinking fund	284,018,800.00		295,987,350.00		310,000,000		323,175,000	
Purchases from foreign repayments	32,140,000.00		38,509,150.00		208,600			
Received from foreign governments under debt settlements	68,752,950.00		110,878,450.00		160,345,601		160,641,130	
Received for estate taxes	6,568,550.00		8,897,050.00		100,000			
Purchases from franchise tax receipts (Federal reserve banks and Federal intermediate credit banks)	10,815,300.00		3,634,550.00		1,152,200		950,000	
Forfeitures, gifts, etc	554,891.10		93,200.00					
		402,850,491.10		457,999,750.00		471,806,401		484,766,130
Total expenditures chargeable against ordinary receipts		3,697,478,020.26		3,506,677,715.34		3,534,083,808		3,267,551,378
Excess of ordinary receipts over total expenditures chargeable against ordinary receipts		309,657,460.30		505,366,986.31		67,884,489		373,743,714

[1] Includes $12,000,000 subscriptions to capital stock of Federal intermediate credit banks for each of the fiscal years 1923 and 1924.
[2] Includes $97,078,362 for 1923, and $25,020,344.59 for 1924, accrued discount on war savings certificates of the series of 1918 and 1919.
[3] Excess of credits, deduct.
[4] $4,584,262.92 for this purpose included under "Other independent offices and commissions" above.

Public debt expenditures and receipts for fiscal year 1924 and estimates for fiscal years 1925 and 1926

[On basis of daily Treasury statements, unrevised]

	Fiscal year 1924		Fiscal year 1925		Fiscal year 1926	
EXPENDITURES						
Certificates of indebtedness		[1] $1,032,270,000		$807,513,500		$1,000,000,000
Victory notes		80,751,050		10,000,000		2,000,000
Treasury notes and Liberty bonds		866,428,500		1,391,500,000		927,000,000
Treasury bonds		6,000				
Treasury (war) savings securities		87,457,799		15,000,000		12,000,000
Loan of 1925				115,000,000		3,489,900
Retirements of Federal reserve bank notes and national-bank notes		33,084,377		85,000,000		60,000,000
Old debt items		45,337		15,000		10,000
Total public debt expenditures		[1] 2,100,043,063		2,424,028,500		2,004,499,900
Deduct debt expenditures chargeable against ordinary receipts:						
Sinking fund	$295,987,350		$310,000,000		$323,175,000	
Purchase of Liberty bonds from foreign repayments	38,509,150		208,600			
Received from foreign governments under debt settlements	110,878,450		160,345,601		160,641,130	
Redemption of bonds and notes from estate taxes	8,897,050		100,000			
Retirements from Federal reserve bank franchise tax receipts	3,634,550		1,000,000		500,000	
Obligations retired from net earnings of Federal intermediate credit banks			152,200		450,000	
Retirements from gifts, forfeitures, etc	93,200					
		457,999,750		471,806,401		484,766,130
		1,642,043,313		1,952,222,099		1,519,733,770
RECEIPTS						
Deposits to retire Federal reserve bank notes and national-bank notes		28,453,557		110,000,000		20,000,000
Treasury savings securities		163,866,320				
Other new issues of securities, including Treasury notes and certificates		808,828,810		1,774,337,610		1,125,990,056
Total public debt receipts		[1] 1,001,148,687		1,884,337,610		1,145,990,056
Excess of public debt retirements over the retirements chargeable against ordinary receipts due to indicated surplus and decrease in general fund balance		640,894,626		67,884,489		373,743,714
		1,642,043,313		1,952,222,099		1,519,733,770

[1] Public debt expenditures and public debt receipts, as shown in this statement, are exclusive of $1,206,307,000 Treasury certificates issued and retired within the same fiscal year.

Cash expenditures of the Government for the fiscal years 1917 to 1924, inclusive, as published in daily Treasury statements, classified according to departments and establishments

(Because of legislation establishing revolving funds and providing for the reimbursement of appropriations, commented upon in the Annual Report of the Secretary of the Treasury for the fiscal year 1919, p. 126 ff., the gross expenditures in the case of some departments and agencies, notably the War Department, the Railroad Administration, and the Shipping Board, have been considerably larger than here stated. This statement does not include expenditures on account of the Postal Service other than salaries and expenses of the Post Office Department in Washington, postal deficiencies, and items appropriated by Congress payable from the general fund of the Treasury.)

	1917 (revised)	1918	1919	1920	1921	1922 [1]	1923 [1]	1924 [1]
ORDINARY								
General expenditures:								
Legislative establishment [2]	$15,092,373.97	$15,825,506 72	$17,090,106.24	$19,327,708.72	$18,982,565.17	$17,088,112.87	$14,165,243.89	$14,315,684.73
Executive proper [2]	1,280,484.85	9,662,847.53	17,467,352.03	6,675,517.58	210,056.79	218,690.36	349,380.15	450,952.65
State Department	6,169,316.41	9,892,898.09	20,766,400.14	13,586,024.42	8,780,796.84	9,666,571.70	15,463,276.30	14,669,456.89
Treasury Department	84,294,313.65	152,500,426.53	227,277,657.81	322,315,627.43	488,636,833.10	209,104,990.87	145,016,859.60	137,411,205.17
War Department	358,158,361.12	4,850,687,186.88	8,995,880,266.18	1,610,587,380.86	1,101,615,013.32	454,730,717.67	392,733,634.86	348,629,778.55
Department of Justice	10,566,401.25	12,964,628.18	15,717,022.36	17,814,398.18	17,206,418.03	17,888,828.58	23,521,485.79	21,134,228.10
Post Office Department	1,895,578.21	4,173,103.28	2,412,250.05	50,049,295.07	[3] 135,359,108.17	3,384,127.31	146,942.46	186,789.29
Navy Department	239,632,756.63	1,278,840,486.80	2,002,310,785.02	736,021,456.43	650,373,835.58	476,775,193.84	333,201,362.31	332,249,136.67
Interior Department	216,415,516.48	244,556,893.96	288,285,627.61	279,244,660.87	357,814,893.01	331,814,027.57	354,623,058.88	328,227,697.11
Department of Agriculture	29,547,234.01	42,870,188.28	39,246,454.41	65,546,293.14	119,837,759.41	142,695,844.10	128,745,677.33	141,116,440.69
Department of Commerce	11,689,792.94	12,833,808.82	15,589,514.30	30,010,737.75	30,828,761.55	21,688,014.86	21,783,508.71	21,429,678.93
Department of Labor	3,852,111.34	5,469,268.09	12,942,558.75	5,415,358.40	8,502,509.55	6,227,471.57	7,241,466.73	6,620,052.55
Veterans' Bureau [4]						[4] 376,749,664.29	[5] 461,719,433.83	[5] 409,120,863.66
Other independent offices and commissions [2]	7,558,829.88	12,714,740.06	75,375,809.41	59,469,305.17	119,942,516.73	43,871,656.40	28,712,285.42	32,846,244.39
District of Columbia	13,681,595.39	14,446,832.46	16,014,105.80	19,987,898.41	22,715,158.60	23,731,562.56	24,053,705.47	25,873,115.19
Total	999,834,666.13	6,667,438,815.68	11,746,375,910.11	3,236,051,662.43	3,080,806,225.85	2,135,635,474.55	1,951,477,321.73	1,834,281,324.57
Deduct unclassified items	[6] 150,275.43	[6] 26,469,620.31	[6] 895,060.84	4,399,847.00	922,593.14	[6] 232,088.59	1,436,386.81	1,234,150.47
Total	999,984,941.56	6,693,908,435.99	11,747,270,970.95	3,231,651,815.43	3,079,883,632.71	2,135,867,563.14	1,950,040,934.92	1,833,047,174.10

[1] The figures given for operations in special accounts are net figures and make allowance for receipts and deposits credited to the account concerned.

[2] In the fiscal years 1921, 1922, and 1923, changes were made in classification of expenditures between legislative establishment, executive proper, and other independent offices and commissions, which account for most of the differences as compared with expenditures for other fiscal years.

[3] Owing to settlement between the Post Office Department and the Railroad Administration on account of transportation during Federal control, Post Office Department expenditures for June, 1921, include $65,575,832.03 paid to the Railroad Administration. Deposit of this payment by Railroad Administration resulted in decrease in expenditures on account of "Federal control of transportation systems and transportation act, 1920," by a corresponding amount.

[4] Payments on account of veterans' relief made prior to Aug. 11, 1921, by the War Risk Insurance Bureau are included under Treasury Department, while similar payments made prior to that date by the Federal Board for Vocational Education are included under other independent offices and commissions. During the fiscal year 1922 allotments for veterans' relief have been made to the Treasury Department in the amount of $26,350,668.66, to the War Department in the amount of $4,866,383.40, and to the Navy Department in the amount of $529,237.84, but expenditures under these allotments appear as expenditures of the respective departments and not of the Veterans' Bureau.

[5] During the fiscal year 1923 allotments for veterans' relief have been made to the Treasury Department in the amount of $3,164,425.11, to the War Department in the amount of $4,889,241.91, and to the Navy Department in the amount of $2,652,303. During the fiscal year 1924, allotments for veterans' relief have been made to the Treasury Department in the amount of $457,150, to the War Department in the amount of $4,434,713.92, to the Navy Department in the amount of $1,474,600, and to the Interior Department in the amount of $44,791.

[6] Add.

Cash expenditures of the Government for the fiscal years 1917 to 1924, inclusive, as published in daily Treasury statements, classified according to departments and establishments—Continued

	1917 (revised)	1918	1919	1920	1921	1922	1923	1924
ORDINARY—continued								
Interest on public debt	$24,742,701.68	$189,743,277.14	$619,215,569.17	$1,020,251,622.28	$999,144,731.35	$991,000,759.24	$1,055,923,689.61	$940,602,912.92
Refunds of receipts:								
Customs [7]						37,124,086.84	28,736,711.58	20,566,638.33
Internal revenue [7]						45,702,272.89	125,279,043.35	127,220,151.47
Postal deficiency [8]						64,346,234.52	32,526,914.89	12,638,849.75
Panama Canal	19,782,509.32	19,268,099.30	13,195,522.37	11,365,714.01	16,461,409.47	3,025,421.32	4,316,961.30	8,387,099.90
Payment for West Indian Islands	25,000,000.00							
Operations in special accounts:								
Railroads		120,263,996.17	358,795,274.60	[9] 1,036,672,157.53	[20] 730,711,669.98	[10 11] 139,469,450.82	100,618,067.12	22,771,167.74
War Finance Corporation		44,929,168.38	302,621,846.92	[12] 228,472,186.61	[10] 22,028,452.12	94,428,001.01	[10] 109,436,238.13	[10] 52,539,947.20
Shipping Board	14,291,282.96	770,681,550.83	1,820,606,870.90	530,565,649.61	130,723,268.26	87,205,732.12	57,023,838.18	85,491,358.71
Alien property funds [13]						1,825,643.99	[10] 1,365,554.16	[10] 1,150,576.16
Grain Corporation				[14] 350,328,494.70	[15] 90,353,411.42	[16] 32,000,000.00		
Sugar Equalization Board						[10] 15,279,636.52	2,482,476.33	
Food and Fuel Administrations		54,859,896.40	87,338,207.08					
Purchase of obligations of foreign governments	885,000,000.00	4,738,029,750.00	3,479,255,265.56	421,337,028.09	73,896,697.44	717,834.36		
Purchase of Federal farm loan bonds		65,018,296.93	86,580,427.48	29,643,546.17	16,781,320.79			
Subscription to stock, Federal land banks	8,880,315.00							
Loans to railroads							13,526,587.00	12,971,000.00
Investment of trust funds:								
Government life insurance fund [7]						24,599,340.52	26,672,161.78	30,410,378.80
Civil service retirement fund [17]						9,283,138.54	8,091,417.48	8,028,336.62
District of Columbia teachers' retirement fund [18]						230,958.69	190,517.91	233,420.36
Total ordinary	1,977,681,750.52	12,696,702,471.14	18,514,879,955.03	6,403,343,841.21	5,115,927,689.30	3,372,607,899.84	3,294,627,529.16	3,048,677,965.34
Public debt retirements chargeable against ordinary receipts:								
Sinking fund					261,100,250.00	276,046,000.00	284,018,800.00	295,987,350.00
Purchases from foreign repayments			7,921,700.00	72,669,900.00	73,939,300.00	64,837,900.00	32,140,000.00	38,509,150.00
Received from foreign governments under debt settlements							68,752,950.00	110,878,450.00
Received for estate taxes			93,050.00	3,141,050.00	26,348,950.00	21,084,850.00	6,568,550.00	8,897,050.00
Purchases from franchise tax receipts (Federal reserve banks)		1,134,234.48		2,922,450.00	60,724,500.00	60,333,000.00	10,815,300.00	3,634,550.00
Forfeitures, gifts, etc				12,950.00	168,500.00	392,850.00	554,891.10	93,200.00
Total		1,134,234.48	8,014,750.00	78,746,350.00	422,281,500.00	422,694,600.00	402,850,491.10	457,999,750.00

Total expenditures chargeable against ordinary receipts	1,977,681,750.52	12,697,836,705.62	18,522,894,705.03	6,482,090,191.21	5,538,209,189.30	3,795,302,499.84	3,697,478,020.26	3,506,677,715.34
PUBLIC DEBT								
Public debt retirements chargeable against ordinary receipts (see above)		1,134,234.48	8,014,750.00	78,746,350.00	422,281,500.00	422,694,600.00	402,850,491.10	457,999,750.00
Other public debt expenditures	677,544,782.25	7,213,555,218.81	16,318,491,810.41	16,959,293,373.62	8,759,745,670.69	6,608,531,896.93	7,560,947,689.07	2,848,350,313.17
Total public debt	677,544,782.25	7,214,689,453.29	16,326,506,560.41	17,038,039,723.62	9,182,027,170.69	7,031,226,496.93	7,963,798,180.17	3,306,350,063.17
Recapitulation:								
Certificates of indebtedness	632,572,268.00	7,086,312,732.00	15,538,078,900.00	15,589,117,458.53	8,552,225,500.00	4,775,864,950.00	5,095,993,000.00	2,238,577,000.00
Treasury notes	[19] 4,390,000.00	[19] 27,362,000.00	[19] 19,150,000.00				143,339,500.00	356,981,600.00
Treasury bonds							8,000.00	6,000.00
War savings securities		2,727,345.96	131,519,529.91	200,982,934.62	160,256,308.19	84,663,504.53	528,157,586.60	54,051,976.93
Treasury savings securities						1,457,200.00	15,996,572.75	33,405,822.10
First Liberty bonds		656,000.00	4,003,050.00	32,336,700.00	202,650.00	413,600.00	78,550.00	240,450.00
Second Liberty bonds		61,050,000.00	180,351,000.00	241,144,200.00	8,703,400.00	6,015,150.00	111,539,900.00	94,469,500.00
Third Liberty bonds		14,935,500.00	201,655,700.00	296,300,800.00	51,172,350.00	137,788,400.00	65,987,100.00	410,600,450.00
Fourth Liberty bonds			165,000,000.00	405,222,800.00	39,414,450.00	9,574,450.00	16,751,650.00	4,136,500.00
Victory notes				249,001,500.00	332,439,450.00	1,908,139,250.00	1,911,285,650.00	80,751,050.00
Other debt items	18,398.75	20,650.33	63,029,583.00	509,165.97	152,361.50	58,122.40	246,106.82	45,336.64
National-bank notes and Federal reserve bank notes	40,564,115.50	21,625,225.00	23,718,797.50	23,424,164.50	37,460,701.00	107,251,870.00	74,414,564.00	33,084,377.50
Total public debt	677,544,782.25	7,214,689,453.29	16,326,506,560.41	17,038,039,723.62	9,182,027,170.69	7,031,226,496.93	7,963,798,180.17	3,306,350,063.17

[7] Included under Treasury Department prior to fiscal year 1922.

[8] Included under Post Office Department prior to fiscal year 1922.

[9] Includes $288,399,222.46 payments on certificates of indebtedness of Director General of Railroads, due July 15, 1919.

[10] Deduct, excess of credits.

[11] The railroad expenditures during the fiscal year 1922 were reduced by $266,636,606.26, on account of deposits by the Railroad Administration, representing proceeds of sale of equipment trust notes acquired under the Federal control act approved Mar. 21, 1918, as amended, and the act approved Nov. 19, 1919, and were further reduced by $123,783,487.75, on account of deposits of the proceeds of sale or collection of other securities acquired under the Federal control act or transportation act, 1920. In 1923 and 1924 receipts on these accounts were included in the daily Treasury statement under miscellaneous receipts, proceeds of Government-owned securities, railroad securities.

[12] Deduct excess of credits resulting from deposits of War Finance Corporation representing proceeds of redemptions of its holdings of United States securities. (See note 2, p. 2, daily Treasury statement for June 30, 1920.)

[13] Included under Executive proper prior to fiscal year 1922.

[14] Includes $350,000,000 applied by United States Grain Corporation to reduction of capital stock and reflected in "Miscellaneous receipts for fiscal year 1920." (See note 1, p. 2, daily Treasury statement for June 30, 1920.)

[15] Net expenditures after taking into account credits and $100,000,000 applied to reduction in capital stock of United States Grain Corporation.

[16] $25,000,000 of this amount represents reduction in capital stock of United States Grain Corporation effected Oct. 17, 1921, and is reflected in an increase of receipts in an equal amount. (See note p. 2, daily Treasury statement for Oct. 18, 1921.)

[17] Established by act of May 22, 1920, and included under Interior Department prior to fiscal year 1922.

[18] Included under District of Columbia prior to fiscal year 1922.

[19] One-year Treasury notes issued under section 18, Federal reserve act.

[20] Owing to settlement between the Post Office Department and the Railroad Administration on account of transportation during Federal control, Post Office Department expenditures for June, 1921, include $65,575,832.03 paid to the Railroad Administration. Deposit of this payment by Railroad Administration resulted in decrease in expenditures on account of "Federal control of transportation systems and transportation act, 1920," by a corresponding amount.

Principal of the public debt at the end of each fiscal year, from 1853 to 1924,[1] exclusive of gold certificates, silver certificates, currency certificates, and Treasury notes of 1890

June 30—	Interest bearing [2]	Matured	Non-interest bearing [3]	Total gross debt	Gross debt per capita
1853	$59,642,412	$162,249	.....	$59,804,661	$2.36
1854	42,044,517	199,248	.....	42,243,765	1.62
1855	35,418,001	170,498	.....	35,588,499	1.32
1856	31,805,180	168,901	.....	31,974,081	1.15
1857	28,503,377	197,998	.....	28,701,375	1.01
1858	44,743,256	170,168	.....	44,913,424	1.53
1859	58,333,156	165,225	.....	58,498,381	1.93
1860	64,683,256	160,575	.....	64,843,831	2.06
1861	90,423,292	159,125	.....	90,582,417	2.83
1862	365,356,045	230,520	$158,591,390	524,177,955	16.03
1863	707,834,255	171,970	411,767,456	1,119,773,681	33.56
1864	1,360,026,914	366,629	455,437,271	1,815,830,814	53.33
1865	2,217,709,407	2,129,425	458,090,180	2,677,929,012	77.07
1866	2,322,116,330	4,435,865	429,211,734	2,755,763,929	77.69
1867	2,238,954,794	1,739,108	409,474,321	2,650,168,223	73.19
1868	2,191,326,130	1,246,334	390,873,992	2,583,446,456	69.87
1869	2,151,495,065	5,112,034	388,503,491	2,545,110,590	67.41
1870	2,035,881,095	3,569,664	397,002,510	2,436,453,269	63.19
1871	1,920,696,750	1,948,902	399,406,489	2,322,052,141	58.70
1872	1,800,794,100	7,926,547	401,270,191	2,209,990,838	54.44
1873	1,696,483,950	51,929,460	402,796,935	2,151,210,345	51.62
1874	1,724,930,750	3,216,340	431,785,640	2,159,932,730	50.47
1875	1,708,676,300	11,425,570	436,174,779	2,156,276,649	49.06
1876	1,696,685,450	3,902,170	430,258,158	2,130,845,778	47.21
1877	1,697,888,500	16,648,610	393,222,793	2,107,759,903	45.47
1878	1,780,735,650	5,594,070	373,088,595	2,159,418,315	45.37
1879	1,887,716,110	37,015,380	374,181,153	2,298,912,643	47.05
1880	1,709,993,100	7,621,205	373,294,567	2,090,908,872	41.69
1881	1,625,567,750	6,723,615	386,994,363	2,019,285,728	39.35
1882	1,449,810,400	16,260,555	390,844,689	1,856,915,644	35.37
1883	1,324,229,150	7,831,165	389,898,603	1,721,958,918	32.07
1884	1,212,563,850	19,655,955	393,087,639	1,625,307,444	29.60
1885	1,182,150,950	4,100,745	392,299,474	1,578,551,169	28.11
1886	1,132,014,100	9,704,195	413,941,255	1,555,659,550	27.10
1887	1,007,692,350	6,114,915	451,678,029	1,465,485,294	24.97
1888	936,522,500	2,495,845	445,613,311	1,384,631,656	23.09
1889	815,853,990	1,911,235	431,705,286	1,249,470,511	20.39
1890	711,313,110	1,815,555	409,267,919	1,122,396,584	17.92
1891	610,529,120	1,614,705	393,662,736	1,005,806,561	15.75
1892	585,029,330	2,785,875	380,403,636	968,218,841	14.88
1893	585,037,100	2,094,060	374,300,606	961,431,766	14.49
1894	635,041,890	1,851,240	380,004,687	1,016,897,817	15.04
1895	716,202,060	1,721,590	378,989,470	1,096,913,120	15.91
1896	847,363,890	1,636,890	373,728,570	1,222,729,350	17.40
1897	847,365,130	1,346,880	378,081,703	1,226,793,713	17.14
1898	847,367,470	1,262,680	384,112,913	1,232,743,063	16.90
1899	1,046,048,750	1,218,300	389,433,654	1,436,700,704	19.33
1900	1,023,478,860	1,176,320	238,761,733	1,263,416,913	16.56
1901	987,141,040	1,415,620	233,015,585	1,221,572,245	15.71
1902	931,070,340	1,280,860	245,680,157	1,178,031,357	14.89
1903	914,541,410	1,205,090	243,659,413	1,159,405,913	14.40
1904	895,157,440	1,970,920	239,130,656	1,136,259,016	13.88
1905	895,158,340	1,370,245	235,828,510	1,132,357,095	13.60
1906	895,159,140	1,128,135	246,235,695	1,142,522,970	13.50
1907	894,834,280	1,086,815	251,257,098	1,147,178,193	13.33
1908	897,503,990	4,130,015	276,056,398	1,177,690,403	13.46
1909	913,317,490	2,883,855	232,114,027	1,148,315,372	12.91
1910	913,317,490	2,124,895	231,497,584	1,146,939,969	12.69

[1] Figures for 1853 to 1885, inclusive, are taken from "Statement of Receipts and Expenditures of the Government from 1855 to 1885 and Principal of Public Debt from 1791 to 1885," compiled from the official records of the Register's office. Later figures are taken from the monthly debt statements and revised figures published in the annual reports of the Secretary of the Treasury.

[2] Exclusive of bonds issued to the Pacific railways (provision having been made by law to secure the Treasury against both principal and interest) and the Navy pension fund (which was in no sense a debt, the principal being the property of the United States).

[3] Includes old demand notes; United States notes, less the amount of the gold reserve since 1900; postal currency and fractional currency less the amounts officially estimated to have been destroyed; and also the redemption fund held by the Treasury to retire national-bank notes of national banks failed, in liquidation, and reducing circulation, which prior to 1890 was not included in the published debt statements. Does not include gold, silver, or currency certificates or Treasury notes of 1890 for redemption of which an exact equivalent of the respective kinds of money or bullion was held in the Treasury

Principal of the public debt at the end of each fiscal year, from 1853 to 1924,[1] *exclusive of gold certificates, silver certificates, currency certificates, and Treasury notes of 1890*—Continued

June 30—	Interest bearing [2]	Matured	Non-interest bearing [3]	Total gross debt	Gross debt per capita
1911	$915,353,190	$1,879,830	$236,751,917	$1,153,984,937	$12.28
1912	963,776,770	1,760,450	228,301,285	1,193,838,505	12.48
1913	965,706,610	1,659,550	225,681,585	1,193,047,745	12.26
1914	967,953,310	1,552,560	218,729,530	1,188,235,400	12.00
1915	969,759,090	1,507,260	219,997,718	1,191,264,068	11.83
1916	971,562,590	1,473,100	252,109,878	1,225,145,568	11.96
1917	2,712,549,477	14,232,230	248,836,878	2,975,618,585	28.57
1918	11,985,882,436	20,242,550	237,503,733	12,243,628,719	115.65
1919	25,234,496,274	11,109,370	236,428,775	25,482,034,419	240.09
1920	24,061,095,362	6,747,700	230,075,350	24,297,918,412	228.33
1921	23,737,352,080	10,939,620	227,958,908	23,976,250,608	221.82
1922	22,711,035,587	25,250,880	227,792,723	22,964,079,190	209.25
1923	22,007,590,754	98,172,160	243,924,844	22,349,687,758	200.86
1924	20,981,586,430	30,241,250	239,292,747	21,251,120,427	188.59

[1] Figures for 1853 to 1885, inclusive, are taken from "Statement of Receipts and Expenditures of the Government from 1855 to 1885 and Principal of Public Debt from 1791 to 1885," compiled from the official records of the Register's office. Later figures are taken from the monthly debt statements and revised figures published in the annual reports of the Secretary of the Treasury.

[2] Exclusive of bonds issued to the Pacific railways (provision having been made by law to secure the Treasury against both principal and interest) and the Navy pension fund (which was in no sense a debt, the principal being the property of the United States).

[3] Includes old demand notes; United States notes, less the amount of the gold reserve since 1900; postal currency and fractional currency less the amounts officially estimated to have been destroyed; and also the redemption fund held by the Treasury to retire national-bank notes of national banks failed, in liquidation, and reducing circulation, which prior to 1890 was not included in the published debt statements. Does not include gold, silver, or currency certificates or Treasury notes of 1890 for redemption of which an exact equivalent of the respective kinds of money or bullion was held in the Treasury.

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PAPER CURRENCY

AND

STANDARD SILVER DOLLARS

▽

EXTRACT FROM
THE REPORT OF THE SECRETARY OF THE TREASURY
ON THE STATE OF THE FINANCES FOR
THE FISCAL YEAR 1924

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

PAPER CURRENCY

The matter of paper currency supply has been one of the major problems within the department since the beginning of the World War. Important changes in kinds, amounts, and denominations of paper currency issues have occurred, and many difficulties have been encountered in the production. Increasing demands, particularly for $1 notes, have taxed the department's resources. The condition of the notes outstanding generally is very much below the desirable standard, and has caused no end of complaint from all parts of the country. It has been increasingly difficult to meet all demands for notes.

From time to time the department has considered the matter of paper currency supply and has adopted measures which, in part, have given temporary relief, but no definite program was developed for a permanent solution of the difficulties. Before the war, generally speaking, the supply of currency notes was ample, and the condition of those in circulation was satisfactory; the average life of the $1 denomination was about 11 months, and of the higher denominations somewhat longer. During the war period the life of the notes was materially shortened. This is attributed to changes in the stock composition of the distinctive paper and to changes in printing procedure made necessary to supply the currency needs. As soon as possible the department undertook corrective measures. The situation did not improve, but as a matter of fact grew worse.

Early in this fiscal year an intensive study of the situation was undertaken to determine definitely what should be done. A complete survey of conditions, requirements, and manufacturing procedure was made. As a result certain very definite conclusions were reached and a currency printing program for the balance of the present fiscal year and extending through the next fiscal year was proposed and adopted.

It was shown that conditions imposed during the war had largely persisted because of continuing and even increasing demands for currency. Such demands have continued in excess of the department's facilities under available appropriations, and it has been necessary to depart from the approved standard of fitness, and pay back into circulation large quantities of notes that should have been retired as unfit. The result is a lower standard generally throughout the

country. And it has been shown that the most important adverse factor in the situation is the depletion of reserve stocks. Formerly there were maintained reserve stocks of blank paper, reserve stocks of incomplete currency in the Bureau of Engraving and Printing, reserve stocks of completed notes in the Treasurer's office, and considerable amounts of new and fit notes in the cash balance of Federal reserve banks. During the period 1917 to 1920 the production of Liberty bonds, war savings stamps, and other securities required a large share of the facilities of the Bureau of Engraving and Printing. In the face of increased demands for currency it was necessary to deplete the reserve stocks, and ultimately to deliver the notes direct from the presses. This meant that a note was completed and issued in three weeks, whereas under normal conditions the processes of seasoning and manufacture covered a period of three months. Currency that is rushed into circulation without preliminary seasoning lacks the wearing quality attained only through such seasoning, and as a consequence of this depletion of reserves the life of the notes has been reduced by three or four months. There is no possibility of correcting this defect except through restoration of the reserve stocks.

The approved program for currency supply, in short, includes provision for printing additional notes to improve the general standard of those in circulation; for providing a moderate increase in the amount of $1 notes outstanding; for providing the certificates required to restore gold to circulation; for establishing a reserve of blank paper approximating one month's requirements; for providing a reserve of incomplete currency in the Bureau of Engraving and Printing the equivalent of one month's product; and for providing a reserve of completed notes in the Treasurer's office equal to one month's requirements.

To make this program effective will require supplemental appropriations for the fiscal year 1925 in aggregate amount $2,879,750.19. To request an appropriation of this amount, when it is the policy of the department to curtail expenditures, might, at first glance, seem ill-advised, and would be so were there not a real emergency present. Moreover, the program presented is to a certain extent self-supporting. The building up of reserve stocks will increase the life of the currency to such an extent that after the fiscal year 1926 the savings derived by this added life of the currency will amount to at least $1,500,000 each year, which in two years would equal the amount of the supplemental appropriation requested, and thereafter will continue as an annual saving.

STANDARD SILVER DOLLARS

On August 16, 1924, the Treasury announced its program for increasing the circulation of silver dollars. Following the violent

fluctuations in the price of silver during 1920, there was a substantial decline in the number of silver dollars in the hands of the public, and since that time the circulation of these coins has been considerably below the level maintained during and prior to the war, as shown in the following table:

Standard silver dollars in circulation

[In millions of dollars]

June 30		June 30	
1910	72	1918	78
1911	72	1919	79
1912	70	1920	77
1913	72	1921	56
1914	70	1922	58
1915	64	1923	57
1916	66	1924	54
1917	72		

Efforts have been made from time to time to restore this coin to its former place in the currency structure. Federal reserve banks have sought the assistance of their member banks in an effort to keep the silver dollars in active circulation. Owing to the fact, however, that the cost of shipping silver dollars falls on the member banks while the cost of shipping paper currency is absorbed by the Federal reserve banks, this effort has proved unsuccessful. Furthermore, there was no real demand for silver dollars, since the public had become accustomed to using paper dollars and gave no consideration to the fact that the excessive use of paper money of this denomination was adding an appreciable sum to the expenses of the Government.

The Treasury is now endeavoring to acquaint the public with the desirability of accepting silver dollars as an auxiliary to paper money. Plans have been formulated to increase their circulation to the extent of $40,000,000, and the various departments of the Government have been requested to cooperate in this movement by using silver in making salary payments to Government employees throughout the United States. Field officers of the various departments have agreed in making salary payments to use silver dollars for all odd amounts in sums under $5. The Federal reserve banks have been requested to circularize their member banks, urging that they cooperate in explaining to the public the savings that will accrue to the Government and the assistance that will be given the Treasury in its currency program of building up reserve stocks of dollar bills.

During the last three years an unprecedented demand has developed for paper currency of the smaller denominations. This is particularly true of $1 notes, which are being used in increasingly large numbers. In order to supply the demand and to meet redemptions of unfit and mutilated dollar bills, it is necessary to print and

put into circulation 48,000,000 of these bills each month. A note which is rushed through the process of manufacture becomes unfit for circulation within 7 or 8 months of issue, whereas notes which have been given a reasonable period of seasoning, will continue in circulation from 10 to 11 months. Elsewhere in this report the Treasury's plans for increasing the quantity and improving the quality of paper currency are set forth in full. One of the most important phases of the Treasury's program is the setting up of a reserve supply of currency sufficiently large in amount to keep a portion of it in process of seasoning. The building up of an adequate currency reserve will take time. One way of facilitating the operation is to increase the number of standard silver dollars in circulation, thus enabling the Treasury to build up a reserve of paper dollars to the extent of the increased circulation of silver.

There are many reasons why the silver dollar should be restored to its former importance in the currency structure. In the first place, the life of a silver dollar is indefinite, whereas that of a paper dollar does not at most exceed 11 months. A paper dollar costs $1\frac{7}{10}$ cents to manufacture and keep in circulation. If the Treasury, therefore, can restore to circulation 30,000,000 silver dollars in continental United States and 10,000,000 in our insular possessions, it can displace equal amounts of paper currency and effect an annual saving of $828,000 on this item alone. The use of the silver dollar is not an innovation. It has merely lost its place temporarily in the circulation in certain localities, and all that is proposed is to restore a very limited amount of these coins as an auxiliary to the paper currency.

Suggestions have been received from various sources as to the advantages of issuing a metallic "token" coin in place of the silver certificate or the standard silver dollar itself, the token to be smaller in size and so different in design that it could not be mistaken for any of the subsidiary coins. Proper reserves could be set up against this circulation and we would in effect have a metallic dollar certificate instead of a paper dollar certificate. The thought behind this idea is perfectly sound and if economy of manufacture were the only consideration the project might be put into effect. The ease of manufacture, however, raises an obstacle, for unless the alloy should contain an amount of precious metal approaching the face value of the coin, counterfeiting would be extremely easy.

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PROGRAM FOR RETIRING NATIONAL BANK CIRCULATION

EXTRACT FROM
THE REPORT OF THE SECRETARY OF THE TREASURY
ON THE STATE OF THE FINANCES FOR
THE FISCAL YEAR 1924

WASHINGTON
GOVERNMENT PRINTING OFFICE
1924

PROGRAM FOR RETIRING NATIONAL-BANK CIRCULATION

On November 1 of this year the Secretary of the Treasury announced that he had called for redemption and payment on February 2, 1925, the 4 per cent loan of 1925 amounting to $118,489,900, and that such bonds will cease to bear interest on that date. By the acts of July 14, 1870, and January 14, 1875, under which these bonds were issued, they are redeemable at the pleasure of the United States after February 1, 1925, upon three months' notice. The public was advised of the Treasury's intention over seven months in advance of the date on which the bonds were to be called, thus discouraging speculation in the bonds and indicating the course which the Treasury proposed to follow.

For many years prior to the enactment of the Federal reserve act much thought had been devoted to the study of our currency system with a view to providing some form of currency more responsive to the needs of commerce and business than the rigid, inelastic, bond-secured circulation which has little or no relation to the legitimate demands for currency. Periodic money panics due to the inflexible limitations placed upon our circulating medium by the requirements of law resulted in country-wide distress and failure of banks and business concerns. For years we labored under the handicaps of an unscientific and wholly inadequate currency system.

It was only after the bitter experiences of 1893 and 1907 and as a result of the study of expert commissions, that Congress finally passed the Federal reserve act. This act, according to its title, was "To provide for the establishment of Federal reserve banks, *to furnish an elastic currency*, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

The chief purpose of this law, so far as it relates directly to the currency, was to provide a modern, elastic form of currency which would expand and contract in accordance with varying trade needs. The creation of such a currency involves the retirement of our inelastic national-bank circulation.

To visualize clearly just how rigid our currency system was prior to the enactment of the Federal reserve act, there are listed below the classes and amounts of outstanding paper currency on July 1, 1914, a date just prior to the World War, and four and one-half months prior to the opening of the Federal reserve banks. The amounts given represent the total stock of paper money in the country:

(*a*)	Gold certificates	$1, 080, 974, 869
(*b*)	Silver certificates	490, 850, 000
(*c*)	Treasury notes of 1890	2, 439, 000
(*d*)	United States notes	346, 681, 016
(*e*)	National-bank notes	750, 671, 899
		2, 671, 616, 784

It will be noted that there is no great degree of elasticity in any one of these five forms of paper currency. It may be well to consider each in turn:

Certificates, gold and silver.—Both gold and silver certificates are in the nature of warehouse receipts issued by the Government, certifying that there has been deposited in the Treasury of the United States an equivalent amount of gold or silver dollars, as the case may be, payable to the bearer on demand. They are a convenient paper substitute for the metal itself and are limited dollar for dollar to the amount of coin (or coin and bullion in the case of gold certificates) deposited in the Treasury.

Treasury notes of 1890.—Approximately $156,000,000 of these notes were originally issued to pay for the purchase of silver by the Secretary of the Treasury, but under the act authorizing the issue and the act of March 14, 1900, all but approximately $1,400,000 have been retired, and these now compose an insignificant part of our circulating medium.

United States notes.—The total amount of United States notes (more commonly known as "greenbacks" or "legal tenders") authorized by law was $450,000,000, and the highest amount outstanding at any one time was $449,338,902 (January 30, 1864). Through authorized retirements the amount was reduced to $346,681,016 on May 31, 1878, when Congress passed an act requiring all such notes to be reissued when redeemed. While, therefore, these notes can not be further reduced under the present provisions of the law, neither can they be increased. They constitute a fixed and inflexible element in our currency situation.

National-bank notes.—The only other form of circulating paper currency authorized by law at the time the Federal reserve law was passed was the national-bank note. On July 1, 1914, there was outstanding $750,671,899 of this kind of currency, more than one-fourth of the total stock of paper currency in the country.

These notes were first authorized by the act of February 25, 1863, an act which was superseded by the act of June 3, 1864, entitled "An act to provide a national currency, secured by the pledge of United States bonds, and to provide for the circulation and redemption thereof." This is the basic act for the national banking system, and it is generally recognized that the power given to banks chartered thereunder to issue circulating notes against the pledge of United States bonds was largely to accomplish two purposes—to provide an easy market for Government bonds and to provide a uniform circulation which might take the place of the bank notes issued by many different institutions chartered under the laws of the different States. These State-bank notes were taxed out of existence under the terms of the act of March 3, 1865, as amended.

While there is no doubt that the national-bank notes helped to accomplish each of these two purposes and were a vast improvement over most of the State-bank note issues previously circulating, nevertheless it has long been recognized by economists, bankers, and others interested in the establishment of a more perfect currency system, that even this form of bank-note currency—the only supplement to the certificates and notes issued by the Government—failed to serve the growing needs of the country, and that the lack of elasticity of the whole currency system had become a source of real danger. The reason for this is obvious. There are outstanding the following Government bonds which bear the circulation privilege:

	Amount outstanding Oct. 31, 1924	Amount pledged with Treasurer to secure circulation, Nov. 1, 1924
2 per cent consols of 1930	$599,724,050	$589,086,200
4 per cent loan of 1925	118,489,900	76,687,050
2 per cent Panama Canal loan, 1916–1936	48,954,180	48,484,720
2 per cent Panama Canal loan, 1918–1938	25,947,400	25,584,920
	793,115,530	739,842,890

It will be seen from the above table that there are in existence only $53,272,640 of bonds bearing the circulation privilege which are not pledged with the Treasurer to secure circulation. This amount represents the maximum potential increase over the present figures of national-bank circulation. Consequently, it is easy to see how inelastic our currency system would be at the present time were it not for the fact that the Federal reserve banks have authority to issue Federal reserve notes as provided in the Federal reserve act. Even if there were an indefinite supply of eligible bonds against which bank notes could be issued, the element of elasticity, which signifies the power to contract as well as to expand, would still be lacking. In practice there would be expansion, but no automatic inducement on the part of the issuing banks to contract when the need no longer existed. We would still suffer from all the consequent ills of a rigid bond-secured circulation. Diagram No. 6, page 4, shows how inelastic the national-bank bond-secured circulation was from 1900 to 1914 as compared with Federal reserve notes, which were first issued in 1914.

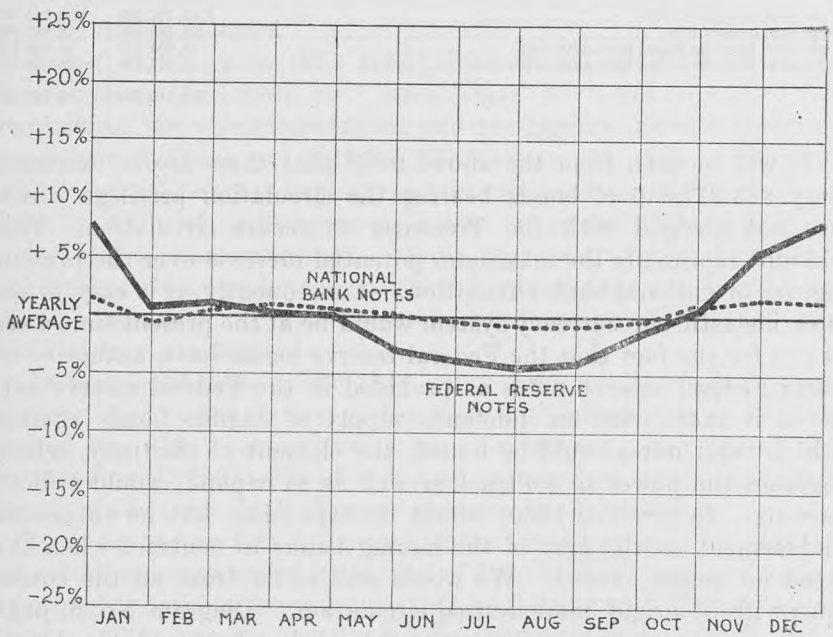
While, therefore, the Federal reserve act has overcome one of the shortcomings of our earlier system in that it has now provided the means of issuing an elastic currency against commercial paper, nevertheless, it has failed to accomplish the gradual retirement of the national-bank circulation, as was contemplated by its authors.

Section 18 of that act provided for the purchase of circulating bonds by Federal reserve banks in amounts not to exceed $25,000,000 a

year for a period of 20 years, with a view to retiring gradually all of the national-bank circulation through this and other provisions of law. This provision of the Federal reserve act was entirely consistent with the plan of legislation suggested by the National Monetary Commission as a result of its many years of investigation of banking throughout the world. In that proposed plan, the provision relating to the purchase of circulating bonds (somewhat similar to that contained in section 18 of the Federal reserve act) was supported by the statement that it was—

> the policy of the United States to retire as rapidly as possible, consistent with the public interests, bond-secured circulation and to substitute therefor notes of the National Reserve Association of a character and secured and redeemed in the manner provided for in this act.

DIAGRAM 6



Seasonal variation of Federal reserve notes (1915-1922) compared with the seasonal variation of national-bank notes (1900-1914).

In other words, it was recognized by students of economics and banking that as soon as Congress should provide the means of issuing an elastic currency, such as that provided by the Federal reserve act, a way should also be provided for the gradual elimination of the bond-secured currency issued by the several thousand different national banks. The provision for the retirement of national-bank notes, moreover, is in keeping with world-established and universally

approved banking practices. With certain exceptions, the central banks of issue in the other nations of the world, whether owned by the Government or by private interests, are the sole media for pro viding paper currency.

As already stated, it was expected that under the terms of section 18 of the Federal reserve act the Federal reserve banks would purchase $25,000,000 of circulation bonds every year, beginning two years after the date of the act. If they had adhered to this program, they would have purchased a total of $225,000,000 by this time. As a matter of fact, owing to the interruption of the war, they have actually presented only $64,000,000 of these bonds for conversion and redemption, and have on hand about $1,000,000. This is about $160,000,000 less than expected under the general plan of the Federal reserve act. It is impossible now, owing to the high market price of all these bonds bearing the circulation privilege, for Federal reserve banks to continue purchases under the provisions of section 18, since that section places a price limit of par and accrued interest. If there s some other way in which the retirement of national-bank notes may be brought about, it is believed that it should be adopted as speedily as may be consistent with the Treasury's other fiscal policies and with due regard to the best interests of the national banks.

It has been suggested that this may not be the proper time to take such action because of the fact that there is already a widespread feeling among national bankers that they are considerably handicapped in their competition with State institutions by the fact that their banking powers generally are more restricted than those of the State institutions. But the proper answer to this suggestion would seem to be not to continue a bank-note currency which is generally agreed to be unscientific and of a more sentimental than material value to the issuing banks, but rather to amend the national-bank act so as to give to those national banks whatever additional banking powers may be necessary in order to enable them effectively and properly to compete with State institutions.

In this connection there are now pending before Congress two bills, known as the McFadden bill and the Pepper bill, both designed to grant those very privileges to national banks. Under the proposed bills some of the present powers will be liberalized and other new powers granted. The Treasury approves the general features of these bills and believes that some such legislation is necessary, not only as a matter of justice to national banks, but also in order to preserve the essential strength and effectiveness of our central banking system. This is obvious when it is considered that approximately two-thirds of the total resources of the member banks of the Federal reserve system are represented by national banks. In view of the likelihood of an early passage of such legislation conferring substan-

tial additional banking powers upon national banks, it is believed that now is the appropriate time to formulate a permanent program for the ultimate retirement of the national-bank circulation.

The 4 per cent loan of 1925, of which $118,489,900 is outstanding, has been called for redemption and payment as of February 2, 1925. The calling of these bonds may be regarded as the initial step in a program which, if not interrupted or curtailed by reason of circumstances or conditions not now discernible, will result ultimately in the retirement of all bonds bearing the circulation privilege.

This program will provide for the retirement of the 2 per cent Panama Canal loan of 1916–1936 (in principal amount of $48,954,180), and the 2 per cent Panama Canal loan of 1918–1938 (in principal amount of $25,947,400), at some date after the passage of the contemplated legislation for the relief of national banks, but before the callable date of the 2 per cent consols of 1930.

The 2 per cent consols of 1930 are not redeemable until after April 1, 1930. By that time the national banks will have had ample opportunity to adjust themselves to the Treasury's plan to retire national-bank circulation. Furthermore, they will then have fully availed themselves of the additional benefits afforded by changes in the national-bank act, if amended. The 2 per cent consols of 1930 should therefore be retired as speedily after April 1, 1930, as may be consistent with other fiscal operations of the Treasury.

It may be suggested that, if the condition of the Treasury precludes the payment in cash of any bonds that are called in accordance with this program and necessitates their refunding into other securities, it would result in increasing the interest obligations of the Treasury. But notwithstanding the possibility of having to refund these bonds at an increased rate, the importance of simplifying our currency system by the elimination of the national-bank note is paramount, and the increased interest rate in such event might properly be considered an investment in behalf of a sound and much-needed monetary reform.

Moreover, an increase in the interest rates on a relatively small proportion of our national debt would not be a net loss to the Government, because, to the extent that the national-bank notes withdrawn from circulation are replaced by Federal reserve notes, the circulation of the latter would be increased and this would tend to increase the profits of the Federal reserve banks—profits in which the Government has very liberal rights of participation. To the extent, moreover, that national-bank notes are replaced by Federal reserve notes, the more efficiently can the Federal reserve banks function as a stabilizing influence on our credit and currency.

It has also been suggested that the retirement of the national-bank note circulation would result in currency shortage. It is believed, however, that there is no sound basis for the fear that any undue or harmful contraction of the currency would result. Even if the Panama Canal loans callable in 1916 and 1918, respectively, and the 4's of 1925 should all be called at the same time, the resulting contraction in national-bank circulation would not exceed approximately $151,000,000, or less than 4 per cent of our total paper currency outstanding. It would be superseded, if needed, by the issue of Federal reserve notes or gold certificates. At the present time the Federal reserve banks, which are now the chief distributers of currency in the United States, arbitrarily make payments of national-bank notes on hand before any other forms of currency. If, however, they should accumulate national-bank notes and pay out other forms of currency first, it would take but a few weeks to substitute $151,000,000 of Federal reserve notes for $151,000,000 of national-bank currency, and the country would never realize that the substitution had been made.

As to the suggestion that national-bank notes are a necessary part of our currency in times of emergency or unusual credit expansion, it may be pointed out that on December 23, 1920, when Federal reserve note circulation was at its maximum ($3,405,000,000), the available reserve against such notes was 49.8 per cent after setting aside 35 per cent against deposit liabilities. It would have been possible at the peak of expansion, therefore, for the Federal reserve banks to have issued $831,000,000 additional Federal reserve notes—over $100,000,000 more than the entire amount of national-bank notes then in circulation—without lowering the reserve against Federal reserve notes below 40 per cent. Even if this $831,000,000 additional currency, which might have been issued under a 40 per cent reserve requirement, had not been sufficient, section 11 of the Federal reserve act specifically authorizes and empowers the Federal Reserve Board to reduce this reserve requirement when necessary. By reducing the reserve requirement only 2 per cent on the above date, therefore, it would have been possible for the reserve banks to have issued $1,054,000,000 of additional currency, and proportionately more with further reductions of the reserve requirement.

But conditions prevailing in 1920 and 1921 were unusual and it is not likely that we shall have a repetition of them. It is hard to contemplate a condition of the Federal reserve banks, moreover, in which it would not be possible to provide sufficient currency for any emergency that might arise. It could have been done in 1920, if it had been necessary, even without the national-bank note circulation. All the more could it be done now when the total reserve of the Federal reserve system is $895,000,000 more than it was at that time—

an increase of about 40 per cent. It is difficult to believe, moreover, that our gold reserve for years to come, even contemplating possible heavy exports to Europe, will not be sufficient to meet every possible emergency.

In conclusion, it seems that it is wise and proper to retire national-bank circulation by calling the bonds against which such circulation is issued, for the following reasons:

(1) A bond-secured bank note is inelastic and unresponsive to the needs of business and commerce.

(2) National-bank circulation is no longer necessary in view of the ability of the Federal reserve banks to issue Federal reserve notes as and when needed.

(3) It was contemplated by the framers of the Federal reserve act, and by the committees of Congress which submitted reports prior thereto, that national-bank circulation should ultimately be retired. The provisions of section 18 looking forward to that end became ineffective only because of the war and war financing.

(4) It is the general policy of other nations to have all currency issued either by the Government itself or by central banks of issue.

(5) The retirement of national-bank circulation would do much to simplify our currency system and to make more effective those provisions of the Federal reserve act relating to an elastic currency.

(6) While it has been argued that national banks may object to abandoning the circulation privilege, nevertheless the value of that privilege is, generally speaking, more sentimental than material. Moreover, the enactment of the so-called McFadden-Pepper bills will confer upon national banks those powers so vitally necessary to enable them successfully to compete with State institutions.

While unforeseen conditions and circumstances affecting the fiscal policies of the Government may arise to interrupt or curtail a general program of retirement, it appears desirable to adopt a tentative program which will include the retirement of the 2 per cent Panama Canal loans, callable in 1916 and 1918. These bonds should not be called until after the passage of the national-bank legislation referred to, but they should be called well in advance of April 1, 1930, the callable date of the 2 per cent consols. Subject to the same conditions and circumstances, the tentative program should further include the retirement of the 2 per cent consols of 1930 as soon as practicable after April 1, 1930.

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Treasury Department
January 3, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

November 30, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$12,305,000,000	$ 1,846,000,000 (1)	$ 10,459,000,000
Territories, insular possessions, and District of Columbia	120,000,000	14,000,000 (2)	106,000,000
United States Government	2,294,000,000	743,000,000 (3)	1,551,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,441,000,000	105,000,000 (4)	1,336,000,000
Total November 30, 1924.	$ 16,160,000,000	$2,708,000,000	$ 13,452,000,000
Comparative totals:			
October 31, 1924	$ 16,056,000,000	$ 2,696,000,000	$ 13,360,000,000
December 31, 1923	14,885,000,000	2,564,000,000	12,321,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.

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

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.

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.

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

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

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 decididing 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

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. The 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 Statute 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,
January 31, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

December 31, 1924.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 12,403,000,000	$ 1,860,000,000 (1)	$ 10,543,000,000
Territories, insular possessions, and District of Columbia	123,000,000	15,000,000 (2)	108,000,000
United States Government	2,293,000,000	737,000,000 (3)	1,556,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,449,000,000	104,000,000 (4)	1,345,000,000
Total December 31,1924	$16,268,000,000	$ 2,716,000,000	$ 13,552,000,000
Comparative totals:			
November 30, 1924	$16,160,000,000	$ 2,708,000,000	$ 13,452,000,000
December 31, 1923 (5)	14,936,000,000	2,571,000,000	12,365,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.
(5) Revised as to estimate of issues by states, counties, cities, etc.

Feb. 2, 1925

not a general release.

The prime purpose of the Act of April 23, 1918, known as the Pittman Act, was to aid in conducting the World War by releasing silver dollars for use in relieving the currency crisis in British India. The situation in India was very acute. The natives of India would not accept paper roupees, demanded silver, and through enemy propaganda a situation was brought about whereby if Great Britain could not furnish silver money the Indian situation would have reached a stage which would have imperiled the Allied cause. Silver was not available in the world market. The only silver that could be used was dollar silver of the United States. It was to meet this crisis that the Act was passed. The Act was not intended as a bonus to silver producers, or to increase the number of silver dollars in the Treasury.

Since 1904 the Treasury had ceased to coin silver dollars. There were at the time the Pittman Act was passed two silver accounts in the Treasury: one, the silver dollars, and two, silver bullion in the subsidiary silver account for coining halves, quarters and dimes. New subsidiary coinage was made every year to meet the demands, and to supply the subsidiary coin account silver bullion was purchased after the solicitation of bids or at the market price where it was received by the Assay Offices mixed with any gold bullion, which under the law the Treasury was compelled to purchase. The melting down of silver dollars, therefore, and sale of the bullion to England for India would presumably, deprive the silver producers of this country of themselves selling silver,

and likewise the melting down of silver dollars and use of the silver bullion for silver coinage would mean that the Treasury was not in the market to buy the silver bullion for subsidiary coinage. The Act accordingly provided that the Treasury should repurchase at $1 an ounce the amount of silver necessary to recoin the silver dollars melted down and also to the extent that silver dollars were melted down and used for subsidiary coinage.

The pending bill is new legislation. It proposes to compel the Treasury to purchase 14,589,730.13 ounces of silver at $1 an ounce when the present price of silver is about 68¢ an ounce. This means the payment to the silver producers of a bonus of about $5,000,000. The excuse for the bill is that it construes the legal effect of the Pittman Act. If the proponents of the legislation have technical rights under the Pittman Act, they can secure them in the usual way, through the courts. When it comes to new legislation, however, the substance, and not the technical position, should be considered. Has the real purpose of the Act been accomplished?

Under the Pittman Act 270,232,722 silver dollars, amounting to 209,008,120 ounces of silver, were melted down, 200,418,390 ounces were sold to the British, and 8,589,730.13 ounces turned into the subsidiary silver account, as hereafter explained, and used for subsidiary silver, making a total of 209,008,120 ounces of silver. The Treasury has subsequently purchased from American silver producers at $1 an ounce 204,586,035 ounces, and there has been returned in kind from the subsidiary silver account 8,589,730.13 ounces, making a total of 209,175,765 ounces. When the reminting of silver dollars is completed there will

be the same number of silver dollars in existence as prior to the enactment of the Pittman Act. The silver dollar situation is, therefore, restored, as was contemplated by the Act. On a purely technical argument the pending bill proposes to require the purchase of 4,589,730.13 ounces of silver at $1 an ounce on account of a certain book transaction within the Treasury. Of the number of ounces required to be repurchased under the bill, 1,600,000 ounces were transferred from the Pittman silver account to the subsidiary silver account, with the intention later of using this silver to make subsidiary coinage. Before it was used, however, the transfer on the books was reversed and the silver was used, as originally intended, for coining silver dollars. As to 2,541,753.61 ounces, the intention was expressed to make the allocation for subsidiary silver, but before it was even transferred on the books the intention was reversed and this silver was used to make silver dollars. As to 4,341,753.61 ounces of silver, therefore, there is no claim that it was ever finally diverted from recoining silver dollars, but the proponents of the bill rely solely on a mere intention to use for a particular purpose which was recalled before the use was made.

With respect to the remaining 10,247,976.52 ounces of the amount referred to in the bill, the facts are these: The Treasury has several Mints and Assay Offices, all of which, of course, are a part of the Treasury and under the Director of the Mint. Silver bullion is received at the Assay Offices or Mints, but the coinage is done only at the Mints. At the time of the use of the 10,000,000 odd ounces of Pittman silver for subsidiary coinage, there was at all times on hand in the subsidiary account, exclusive of the Pittman silver allocated, over 12,000,000 ounces.

This silver bullion in the subsidiary silver account was, however, not conveniently located to the Mint where it was desired to make the subsidiary coinage, or the subsidiary silver bullion was not in refined form and there would be delay in obtaining refined bullion for subsidiary coinage. The Treasury, therefore, in effect borrowed about 10,000,000 ounces from the Pittman silver account, used this for subsidiary coinage and repaid it by returning to the Pittman silver account 10,000,000 ounces of silver bullion which were in the subsidiary silver account at the time the Pittman silver was borrowed. So far as the Treasury was concerned, this borrowing saved the Treasury the expense of transporting the subsidiary silver from the Assay Offices and Mints where it was then located to the Mint where the subsidiary coinage was being done and the delay of refining the subsidiary coinage bullion. If the Treasury had been willing to incur this expense and stand this delay, not a single additional ounce of silver, under any construction, would have been purchased from the silver producers. The action of the Treasury in this regard, therefore, could in no way affect the substance of the silver producers' rights under the Pittman Act.

The bill in Committee did not specify what use should be made of the 14,589,730.13 ounces to be repurchased at $1 an ounce, and the Treasury is uncertain to what purpose it should be devoted in the event the bill becomes law. If it is to be made into silver dollars, then we will have the peculiar situation that instead of the silver dollar situation as it existed at the time of the Pittman Act being restored, we will find ourselves with something like 19,000,000 more silver dollars

than we started with. If the silver purchased at $1 an ounce is to go into the subsidiary silver account, then we will carry silver which cost us $15,000,000 in a dead account until the requirements for coinage exhaust the subsidiary silver now in the Treasury and use up the silver bullion to be purchased at $1 an ounce.

As to the technical features of the Pittman Act, which it is stated justify the passage of the pending bill, it is sufficient to state that, in the opinion of the Treasury, and of the Comptroller General of the United States, with full knowledge of the facts, the action of the Treasury was justified under the law. If these legal opinions are wrong, then the proponents of the bill should go to court. A bonus of $5,000,000 to the silver producers for the acquisition by the Treasury of wholly unnecessary silver should not be compelled by Congress. As a matter of fact, if the Pittman Act had not provided for the repurchase of silver, no harm would have been done to the American silver producer. The emergency in India was purely a war emergency and had to be settled at once, if at all. Unless the American silver dollars had been available, no silver could have been found in the world to accomplish the purpose desired by Great Britain, because the producers in this country did not have the silver and it was not available anywhere else in the world. Melting down the silver dollars, therefore, did not hurt the American silver producer. The requirement, however, that we repurchase silver at $1 an ounce has been of immense benefit to the American silver producer. Of course, the Treasury was able to purchase no silver at $1 an ounce when the market price was over that figure. but the silver producer took the

world's market. It was only when the price of silver dropped below $1 an ounce that the American silver producer tendered silver to the Treasury. This was in May, 1920, two years after the passage of the Pittman Act. In acquiring the silver which the Treasury has purchased in compliance with the Pittman Act, the Treasury has paid a total bonus to the American silver producers of approximately $58,169,950, representing the difference between the world market price of silver at the time of the purchases and $1 an ounce.

Feb 4, 1925

INFORMATION FOR BANKS RELATIVE TO ADJUSTED SERVICE CERTICIATES ISSUED PURSUANT TO THE WORLD WAR ADJUSTED COMPENSATION ACT.

Prepared by U.S. Veterans Bu.

(Federal Bonus Law)

Applicants for the benefits of the World War Adjusted Compensation Act, file their applications with the War Department if the veteran last served in the Army, or with the Navy Department if he served in the Navy or Marine Corps. These Departments, from official records of the veteran's service, compute the amount of adjusted service credit due the veteran, and certify their findings to the Director of the United States Veterans' Bureau. The Director then extends to the veteran the benefits to which he may be entitled, based upon the amount of adjusted service credit certified by the War or Navy Department.

The adjusted service credit is computed at the rate of $1.00 per day for home service and $1.25 per day for oversea service, for all active service of the veteran exceeding a sixty day period, and between April 5, 1917, and July 1, 1919. There are certain kinds of services for which credit is not allowed, such as that of a commissioned or warrant officer performing home service not with troops, a soldier granted a farm or industrial furlough, etc. The law fixes the maximum adjusted service credit at $500 for a veteran who performed no oversea service, and a maximum of $625 for a veteran who performed any oversea service.

If a veteran's adjusted service credit does not amount to more than $50.00, he is paid in cash in one payment. If his credit exceeds $50.00 an Adjusted Service Certificate is issued to him. The face value of this Certificate is equal to the amount, in dollars, which his adjusted service credit, increased by twenty-five per cent, would purchase in 20 year endowment insurance, if such amount were applied as a single net premium.

The minimum amount of a Certificate will be approximately $86.00. No Certificate will exceed $1590. This is an important figure for banks to bear in mind, as there will be no recourse to the Government for default in loans in excess of the legal loan value of any Certificate.

Certificates Cannot Be Negotiated, Assigned, or Sold.

The Adjusted Compensation Act specifically provides that Adjusted Service Certificates cannot in any way be negotiated or assigned. Neither can they serve as security for a loan except from banks, as expressly provided for in the law, and hereafter explained.

Certificates Bear Name of Veteran and Date

Each Certificate bears on its face the name of the veteran to whom it is issued and his address at the time he made application. Every Certificate is dated, in compliance with the law, as of the first day of the month in which the application was filed, but in no case does any Certificate bear a date prior to January 1, 1925, the first day on which Certificates lawfully could be issued. Under the law the veteran must apply on or before January 1, 1928, therefore no Certificate will be dated subsequent to that date.

Manner of Payment of Certificates

The face value of an Adjusted Service Certificate is payable to the veteran to whom it is issued twenty years subsequent to the date of the Certificate. In the event of the death of the veteran prior to the expiration of the twenty year period, the amount will be paid to the beneficiary named by the veteran. If the veteran has not named a beneficiary, or if the beneficiary he did name dies before the veteran, and the veteran dies before the twenty year period without naming another beneficiary, then in such case, the face value of the Certificate will be paid to the estate of the veteran.

Beneficiaries of Adjusted Service Certificates

Under the law the veteran has the right to name the beneficiary of his Certificate. Such beneficiary is not restricted to any class such as one of the veteran's relatives, but he may name any person, corporation, or legal entity as beneficiary. The veteran may change such beneficiary from time to time, subject to the approval of the Director of the Veterans' Bureau.

Loans Authorized on Adjusted Service Certificates

Only the veteran himself can lawfully obtain a loan on his Adjusted Service Certificate. Neither the designated beneficiary nor any other person other than the veteran has any rights in this respect.

An Adjusted Service Certificate cannot serve as security for a loan until the expiration of two years from the date of issuance appearing on its face. As January 1, 1925 was the first date on which Certificates were issued, under no circumstances will any Certificate have any loan value until January 1, 1927.

The Certificate itself has no loan value. It may serve only as security for a veteran's note.

Any national bank, or any bank or trust company incorporated under the laws of any State, Territory, possession or the District of Columbia, is authorized after the expiration of two years from the date of the Certificate, to loan to any veteran upon his promissory note secured by his Adjusted Service Certificate, any amount not in excess of the loan value of the Certificate. The consent of the beneficiary is not necessary. A table of loan values, together with instructions for computing the loan value of any particular Certificate at any time, appears on the face of each Adjusted Service Certificate.

Authorized Rate of Interest to be Charged by Banks

The rate of interest charged on the loan by the bank shall not exceed, by more than 2 per centum per annum, the rate charged at the date of the loan for the discount of 90-day commercial paper under section 13 of the Federal Reserve Act by the Federal reserve bank for the Federal reserve district in which the bank is located.

Banks May Sell, Discount, or Rediscount Notes Secured by Adjusted Service Certificates.

Any bank holding a note for a loan secured by a Certificate may sell the note to, or discount or rediscount it with, any bank authorized to make a loan to a veteran and transfer the Certificate to such bank. This is true with respect to a bank to which the note and Certificate have been transferred, as well as it is with respect to the bank originally making the loan. Upon the indorsement of any bank, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, and subject to regulations to be prescribed by the Federal Reserve Board, any such note secured by a Certificate and held by a bank shall be eligible for discount or rediscount whether or not the bank offering the note for discount or rediscount is a member of the Federal Reserve System and whether or not it acquired the note in the first instance from the veteran or acquired it by transfer upon the indorsement of any other bank. Such note shall not be eligible for discount unless it has at the time of discount or rediscount a maturity not in excess of nine months exclusive of days of grace. The rate of interest charged by the Federal Reserve Bank shall be the same as that charged by it for the discount or rediscount of 90-day notes drawn for commercial purposes. The Federal Reserve Board is authorized to permit, or on the affirmative vote of at least five members of the Federal Reserve Board to require a Federal reserve bank to rediscount, for any other Federal reserve bank, notes secured by a

Certificate. The rate of interest for such rediscounts shall be fixed by the Federal Reserve Board. In case the note is sold, discounted, or rediscounted the bank making the transfer shall promptly notify the veteran by mail at his last known post-office address.

Provisions for Reimbursement to Banks for Unpaid Loans

Upon maturity if the veteran does not pay the principal and interest of the loan, the bank holding the note and Certificate may, at any time after maturity of the loan but not before the expiration of six months after the loan was made, present them to the Director of the Veterans' Bureau. The Director may, in his discretion, accept the Certificate and note, cancel the note, and pay the bank in full satisfaction of its claim, the amount of the unpaid principal due it, and the unpaid interest accrued, at the rate fixed in the note, up to the date of the check issued to the bank.

Provision is made in the law for the return of the Certificate from the Director to the veteran when the veteran makes good to the Director the amount which the Director forwarded to any bank on account of the veteran's unpaid loan, or if the Director is not reimbursed by the veteran, the amount advanced to the bank will be deducted at the time payment of the Certificate is made.

Provisions for Reimbursement to Banks if the Veteran Dies Prior to Maturity of Loan

If the veteran dies before the maturity of a loan he has obtained from a bank the amount of the unpaid principal and unpaid interest accrued up to the date of his death shall immediately be due and payable. In such case, or if the veteran dies on the day the loan matures, or within six months thereafter, the bank holding the note and Certificate shall, upon notice of the death, present them to the Director. Thereupon he will cancel the note and pay to the bank, in full satisfaction of its claim, the amount of unpaid principal and unpaid interest, at the rate fixed in the note, accrued up to the date of the check issued to the bank; except that if, prior to the payment, the bank is notified of the death by the Director and fails to present the Certificate and note to the Director within fifteen days after the notice, such interest shall be only up to the fifteenth day after such notice.

Banks Cannot Charge any Fee

Other than interest, banks cannot charge any fee in respect to loans. The law specifically provides that the Director shall not make any payment to any bank, unless the unpaid note when presented to him is accompanied by an affidavit made by an officer of the bank which made the loan before a notary public, or other officer designated

for the purpose by regulations of the Director, and stating that such bank has not charged or collected, or attempted to collect directly or indirectly, any fee or other compensation (except interest as authorized) in respect of any loan made by the bank to a veteran. The law also provides that any bank which, or director, officer, or employee thereof who does so charge, collect, or attempt to charge or collect any such fee or compensation, shall be liable to the veteran for a penalty of $100, to be recovered in a civil suit brought by the veteran. Forms for the affidavit above referred to will be sent to any bank upon request made to the Director.

Letter of Secretary Mellon to the President in connection with the Agricultural Conference Report.

TREASURY DEPARTMENT
WASHINGTON

February 5, 1925.

Dear Mr. President:

The Agricultural Conference report, a copy of which I received this week, suggests for immediate consideration two matters in which the Treasury has an interest: First, that the Intermediate Credit Banks give more active aid in livestock and cooperative marketing association loans, and, second, that the Bureau of Internal Revenue should make a new regulation defining tax-exemption of cooperative associations.

At the suggestion of the Agricultural Conference, Governor Cooper, Chairman of the Federal Farm Loan Board, is going West next week to consult with the livestock interests and see what further the Intermediate Credit Banks can do for the livestock producers. The suggestion of having the Board take some aggressive steps which would open to cooperative marketing associations proper lines of credit, is not clear to me. The Intermediate Credit Banks have loaned over $44,000,000 to the cooperative marketing associations, as against $18,000,000 rediscounts, and have at all times been ready to meet any legitimate demand of the cooperative marketing associations. During the past year the War Finance Corporation was available for this same purpose, but was not called upon to any extent. It seems to me there must be some misunderstanding in this particular of the Agricultural Conference's complaint.

With reference to the proposed Internal Revenue regulation affecting tax-exemption of cooperative marketing associations, I have asked the Solicitor of Internal Revenue to advise me whether a regulation in the form proposed by the Conference would be consistent with the Revenue Act. It has been the policy of this Department to extend to all associations which are truly cooperative the benefit of the tax-exemption provided in the Revenue Act.

In the report of the Agricultural Conference there are suggestions of inter-department or inter-bureau jealousies which handicap the effective operation of the departments. I am not aware that this criticism applies to the Treasury. If, however, the Conference had any matters in mind which are within my power to correct, you may rest assured that immediate attention will be given to them whenever I am advised as to their nature.

Faithfully yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

The President,

The White House.

(T. D. 3670) Feb. 7, 1925

COMMUNITY PROPERTY - CALIFORNIA - OPINION OF ATTORNEY GENERAL.

1. Estate Tax - Gross Estate.

In computing the gross estate of a deceased spouse for the purposes of the Federal estate tax there should be included but one-half of the value of community property acquired under the laws of the State of California.

2. Income Tax - Former Opinion Limited.

The former opinion of the Attorney General under date of March 8, 1924 (T.D. 3569) and the opinion of October 9, 1924 are limited to Federal estate taxes and have no application to Federal income taxes.

TREASURY DEPARTMENT,
Office of Commissioner of Internal Revenue
Washington, D.C.

TO COLLECTORS OF INTERNAL REVENUE AND OTHERS CONCERNED:

The following opinion of the Attorney General under date of October 9, 1924 is published for the information of internal revenue officers and others concerned. This opinion holds in effect that in computing the gross estate of a deceased spouse for the purposes of the Federal estate tax there should be included but one-half of the value of community property acquired under the laws of the State of California. 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 taxpayers. In fairness to the country as a whole, it is the judgment of the Treasury that the 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.

D. H. BLAIR,
Commissioner of Internal Revenue.

APPROVED February 7, 1925.

A. W. MELLON,
Secretary of the Treasury.

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.

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 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 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 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 decisions, 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 t 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 o 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 Statute 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.

OFFICE OF THE ATTORNEY GENERAL
Washington, D.C.

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.

SPEECH OF HON. GARRARD B. WINSTON,
THE UNDERSECRETARY OF THE TREASURY,
before
THE BOND CLUB OF NEW YORK,
at luncheon
FEBRUARY 16, 1925.

It is true that the Treasury is in the bond business, and I am the official immediately charged with the conduct of this business, still, the problems which are presented to me are in some respects less difficult than those which come to you every day. We do not meet competition of other underwriters in getting the business and are not embarrassed by the borrower driving so hard a bargain as to require the floating of an issue to the public at a figure which either destroys the underwriter's profit or is so high as to jeopardize the success of the flotation. Again, in recent years at any rate, we have been able to market our securities through our arrangement of selling to the banks on credit, and we have not had to organize a general selling campaign such as usually accompanies private offering of securities. We do not have to demand representation on the Board of Directors. We are already there and we know that the securities we sell will be paid. The problems, then, of getting the business, of selling the securities, and of protecting our customers are not burdensome to us.

The Treasury is a very material factor in the bond market. In the four quarterly offerings made the last calendar year the subscriptions totaled nearly four billion, and actual allotments of securities sold nearly one and three-quarter billions. During this same period the Treasury, for various accounts, purchased some 542 million of securities, aside from the ordinary redemptions at maturity. In the

present year the Treasury has nearly seventeen hundred millions of its securities to meet. These figures of the volume of our transactions, the greater part of which take place in your market, give you some idea of the responsibility which rests with the Treasury to see to it that its operations interfere as little as possible with the fiscal operations you may be conducting.

In discussing the problems which do confront the Treasury when it is required to finance, the first feature to consider is the status of our present debt. The interest-brearing debt as of January 1st, last, was over twenty billion dollars. Seven billion of this matures on or before September 15, 1928, that is, within a period of about three and one-half years. This includes the maturity date of the Third Liberty Loan of $2,885,000,000. In 1938, six and one-third billion of the Fourth Liberty Loan matures; in 1942, three billion of the Second Liberty Loan; in 1947, nearly two billion of the First Liberty Loan; in 1952, three-quarters of a billion of Treasury 4¼'s, and in 1954, a like amount of Treasury 4's. There are other items of debt in between, but these are the large blocks. To summarize, seven billion by 1928, and the balance spaced over the next twenty-six years. These are the maturity dates, that is, the date at which the Government must meet the debt. Turning now to the call dates, that is, the dates when the Government may pay the debt, if it has the money or if it can refund at a lower interest rate, over ten billion is payable or callable within about three and one-half years, and over nineteen billion within nine years. I venture to say that with the sole exception of the Third Liberty Loan maturity in 1928, which has no prior

call date, Government securities as a whole are as flexibly spaced as one could wish, and the Treasury has the greatest possible freedom to make use of any subsequent change in money conditions.

So much for the debt itself. We come now to the principal factors which work for its payment. It is this payment which returns to the investment market capital which was originally contributed to the prosecution of the war. So far as your bond market is concerned, this may be considered new capital for your use, since it is paid from government receipts which come from all sources and not alone from the investing public. In their order of importance these factors are the sinking fund, foreign repayments, the surplus, and in its effect on the time element, the soldiers' bonus.

The sinking fund was fixed originally at 2½ per cent of the war debt not represented by foreign loans, about $10,000,000,000, plus a secondary credit of the annual interest which would have been paid on bonds retired for the sinking fund if they had been left outstanding. The sinking fund started with $250,000,000, in the current year it is $310,000,000, and for the next year will be $323,000,000. You can see that it mounts rapidly. The fund can be used either for the purchase of securities at an average cost of not over par, or for the retirement of securities at maturity. The Treasury is in the market for its securities when they are below par. When they exceed par, purchases are not made in the market, but the fund is applied to the retirement of maturing or called securities. Since we have maturing or callable securities in an amount far in excess of the sinking fund's

capacity to absorb, the fund will always be operative no matter how much over par Government bonds may be quoted, and there will be no driving up of prices by forced purchases. In other words, we control our market.

Foreign repayments have a double aspect. Under the funding agreement with Great Britain, the scheme of which has been followed in the other debt-funding agreements made to date, the debtor has the right to pay principal and interest in United States securities issued since April 6, 1917, at par and accrued interest. This means that it is worth while for the debtor to use our securities as counters if they can be acquired below par. The British debt alone calls for the expenditure of $161,000,000 a year for ten years and over $180,000,000 yearly thereafter, and there is this buying power always in the market which will tend to prevent the price of our securities going below par. The debt-funding agreements are, therefore, first, a market stabilizer, and, second, a method of reducing the national debt.

The sinking fund and the provision of law that repayments of principal of foreign loans shall be used to retire debt, are a part of the contract between the United States and the holders of its obligations. While it is, of course, within the power of a sovereign to repudiate its contracts, there is no more justification for the repudiation of this contract by subsequent legislation than there would be to repudiate any other contract in the bond, such as to make the interest rate 3 per cent where it was sold as a 4¼ per cent, or to pay at maturity only 50 per cent of the principal. I anticipate

that in spite of occasional efforts to change them, these particular factors of debt reduction will continue to have their full effect in the future. This combined buying power of 400 to 500 million a year is pretty good assurance that Government bonds will not again seriously depreciate.

The principal revenue producing periods of the Treasury's year are the four income tax payment months of March, June, September and December. For this reason, short-term obligations are arranged to mature in each of these months, and the Treasury has adopted the practice of financing only every three months. This practice keeps the Treasury from frequent entry into the market and permits it to borrow minimum amounts to run the Government for the three months' period. When the Treasury proposes to finance, it calculates what it needs to meet its maturing obligations and for three months' operation, and this amount only is borrowed. If for the particular period there will be an excess of receipts over expenditures - called a surplus in Government accounting - the new financing will be less than the maturing obligations, that is, the surplus automatically works a reduction of debt. We do not save up until the end of a fiscal year on June 30th to use the surplus, but, as I say, it is applied automatically whenever a refunding operation takes place. Surplus has been a very material factor and for the past four years accounted for 1215 million of the total debt reduction. In the future, with a lessening of revenue on account of lower taxes, the surplus will have less weight. Since we propose to balance our budget on the safe side, some surplus should, however, always be available for debt reduction.

While the soldiers' bonus does not reduce the debt, it has the effect of postponing the date at which a portion of the Government's obligations must be met. The bonus, as you know, is 20-year endowment insurance, and the amount paid into the bonus fund is the annual premium which under actuarial tables is necessary to provide the probable maturity values of the certificates upon the expiration of twenty years, or upon earlier death of the veteran.

This premium is a part of governmental expenditures in addition to the other factors I have been discussing. It is required that the premium be invested in United States securities. Instead of taking cash and going into the market and buying our own securities, the Treasury adopted the policy of selling to the fund Government obligations in a form to meet satisfactorily the actuarial requirements of the fund. Upon the maturity of most of the certificates, say in 1944, there will be in the fund something like 2½ or 3 billion dollars of Government securities, the sale of which to the fund gives the Treasury money to retire a like amount of securities in the hands of the public. In 1944, then, it will be necessary for the Treasury to refund the securities in the fund by the sale of new securities to the public to provide the cash necessary to pay the maturity value of the certificates. So, the bonus will in effect postpone during the twenty-year period the necessity for meeting 2½ or 3 billion dollars of Government obligations until 1944.

You have, roughly, the various elements which control the Treasury's debt structure, and from a study of which it is possible to determine, other things being equal, the types of securities,

whether long or short-term, which should be issued. I have seen criticisms of the Treasury's policy because it has not seen fit during the recent ease in the money market to float 2 or 3 billion dollars of long-term bonds. However desirable the market, there is no object in floating more bonds than you need or for a term beyond the period when it is expected that the bonds will be paid. From other sources I have seen the criticism that our last issue of 4 per cent bonds was a mistake because it is not callable for 20 years and, therefore, the Treasury deprived itself of the opportunity to take advantage of lower interest rates in the future. Since, as I have said, half of our debt is payable or callable within 3½ years, and 95 per cent of our debt in 9 years, I do not conceive that we will not have at all times complete freedom for all refunding which may be practicable.

We come now to the method used by the Treasury in the determination of what sort of financing it will do. Barring a new war or an unbalanced budget, we know with substantial accuracy how much of the debt should be retired each year and how much must be refunded, with a varying margin of possible retirement or refunding. We also know how much of the debt ultimately should go into long-term bonds, and how much should be rolled over in short-term obligations. The determination of the character of the securities to be issued depends, then, on the maturities which are desirable from the standpoint of the Treasury, and upon the cost of the different types of financing. This fixes the character of the issue, whether certificates of one year or less, notes up to five years, or bonds up to any maturity, or a combination of any of these issues. The next question is price. It is the policy of the Treasury to make its

securities fit the market. We have opportunities of determining price which are not given to the commercial bond house in selling private issues. There is a large, free market in New York of some 20 billion dollars of Government securities, maturing in anywhere from one month to 30 years. You can hardly pick a maturity for a security in that period at which its possible price on the market is not automatically established. For example, if a one-year note is selling on a 3.33 per cent basis, and a two-year note on a 3.75 per cent basis, a 1½-year obligation will sell in between these points. Thus, like a great many other questions in this world, we come to a solution not by a stroke of genius, but by a common sense balancing of the relative merits of several possible projects. Elimination, - not inspiration.

I can best illustrate how a problem is solved by reciting the controlling influences in the last financing of the Treasury on December 15, 1924. On that date we had maturing something over $400,000,000. With the funds on hand we would need about $200,000,000 of cash to meet our December maturities and to carry the Government through until the March financing. On February 2d we had $118,000,000 of circulation 4's called for payment, and in March our maturities were substantially $1,000,000,000. This latter amount was so large that it might have proved embarrassing. You cannot foresee with certainty the financial condition of the country three months ahead. We wanted to cut this amount down where we could easily handle it, even if conditions were unsatisfactory. We could have borrowed 500 million extra in December and had it in bank to meet the March maturities when they could be got in. But since they were quoted above par and we could not redeem

them at the market, we would have had to wait for their maturity on March 15th and in the meantime we would have had to carry the money with loss of interest. It was obviously desirable to obtain exchanges of a large block of Marches in December, three months before they were due. The time appeared appropriate for the sale of a long-term Government bond, and the issue of a reasonable amount of them was proper from the general standpoint of our debt structure. The amount of the issue for cash was fixed at $200,000,000, or thereabouts, all we needed until March, and the privilege was given to all holders of March maturities to exchange their securities, then quoted at about 100½, for the new bonds, par for par. At the same time, a similar privilege was extended to the Third Libertys, which mature in 1928, it being the belief of the Treasury that to the extent this maturity could be whittled down, future financing would be simpler. The price of the bond was par and the rate was slightly above the market, so that it was felt that the bond should sell at about 100½ after it was issued. This concession in price was necessary in order to attract exchanges. The cash subscriptions were large, but allotments were limited to $225,000,000, and over $500,000,000 of exchanges were received. Through the issuance of 4 per cent for 4¼ per cent there will be an actual saving in interest to the Government of $1,375,800 during the remaining life of the securities exchanged. The March maturities have been cut to a reasonable figure. The public has received a sound long-time investment at a proper price. Our maturities are in better shape. The issue was a success.

You gentlemen who are responsible for the American bond market and we in the Treasury have the same interests. Within the next four years we will have to refund 4 or 5 billion dollars of maturing obligations. We want to do this without disturbance to you and our market. Do it we must and will, however, for the fiscal requirements of the Federal Government are paramount. It is, then, to the benefit of all that this be done at reasonable rates in a sound market. You have stood behind the Treasury out of patriotism during the war and in the trying readjustment period. Your own interests dictate that you continue as in the past. The Treasury on its side has made available for investment by payment of debt over 5½ billion dollars since the peak in 1919, and will add at least an additional 2½ billion in the next four years. We have worked together and I know that the Treasury when it requires advice and aid can again call upon you and the response will be both generous and effective.

NOT TO BE RELEASED UNTIL DELIVERY IS BEGUN

Before the National Tax Association Conference on Inheritance Taxes, New Willard Hotel, Washington, D. C., Thursday, February 19, 1925, at 11:00 A.M., President Coolidge said:

Acknowledgment is due to the National Tax Association for a real public service in bringing this conference together. The subject of taxation is at all times and in all its phases difficult and complex. It may be doubted if any of its aspects present more difficulty, or more sharply challenge our practical experience or economic judgments, than that which concerns taxation of estates of decedents.

When on June 2nd, last, I signed the Revenue Act of 1924, I adverted briefly to this subject of inheritance taxes. By that Act, the highest bracket of Federal estate tax was raised from twenty-five to forty per cent. I pointed out then that when the inheritance taxes levied by the states be added to this, a substantial confiscation of capital may result; and I suggested the danger of having the states and the Federal Government thus combining to get the utmost possible revenue from inheritance taxes. To take an excessive proportion of estates in this way for the costs of Government can only mean that Government will be living off the capital of the community. This we should seek to avoid. Therefore, I suggested that it might be better if the field of inheritance taxation could be left to the states. Realizing, however, the great practical difficulties, I suggested that a conference of state and Federal taxing authorities be held to consider the whole subject.

Taxation is the means employed by a state to obtain the revenue with which to conduct its necessary operations. A state may be extravagant in the way it spends its revenue. So, too, extravagance may exist in the way it collects its revenue. I have often urged economy in outgo of revenue; it is equally as necessary that we establish economy in income of revenue. The burden of taxation is not what the state takes, but what the taxpayer gives.

The first field for the practice of economy in inheritance tax collection lies in state cooperation. There is competition between states to reach in inheritance taxes not only the property of its own citizens, but the property of the citizens of other states which by any construction can be brought within the grasp of the tax gatherer. A share of stock represents a most conspicuous example of multiple inheritance taxation. It is possible that the same share of stock, upon the death of its owner, may be subject to taxation, first, by the Federal Government; then by the state where its owner was domiciled; then by some other state which may also claim him as a citizen; again in the state where the certificate of stock was kept; in the state where the certificate of stock must be transferred on the corporation's books; in the state or states where is organized the corporation whose capital stock is involved; and, finally, in the state or states where this corporation ~~xxx~~ owns property. All this means not only an actual amount of tax which may under particular circumstances exceed 100 per cent of the value of the stock, but the expense, delay and inconvenience of getting clearances of the states who claim a right to tax the property is a serious burden to the heir who is to receive the stock. Particularly is this expense disproportionate to a tax paid by a small estate which has but a few shares of stock. In many cases the expense alone must exceed the total value of the shares which it is sought to transfer. Looking at it from the standpoint of state revenue, I am told it is probable that the full cost to executors of ascertaining the tax and obtaining the necessary transfers is in the aggregate nearly as much as the tax received by the states upon this property of non-resident decedents. Here, indeed, is extravagance in taxation.

A solution of this problem presents the difficulty of obtaining reciprocal action on the part of the states. I feel, however, that in fairness to each other and to their taxpayers, some way will be found of obviating this extravagance by giving up entirely the collection of taxes upon personal property of non-resident decedents, or by the imposition upon the transfer of such property of a tax extremely simple in administration and low in amount.

The second field of extravagance in the collection of taxes - a wrong system - rests, not with the states alone, but there must be included also the Federal Government. It matters not in this particular who levies the tax, but the sole question is whether the total of all taxes collected is so excessively high as to be economically unsound. There are, as I have said, circumstances where the aggregate of estate and inheritance taxes may exceed the value of the property left by the decedent. This is not usual, but we have come to a point of estate and inheritance taxation, reaching as it does 40 per cent in the Federal law and perhaps higher in some states, where the total burden closely approaches, if it is not actually, confiscation.

I do not believe that the Goverrment should seek social legislation in the guise of taxation. We should approach the questions directly, where the arguments for and against the proposed legislation may be clearly presented and universally understood. If we are to adopt socialism, it should be presented to the people of this country as socialism, and not under the guise of a law to collect revenue. The people are quite able to determine for themselves the desirability of a particular public policy and do not ask to have such policies forced upon them by indirection. Personally, I do not feel that large fortunes properly managed are necessarily a menace to our institutions and therefore ought to be destroyed. On the contrary, they have been and can be of great value for our development. In approaching the second field of extravagance, I, therefore, shall not consider inheritance and estate taxes as a social effort, but as a revenue measure.

Differing from income taxes, which are deductions from what a taxpayer makes each year, and payment for which presumably can be made without hardship, inheritance and estate taxes are capital taxes; they take a part of the accumulated capital of the nation. This capital is not usually represented by cash or readily marketable securities, but it may be a business built up by the decedent through his lifetime, or property long held, for which there is no immediate market. In consequence, to pay inheritance and estate taxes in cash, executors must sell the property which comes into their hands at ~~xxxxxxxx~~ what is equivalent to a forced sale, with the usual consequences of loss in value. I venture to say that for executors to pay a 40 per cent tax they would have to realize in cash, in the ordinary large estate, probably 60 per cent of the appraised value of the estate.

The effects of these excessive taxes are twofold: First, they tend to lower values throughout the country by reason of forcing upon the market securities which cannot be readily absorbed, thus lowering the very level of values upon which inheritance and estate taxes are actually based. Secondly, they take away the inspiration to work in order to build up a business or create a property. It is difficult to overestimate the contribution to the progress of this country made by the man of ability actuated largely by this motive to protect the future of his family. If America had not been free to any man to make his fortune within the law and within his abilities, we would not be the great nation we are today. To destroy incentive is to lessen the production and the prosperity of the country.

Let me summarize before passing to the second object of the present conference. The burden of taxation is one from which relief must be found. It touches directly and indirectly all of our citizens. The most obvious field of economy is for the government to spend less. It is, however, equally desirable that the burden put by the government on its citizens be productive of government revenue and not destructive of the property of the taxpayer, for it is what the taxpayer gives rather than what the government ultimately spends, which measures the effect of the tax upon the citizen. We should, therefore, by a simplification of our method of taxation and the imposition of economically sound rates of taxation make certain that the government realizes more nearly the values which the citizen relinquishes.

At the last few annual meetings of the National Tax Association, and at a recent conference of the tax commissioners of several states, the position has been taken that the Federal Government should withdraw from the field of estate taxes. This view has much to commend it. Historically, the Federal Government has entered this field only on the occasion of war emergency, and in every case, except the present, has withdrawn when the reason for exceptional taxation ceased. The emergency created by the Great War, when last the Federal Government entered the field, has ended. The right to inherit property owes its existence, not to any Federal law, but to the laws of the states. Federal estate taxation, therefore, has not the natural excuse which is conceded to state inheritance taxation. The Federal Government being in the field, however, particularly with rates as excessive as those recently adopted, results in a very material decrease in the amount and value of the property upon which the states levy their inheritance taxes. If the states are to suffer diminution in revenue from this source, they can make up their losses only by higher taxes in other fields.

Already the taxes levied by the states upon land are so high as to menace the prosperity of the farmer. For the sake of the revenue which the Federal Government receives from this source - being in the last fiscal year only $103,000,000 out of $2,700,000,000 total internal revenue taxes for that year - the Federal government should be careful to see that indirectly it is not taxing the very persons whom it most wishes to relieve. While we may not be able to absorb so great a loss of revenue in one year, we could provide for gradual retirement from the field as our government expenses decrease.

It is to be hoped that your deliberations will help to arouse interest and lead to popular study of these questions. We seldom need to be very fearful of what government may do in handling questions that the public thoroughly understands. Therefore, conferences and considerations which tend, as yours must, to enlighten the public mind on these involved issues, are of greatest value to the whole community. With all confidence that the work of this present conference will prove timely and helpful, I extend to you the assurance that the National Government will be glad to avail itself of all helpful results that may flow from your work.

TREASURY DEPARTMINT

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

SPEECH OF

HON. CHARLES S. DEWEY

ASSISTANT SECRETARY OF THE TREASURY

before

NATIONAL CONFERENCE ON INHERITANCE AND ESTATE

TAXATION

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WASHINGTON, D. C.
February 20, 1925.

Some Effects of Excessive Tax Rates

To the ordinary man on the street of moderate wealth, a tax is a tax, whether it be Federal, State, Inheritance, or Income. He knows that taxes are a necessary evil, and believes that it is his duty to support his Government according to his capacity to support himself. But just as soon as taxes become unduly oppressive, he will take every legal step possible to avoid them; and, if he is not in active business, such avoidance is not difficult to accomplish.

Tax avoidance is much easier for the man of large capital than it is for the average citizen. The President, in his speech of acceptance, stated that he had no apprehensions for persons of large wealth, as they were well able to take care of themselves. He made it very clear, however, that it was the man of moderate means whom he wished to protect; and, while this reference was particularly made to the income tax, it can equally well be applied to the inheritance and Federal estate taxes.

In discussing inheritance taxes, I shall assume that they are levied solely for the purpose of collecting revenue for the State and Federal Governments. I do not believe, nor do I think the average man believes, that these taxes should be levied as a means of preventing the amassing of large estates or promoting the more equal distribution of wealth. Personally, I think the people of the United States are definitely opposed to socialistic experiments.

This country offers, and I hope it will always continue to offer, to every person of ability and industry, an opportunity to amass a fortune. What we seek after all, and what we have to an extraordinary extent already achieved, is equality of opportunity. We want every man of energy and

initiative to feel that he is building for the future and that by his own efforts he can assure to his sons and daughters more of the advantages of life than he himself began with.

It is entirely right and proper that upon a man's death his estate should pay to the Government a portion of the wealth which was amassed under its protection. But this is a very different matter from confiscating his wealth and thereby depriving him, in his lifetime, of the incentive to work and accumulate. It is not necessary to be an expert on taxation but merely a student of human nature to know that a man can not be expected to continue to work, day after day, increasing through his efforts the productiveness of this country and thereby benefitting the living conditions of others, if he knows that upon his death the major portion of his earnings will be dissipated in Federal Estate and State Inheritance Taxes.

And yet that is the prospect which we hold out in this country today. Besides the Federal Estate Tax, a man's property may be subjected to the inheritance tax of the State of which he is a resident, and of any or all of the thirty-three States now taxing non-resident decedents on any portion of such decedent's property located in the respective States. To these taxes must be added numerous probate charges and fees, which may amount to a very considerable item, depending upon the size of the estate and the amount of work done.

It cannot be said, however, that this tax burden comes in equal measures to all in proportion to the value of their estate. The danger to the continued business and industrial progress of the country is that it does not, and those who foster the idea that the inheritance tax will

nave the effect of redistributing large estates, shoot very wide of the mark.

The facts are, as the probate records show each day, that when a man reputed to be of great wealth comes to die, frequently his estate has shrunk to quite moderate size; but it will be noted that at about this same period his children or next of kin seem to experience considerable prosperity.

Of course, the so-called "gift tax" in the Revenue Act of 1924 will catch some of this transfer of wealth. But who would not rather pay one such tax, which would have to be paid in any event, than the same amount of tax plus a similar one to the state of residence, and possibly several other states? There is no magic to the arrangement of one's estate to meet death. Many very able lawyers can instruct one just what to do; and, if their instructions are followed, a very moderate tax is paid. And who suffers most by this tax avoidance? The Federal Government? The States? No! Productive capital.

Productive capital cannot run away and seek the protection of the more moderate laws of some friendly state. It must stay where conditions are most beneficial for its particular type of endeavor and bear the brunt of whatever comes.

This type of capital is the foundation of all business. Without capital, just as without labor, no commerce, manufactures, mining, or agriculture can even begin, much less continue. Even Governments cannot function without the existence of capital---they being dependent upon taxes. It is essential therefore in levying taxes to raise

revenue, that we do not destroy the sources from which that revenue is derived. The old fable of the goose that laid the golden egg was never truer than it is to-day.

I am going to relate a fable in terms of modern business conditions. It is based on facts only in so far as the correctness of the figures used and the taxes applied are concerned. The story is possible, however, and has no doubt occurred, as it will surely occur again in many instances, if tax reform is not accomplished.

John Henry and Walter Brown had been friends since boyhood and after graduating from high school had entered the employ of a large manufacturing plant. Both were aggressive, hard-working young men, and it was not long before each started a little business for himself. Both of them, due to their energy and ability, prospered and their individual undertakings grew to substantial size.

At the time this little history opens, John Henry had just died leaving his entire estate to his only son, John Henry, Jr., and had appointed his old friend, Walter Brown, as executor. Some time prior to his death John Henry had moved to California where he had taken up his residence, leaving his business in the hands of his son under whom it had continued to make excellent headway. The father to pass his leisure time had been doing a little speculating in oil. This venture had not proved as successful as his original undertaking, and at the time of his death he was indebted in the sum of $500,000.

Upon notification of his appointment as executor, Walter Brown, after an examination of the estate of his old friend, found the following situation to exist:

Capital stock of Henry & Co., Inc., a Michigan Corporation	$5,000,000
Personal debts due banks	500,000

The details of the closing of the estate are of no particular interest. But Walter Brown soon made the unpleasant discovery that in addition to the personal indebtedness of $500,000, and administration expenses of $250,000, the following death duties must be paid:

Federal estate tax	$ 497,500
Inheritance tax, State of California	585,700
" " State of Michigan	122,000
TOTAL	$1,205,200

To which must be added the personal debt and administration expenses, making a grand total of $1,955,200.

Walter Brown and John Henry, Jr., spent many hours in conference. The year was 1920. Money was tight and other manufacturing companies in the same line of business which a few years before might have been interested in a purchase or consolidation, were having troubles of their own and had no money for extensions at that time, nor were the banks in a position to handle a loan of this type.

Here was a most successful business built up from small beginnings by one man and carried on to further successes by his son about to be placed under the hammer, due to no fault of the management, and at a time of money stringency. There are thousands of similar successful companies throughout the United States in similar circumstances, which for years have been turning back earnings into plant and equipment, and which are in no position to raise a forced loan without endangering the stock control of the company.

Is there any justice in a tax that may force a man to lose the fruits of his entire life's labor, and permit some other man, or group of men, to benefit largely due to his discomfiture? Yet this is just what happened to the business of Henry and Company.

As a last resort, Henry, Jr., was forced into a bond issue. Several investment bankers were consulted and a loan to settle the debts, administration expenses and death duties of $2,250,000 was negotiated, upon the following basis:

The capital stock of the company was left at $5,000,000, represented by 50,000 shares of capital stock. First mortgage 8% bonds were offered the public with a bonus of two (2) shares of stock with each $1,000 bond. The banker, with the entirely altruistic idea of protecting the interests of his bond customers, kept 30,000 shares to assure control of management, and John Henry, Jr., received the balance of 15,500 shares.

John now has a good job as general manager of his father's old company. True, they don't pay him very much; but then why should they?

And now we must return for a few minutes to Walter Brown, the executor of John Henry, Senior.

Walter had always kept close to his own manufacturing business, and his recent experience was his first venture with probate law and inheritance and estate taxes. By nature, he was a thoughtful man and one who gained by experience. The more he considered his own situation, the more closely it seemed to him to resemble that of his old friend.

He therefore one day called upon a lawyer who had been retained in settling the estate of John Henry and made a complete schedule of his

assets, requesting that an estimate of administration expenses and death duties be made, with a view to discovering just how much his own estate would have to bear in the event of his death.

The schedule of assets was as follows:

Capital stock of Walter Brown Co., a Michigan Corporation	$4,000,000
California real estate	1,000,000
Tax-exempt bonds, Minnesota	200,000
" " " Montana	200,000
" " " Colorado	100,000
TOTAL	$5,500,000

Within a few days, Mr. Brown's lawyer made him the following report:

Debts and administration expenses		$ 500,000
Death duties, Federal estate tax	$ 710,625	
California inheritance tax	443,194	
Michigan " "	260,409	
Minnesota " "	4,289	
Montana " "	4,486	
Colorado " "	2,700	
Total death duties	$1,425,703	
Total expense to estate		$1,925,703.

On this basis the estate suffered a reduction from $5,500,000 to approximately $3,574,000, thus wiping out all assets except the corporate stock and placing a heavy loan on that.

Mr. Brown had one son of whom he was extremely fond, and as he thought of John Henry, Jr., toiling away with little hope of opportunity ahead of him, he came to the conclusion that he would not subject his own son to the same tribulations if, by arranging his affairs in advance, he could escape many of the death duties.

Boom times having come to the business world, there was no difficulty in obtaining a purchaser for the business of Walter Brown & Co., and the California real estate having been purchased wisely was sold at a good price, and the whole invested in tax-exempt bonds which yielded a very safe return of about 4½%.

Walter Brown then moved his legal residence to the more friendly climate of Florida, where state inheritance and income taxes are forbidden by Constitutional Amendment. He, at least, has learned to take life on the easiest terms and it is the country chiefly which suffers by the loss of effort which he might have expended under a more intelligent system of taxation.

The above is a fairly accurate picture of what might happen to anyone under our present defective taxing system. It is obvious that such a state of affairs cannot continue indefinitely without jeopardizing the future of the country. "The United States", as Secretary Mellon has well said, "is no mere happy accident. What we have has been achieved by courage and hard work. The spirit of business adventure has built up in this country a civilization which offers unprecedented rewards to any man who is willing to work. But where the Government takes away an unreasonable share of his earnings, the incentive to work is no longer there and a slackening of effort is the result."

There is no question of the fact that we must reform the tax system in such a way that business and industry shall not be hampered in their normal, healthy development. But most important of all we

must make sure that American citizens shall not be deprived of the incentive to work and accumulate and that this country shall not cease to be a land of opportunity. A tax system which penalizes the creative spirit and discourages initiative can not be the right system for America.

TREASURY DEPARTMENT

FOR IMMEDIATE RELEASE

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.

The letter is as follows:

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TREASURY DEPARTMENT,
Office of the Secretary,
March 3, 1925.

My dear Mr. President:

There has been submitted to Congress a majority report of the Special Committee appointed under House Resolution 231 (68th Congress, first session), to investigate matter relating to Government bonds. One member of the committee, Representative Strong of Kansas, has filed a minority report, expressing complete disagreement with the committee's findings. The Chairman of the committee, Representative McFadden of Pennsylvania, has filed a separate report.

The committee's report, for the most part, is hardly more than a repetition of charges made by Mr. Charles B. Brewer, a special assistant to the Attorney General, in a report to the Attorney General, dated January 15, 1924. Mr. Brewer's charges were, in turn, substantially a repetition of charges made in 1920 by Mr. J. W. McCarter, former Assistant Register of the Treasury under the Democratic administration. These charges are familiar to you, to members of Congress and to the public

generally. I shall not repeat them in this communication. Briefly, they allege that fraud has existed in connection with Government bonds.

When the charges were made by Mr. McCarter, in 1920, Secretary Houston thoroughly investigated them and publicly stated in two letters, dated September 28, 1920, that they were without foundation.

Mr. McCarter again presented his charges, in April, 1921, to a Member of Congress, by whom they were referred to the Department of Justice. It was at this time that Mr. Charles B. Brewer, a special assistant to the Attorney General, began his activities.

Mr. Brower devoted nearly three years to an investigation of the McCarter charges, and during that period made several reports to the Department of Justice, which indicated, in substance, that he suspected irregularities but could not prove them. In these interim reports he usually included an appeal for more time in which to determine the facts. In October, 1923, after two and a half years had elapsed and Mr. Brewer still claimed his inquiry was incomplete, you designated Mr. Charles G. Washburn, an attorney-at-law of Worcester, Massachusetts, as your personal representative to consult with Mr. Brewer and to ascertain what facts he had developed. The situation, as disclosed by Mr. Washburn's study of the matter, was much the same as in preceding years. Mr. Brewer stated that he had not developed all the facts, and that he desired more time to present his "proof". Mr. Washburn advised you of the situation, and Mr. Brewer was given three additional months in which to complete his investigation. Having already spent two and a half years on the matter, certainly it was reasonable to suppose that this would be sufficient to enable him to finish any remaining phases of his work. Accordingly, it

was arranged between Mr. Brewer and Mr. Washburn that, on January 15, 1924, Mr. Brewer should submit his final report.

Mr. Brewer filed a report with the Attorney General under date of January 15, 1924. It contained no evidence which could in any wise be construed as a justification of the charges. As an investigator of the Department of Justice, it was Mr. Brewer's duty to ascertain and determine whether the charges were true or untrue. He did neither. His report was merely a reiteration of the charges, with embellishments, and with the comment in each instance that further investigation would develop the facts.

Mr. B rewer's report was referred to the Treasury, and in my letter to you of April 26, 1924, I answered in detail all his specific charges. I stated then, and I repeat here, that there have been no fraudulent duplications or overissues of the public debt, and that the charges are absurd. There were some mechanical and clerical errors in the preperation and recording of the enormous volume of war-time securities, and there were some petty thefts of retired securities from the files. The mechanical and clerical errors did not result in any loss to the Government, while the thefts of retired securities from the files have involved a loss to the United States of only $13,100 out of approximately $100,000,000,000, principal amount of securities retired by the Register of the Treasury during the period 1917 to 1922. Any fair-minded person will agree that this is a remarkable record. The wonder is that, considering the frailty of human nature and the war-time conditions under which most of the work was performed, the errors were so few and the actual losses to the United States so insignificant.

In March, 1924, nearly a year ago, the House of Representatives passed a resolution authorizing a special committee of five members to

investigate the Brewer charges. While the resolution did not specifically refer to these charges, the discussion in Congress clearly indicated that those who sponsored the resolution were inspired by Brewer, who had given his charges wide publicity in a suit brought by him in the Supreme Court of the District of Columbia against his own Department head.

The Committee promptly designated Mr. Brewer to assist it in conducting the investigation. Thus Mr. Brewer, having made the charges which resulted in the passage of the resolution, has occupied the triple role of investigator of his own accusations, prosecuting attorney, and advisor to the jury. Naturally he presented only such information and only such witnesses as in his opinion would tend to establish his charges. He certainly had no interest in the truth if it was inconsistent with the charges upon which his employment depended. At the beginning of the Committee's investigation, nearly a year ago, the Treasury requested permission to review the testimony of all the witnesses, including Mr. Brewer, and to cross-examine them, and that request was frequently repeated. Notwithstanding this, nearly all the witnesses were interviewed in secret executive session, and although there has been ample time, the Treasury was denied the privilege of hearing or even seeing a transcript of their testimony or of cross-examining them. The Treasury was not given an opportunity to cross-examine Mr. Brewer, which would have enabled it to show conclusively wherein he had evaded or distorted the facts.

Under date of January 28, 1925, the Committee submitted to the Treasury a list of five so-called "outstanding facts" with respect to which it desired information. This information was conveyed to the Committee in my

letters of February 4 and February 11, 1925. In these letters the Committee was fully advised concerning:

(1) The authority of the Secretary of the Treasury to destroy Government securities;

(2) The method employed by the Treasury in giving tentative allocations of serial numbers where securities appear to bear duplicated serial numbers;

(3) The facts concerning alleged paper and bond shortages;

(4) The method of certification employed with respect to securities delivered for destruction; and

(5) The Liberty Bond transactions conducted by the War Finance Corporation during the period 1918 to 1920.

In this connection, I may say that the Treasury has at all times held itself in readiness to cooperate with the Committee in every possible way and has repeatedly assured the Committee of its willingness to furnish the facts concerning any matter under consideration. At the same time it has pointed out the injustice of accepting the testimony of witnesses, many of whom were employees with fancied grievances who could not in the nature of things have had full knowledge of the operations, without permitting the Treasury to cross-examine them or answer their testimony.

Not only was the investigation of this character, but the Committee, though often invited by the Treasury to make a personal inspection of the activities about which its investigation has centered and thus gain first-hand information regarding the methods under which the public debt has been handled and the safeguards designed to protect its integrity, has not seen fit to do so. The importance of such an inspection in connection with any effort to determine the facts is readily apparent. Representative Strong, who, as I have said, did not sign the report of the Com-

mittee, is the only member who recognized the necessity of personally viewing the Treasury's operations in relation to public debt matters and who availed himself of the Treasury's invitation.

The Committee's inquiry has been under way for nearly a year and its report has been made public. The report is substantially a reiteration of the McCarter-Brewer charges with the exception that there are added certain charges relating to the transactions of the War Finance Corporation in Liberty Bonds during the period 1918 to 1920, which were completely and conclusively refuted in a public hearing on October 25, 1924, and in my letters to the Committee already referred to.

The accusers of the Treasury, therefore, are as far now from proving their charges as they were in 1920. Mr. Brewer undertook to investigate the McCarter charges, and after two and a half years merely repeated them and admitted that he could not prove them to be true. The Special Congressional Committee then undertook to investigate Mr. Brewer's charges, and after the lapse of a year has merely repeated many of the same charges and has developed no evidence to support them. Certainly, three and a half years of fruitless investigation should be sufficient to demonstrate that the charges are baseless. The charges started with a great conspiracy and "hundreds of millions" in fraudulent securities, but during the investigation these general charges have grown less and less, until now the only specific evidence of fraud presented is the theft of $13,100 of paid securities and their second presentation, the facts concerning which the Treasury itself made known. This is not a duplication of securities but a duplicate payment of the same securities.

The charges, for the most part, relate to transactions which took place before my administration of the Treasury. I feel that the handling of the tremendous volume of war-time securities was exceptionally well conducted by the employees of the Treasury, and I think the public should know that the charges are unworthy of further consideration.

Faithfully yours,

A. W. MELLON,

Secretary of the Treasury.

The President,

The White House.

Treasury Department,
March 5, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

January 31, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties cities, etc.,	$ 12,502,000,000	$ 1,875,000,000 (1)	$ 10,627,000,000
Territories, insular possessions, and District of Columbia	126,000,000	15,000,000 (2)	111,000,000
United States Government	2,293,000,000	730,000,000 (3)	1,563,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,488,000,000	104,000,000 (4)	1,384,000,000
Total January 31, 1925	$16,409,000,000	$ 2,724,000,000	$ 13,685,000,000
Comparative totals:			
December 31, 1924.	16,238,000,000	2,716,000,000	13,552,000,000
December 31, 1923(5)	14,936,000,000	2,571,000,000	12,365,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.
(5) Revised as to estimate of issues of states, counties, cities, etc.

"THE FUTURE OF THE FEDERAL RESERVE SYSTEM."

by the Hon. A. W. Mellon,
Secretary of the Treasury.

An article prepared for
publication in the May issue
of the Nation's Business.

Treasury Department

March 13, 1925.

The Future of the Federal Reserve System.

The Federal Reserve System has just passed its tenth anniversary. The life of the original charters for the Federal reserve banks was twenty years and consequently they now have less than ten years to run. Action on the renewal must be taken well in advance of the expiration of their present tenure in order to avoid any uncertainty as to policies and administration. Under the circumstances the question as to the future of these institutions has appropriately been raised.

The passing of the sixty-eighth Congress without the enactment of legislation liberalizing the powers of national banks and removing the handicaps under which they operate in competition with state institutions, is also responsible for raising the question at this particular time. In view of the failure of this legislation some have expressed apprehension that a sufficient number of national banks would surrender their charters to weaken materially the Reserve System.

While I do not share these apprehensions I realize that the system is still in its infancy, will continue to face many difficult situations and some opposition, and that it can function effectively only with the support and cooperation of a public familiar in some degree with its relation to our economic system. During their brief existence the Federal reserve banks have demonstrated beyond any doubt their value to the country. Previous to the enactment of the Federal Reserve law this country labored under the terrific disadvantages of an inelastic currency and entirely inadequate reserve arrangements.

Our banking system was so constituted that it operated to aggravate the panic symptoms of any financial emergency rather than to relieve them. National banks could issue only currency secured by Government bonds and consequently were unable to increase the currency in times of stringency. Interior banks could expand their credit facilities only by borrowing from metropolitan banks -- all tending toward New York. New York's resources were call loans upon the stock exchange and the importation of gold from abroad. Instead of a closely knit and co-ordinated system of banks there were a large number of independent banking units which in times of stress struggled against one another, each seeking solely its own protection instead of the protection of the whole financial structure of the nation.

These conditions were fundamentally changed by the establishment of the Federal Reserve System. The Federal reserve banks are in a position to furnish adequate currency and credit to meet all legitimate demands of business; Federal reserve notes can expand and contract in accordance with the currency needs of trade; the reserves of every regional bank through the rediscounting privilege are available to every other Federal reserve bank; the funds of the central reservoir can be diverted to any bank in the system which has need of them; immense transfers of funds are made by bookkeeping entries; and the financing of an increased volume of business is accomplished with ease.

On the occasion of its recent anniversary the System received much well deserved praise and approbation from the leading financiers and business men of the country. The mature and unbiased judgment

of every serious student of finance is that it deserves the lasting approbation of the country for the great service it has rendered during the first decade of its existence. Although its initial trial occurred in a period of unprecedented economic and financial strain, the System has not only emerged without impairment of its own strength and stability, but brought the country through the emergency with the soundest financial structure in its history. In spite of the great upheaval in the economic relations of the entire world, business in America has been able to readjust itself and continue in the line of orderly growth. America has escaped that chaotic condition of her currency and credit which has characterized so many countries of Europe in the post-war period, and now possesses a financial structure capable of maintaining sound business development. That this is true may be attributed in a large degree to the operation of the Federal Reserve System.

The Federal Reserve System is not a panacea for all economic and financial ills and cannot entirely prevent business crises and depressions, but it can and has done much to modify them. It prevented the financial crisis which followed the close of the war from degenerating into a panic. Some loss, some inconvenience, and some mortality were experienced, it is true, but no such disastrous fatalities occurred in business as would surely have resulted without the System. This ability of the System to exercise a steadying influence on credit conditions is its most valuable function. The more carefully the credit facilities are handled and the more orderly the development of business expansion the greater will be the duration

of the periods of prosperity and the less severe will be subsequent reactions. A thorough knowledge and development of credit control by those who direct the System and an understanding of the same by the business public should lead to the maintenance of business on a more even keel in the future than in the past and is the most important single factor in the future development of the Federal Reserve System.

The System has been the object of severe criticism during recent years. Much of this has been unfair and ill-advised, frequently founded on a lack of understanding of our credit structure and the functions of a reserve bank. Furthermore, there always exists a discontented element in the community which is opposed to existing institutions of any kind. The recent price decline and depression in Agriculture, for example, have been attributed by some elements to the Federal reserve banks in spite of the fact that bank credits continued to expand for six or eight months after the price decline had begun and that the expansion in agricultural districts was more rapid than in the industrial districts. The System has doubtless passed through its most trying period, however, and with the gradual return to more normal and more prosperous conditions following the maladjustments of war, the people as a whole are beginning to realize the great service which it has rendered the country by preventing a period of depression from sinking into a financial panic of the old order. They realize too that the country's problems were something more than mere credit problems and that the economic factors operat-

ing were world wide. The improvement in world markets and some adjustments in production have accomplished more for agriculture in this country than unlimited extensions of credit or artificial measures of price control could ever have done.

The most serious menace to which the system has been subjected in the past, and probably will be in the future, is political attack and this undoubtedly is a question which should receive the thoughtful attention of the public. This influence may conceivably arise in its most serious form when the renewal of charters comes up for consideration and it is only to be expected that many are asking the question whether the Reserve System shall go on serving the economic community or whether it will meet with the same fate as the First and Second Banks of the United States. The effectiveness of such attack will depend largely upon the particular phase of the business cycle which happens to prevail at the time. If the country is then in the midst of a wave of prosperity the opposition to renewal will be slight. If the country is passing through the low point of the cycle, however, the opposition will be more serious because the discontent which prevails at such periods is ever seeking some point of attack, and little discrimination is exercised in the choice of the object.

While there is apparently little probability that such opposition would be able to defeat renewal except under unusual circumstances which cannot now be foreseen, there always exists the possibility of the impairment of the System by changes benefiting this or that group but which might prove to be fundamental and seriously interfere

with the proper functioning of the banks as reserve institutions. The System, of course, is still in its youth and lacks the experience of European central banks. There will of necessity be changes from time to time and constant adjustment to the needs of the country, but these changes must be made by the friends of the System and in accordance with sound banking principles, not by its enemies for partisan purposes. The prosperity of the country is dependent upon the impartial and wise administration of our banking system unhampered by political or partisan domination.

As to the suggestion that a substantial number of national banks may withdraw from the System, I am inclined to think that this is not a serious possibility. The System has demonstrated its value so conclusively to the bankers of the country that they would be the first to resist any movement tending to weaken its position. While the American banker has tended in the past to look at these questions largely from an individual viewpoint, the events of recent years have demonstrated to him the close relationship of his institution to the general credit structure and he has come to realize that his own interests are dependent on the existence of a sound and well managed credit system as a whole. This does not mean, of course, that the national banks can be made to bear indefinitely needless handicaps in competition with state institutions. Some revision of the national banking law in the way of liberalizing and expanding the powers of the national banks is necessary, and it is to be regretted that such legislation was not enacted during the session of Congress just closed. This matter will doubtless receive the early consideration of the next Congress.

The members of the Federal Reserve System at the present time have over seventy per cent of the total resources of all commercial banks of the country, and from the viewpoint of financial strength the position of the System is unassailable. While additional membership would add little if anything to the strength of the System it has been frequently pointed out that the non-member state institution is not in position to serve its community as effectively as if it had direct access to the central reservoir. This is particularly true of the non-member state banks in agricultural communities. Perhaps under normal conditions they have little need for rediscounting facilities but it is during emergencies that they need assistance in order to render the fullest service to the community. Furthermore, the requirements of membership would doubtless lead to more cautious and farsighted administration of these smaller institutions and better cooperation with the country's general credit policies. As time goes on and the System's merits become more fully appreciated by the public, doubtless an increasing number of state institutions will apply for membership.

The Federal reserve banks have securely established themselves in our economic system. Future development will in all probability be along lines already laid down. There will be occasional legislative modifications and constant adaptation to expanding needs. The chief problem is to guard against malevolent influences and modifications contrary to the best banking and credit principles.

March 13, 1925.

TREASURY CERTIFICATES OF INDEBTEDNESS AND TREASURY NOTES
OUTSTANDING MARCH 16, 1925.

SERIES	INTEREST RATE	DATED AND BEARING INTEREST FROM	DUE
	(Tax Certificates)		
TS-1925	2¾%	Sept. 15, 1924	Sept. 15, 1925
TD-1925	3%	March 16, 1925	Dec. 15, 1925
	(Treasury Notes)		
C-1925	4½%	Dec. 15, 1922	June 15, 1925
B-1925	4-3/8%	June 15, 1922	Dec. 15, 1925
A-1926	4¾%	March 15, 1922	March 15, 1926
B-1926	4¼%	Aug. 1, 1922	Sept. 15, 1926
B-1927	4¾%	May 15, 1923	March 15, 1927
A-1927	4½%	Jan. 15, 1923	Dec. 15, 1927

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,
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.

I deeply appreciate the cordial welcome which you have extended to me here to-night. I feel that I am among friends whose views on many questions of national policy are in line with those which the Treasury has consistently advocated, not only during my own term of office but during the administration of my distinguished predecessor, Senator Glass, with whom I find myself so often in complete agreement. Indeed, it is a source of pride to us at the Treasury that, in that Department there is a continuity in policy on many questions which, after all, are fiscal and economic, rather than political, in their appeal, and affect too deeply the life and development of the nation at large to permit of anything less than an honest and intelligent attempt at their solution.

As long ago as 1919, Secretary Glass, and later his successor, Secretary Houston, saw the trend of events and made the first moves toward getting the nation's finances back on a peacetime basis. As the country emerged from the war, we ran into the trying period of readjustment. Our national finances were still unsettled; our expenditures were enormous; and the time was not then ripe to attack the problem of reforming the comparatively new and still experimental system of income taxes instituted under the power granted by the 16th Amendment to the Constitution.

Under the stress of war and urge of patriotism, this newly developed system had yielded immense revenues. But its actual effect upon business under normal conditions of peacetime competition was yet to be fully demonstrated. The high rates of income tax and particularly the surtax rates were becoming less and less productive of revenue. In his Annual Report for 1919, the then Secretary of the Treasury, Mr. Glass, called attention to this fact in words which I have often had occasion to quote. He said:

> "The upmost 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 exemptions from taxation falling more heavily upon the Federal Government) as to stimulate wasteful and non-productive expenditure by State and municipal governments."

In the following year even more specific recommendations for a reduction of the surtaxes were made by Secretary Houston. These principles, so clearly stated by my Democratic predecessors, have been reiterated and applied 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. As the readjustment period receded and the taxpayers began to think in terms of business

and economics and not of war, we in the Treasury were given unequivocal proof of the evil effect upon business and government revenue in normal times of a tax system hurriedly built up in great emergency. The declining revenues under the excessively high rates of tax were sufficient proof of their inadequacy under peacetime conditions and made it apparent to all that taxation must be brought into accord with sound principles if the country was to continue to prosper and develop as it should.

In the face of such a situation the duty incumbent upon the Treasury was clear. By a statute approved September 2, 1789, the first Congress of the United States required that the Secretary of the Treasury prepare, from time to time, plans for the improvement and management of the revenues and report these plans to Congress. For over a century and a quarter this duty has been discharged by the men who have occupied the office which I now hold; and now, in my turn, I too have followed the requirements of the statute.

With Government expenditures reduced, the budget balanced, and the revenue ample, it became possible to present a comprehensive program of tax reform. In the summer of 1923, at the request of the Chairman of the Ways and Means Committee of the House of Representatives, where all tax legislation must originate, the Treasury undertook the preparation of a balanced plan for reducing and at the same time reforming the taxes in the light of statistics then available and investigations which the Treasury had conducted. The Treasury's views were transmitted to Congress in the fall of 1923, in a letter which I wrote to the Chairman of the Ways and

Means Committee. These recommendations, as a matter of convenience, were referred to in the newspapers as "The Mellon Plan", but they might better and more accurately have been denominated "The Treasury Plan", since they but reflected the same sound principles urged upon Congress by every Secretary of the Treasury since 1919.

There had been, as you will remember, a surplus of receipts over expenditures for a period of two years, and the estimates for the current year showed a surplus of about $300,000,000. While it has been our experience that a reduction in taxation does not mean an equivalent loss in revenue, because lower rates stimulate the creation of additional taxable income, still it was felt that Congress might hesitate to cut revenue in the first year of reduction below the probable surplus and the Treasury's recommendations were accordingly restricted substantially to the amount of revenue in sight. The plan contemplated not only a reduction in the income taxes, but other changes involving loss to the Government and the abolition of certain miscellaneous taxes. Each part of the plan had to be considered in its relation to the whole; and I did not then feel at liberty to suggest more than the first step in the proper reduction of the surtax, leaving the remainder of the reform to a later year when the reduced rates had brought back under taxation increased amounts of taxable income.

From the 68th Congress there emerged the Revenue Act of 1924. This Act abolished some taxes, reduced some rates, and followed in the main the recommendations of the Treasury as to administrative changes. In its failure to reduce the maximum surtax below 40% and in its increase of estate taxes to a maximum of 40%, the Revenue Act violated certain principles of taxation which I feel to be fundamental to any sound reform

of the tax system. This may be tax reduction. It is not tax reform. This may impose high rates on large incomes and estates. It does not insure continuation of large revenue to the Government. This may seem to make wealth pay. It only overburdens industry and initiative.

We are still faced then with the necessity of establishing economically sound rates of tax. But we are in a better position to-day to make the reform comprehensive than we were in 1923. At that time there were a number of different taxes to reduce or abolish, each contributing its share in the loss of revenue. Now we approach a fiscal year with an estimated surplus of $374,000,000. This, mind you, is after we have absorbed the losses of revenue brought about by the 1924 Act. Furthermore, we are in a better position to approach tax reform, because the country at large better understands the questions involved and is able to assess more nearly at their true value the various proposals for dealing with these questions. In other words, tax reform is now an issue which holds the public interest and demands an early and honest attempt at settlement.

As the cost of Government, particularly that of the States and municipalities, has mounted in the past few years, there has arisen the necessity for an apportionment of the fields of taxation between State and Federal Governments. At a meeting attended by State taxing authorities in Washington last month, at which the President spoke, the desirability of having the Federal Government leave to the States the particular field of inheritance taxes was strongly urged, and a nation-wide committee will consider this subject during the coming months. This return to the doctrine of the sovereignty of the States can be well appreciated here in Virginia. The efforts of two

Governments to tap the same source of revenue in inheritance taxes has resulted in overlapping systems which impose undue burdens upon the taxpayer and a consequent destruction of the very sources of revenue which mean comparatively little to the Federal Treasury, but much to the State.

I know of no better justification for our democratic form of government, in which I and all of us here so firmly believe, than the way in which the people of this country have come to an appreciation of what taxation is, of the principles underlying a sound tax system, and of the harmful effects which the wrong system can have upon the daily life of every citizen. Here is a subject highly technical, presumably theoretical, and one which, under ordinary circumstances, would seem to have no popular appeal to the crowd. Yet it has assumed importance and now holds the interest of the public mind.

An unintelligent use of the taxing power may have disastrous consequences. It is for this reason that we must come to some understanding, particularly as regards high surtaxes and in the field of inheritance taxes, by which overlapping and unfair taxes shall be eliminated and the future welfare and prosperity of the country shall be assured. This, I am confident, can be done; and in helping to do it and to bring about a better understanding of the fundamental principles involved in taxation, you are rendering the country a great and lasting service. We must not let partisan, or sectional, or class prejudices blind our vision or halt our determination to achieve what will be for the welfare of the country as a whole.

Treasury Department,
April 1, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

February 28, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 12,558,000,000	$ 1,884,000,000(1)	$ 10,674,000,000
Territories, insular possessions, and District of Columbia	135,000,000	16,000,000(2)	119,000,000
United States Government	2,175,000,000	671,000,000(3)	1,504,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,502,000,000	104,000,000(4)	1,398,000,000
Total February 28, 1925	16,370,000,000	2,675,000,000	13,695,000,000
Comparative totals:			
January 31, 1925	$16,409,000,000	$2,724,000,000	$13,685,000,000
December 31,1924	16,268,000,000	2,716,000,000	13,552,000,000
December 31,1923(5)	14,936,000,000	2,571,000,000	12,365,000,000
December 31,1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31,1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31,1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.
(5) Revised as to estimate of issues by states, counties, cities, etc.

Estimated Expenditures of the People of the United States
for Certain Articles, 1920-1924.

april 23, 1925.

In the accompanying table are estimates of the expenditures of the people of the United States for certain articles during the fiscal years 1920 to 1924.

While the majority of the articles included are ordinarily considered luxuries, the total of these expenditures cannot be classed as luxurious or wasteful. It is practically impossible to determine either what articles are luxuries or what are luxurious expenditures. A large number of automobiles, for example, are used by physicians, farmers, traveling men, and others for business purposes. In fact, the majority of automobiles are used for both pleasure and business. Toilet soaps and possibly some other toilet articles cannot properly be classed as luxuries, and certainly all furs cannot be put in that category. A certain amount of jewelery, watches, etc., as well as pianos and organs, might easily fall without the classification, depending upon the use made of them. The same is true of other articles in the list.

The basis of the majority of the estimates is the tax collections under the internal revenue laws. Information from the census of manufactures for 1919, 1921, and 1923 has been used to secure as reliable a check as possible, and also as a basis for some of the estimates when articles were not taxed in all of the five years.

The amounts of expenditures here presented are estimates, and therefore subject to the possible wide range of error in such estimates. No attempt has been made to determine the range of error, but certain limitations of the particular methods should be noted.

Practically all the estimates are based on taxes collected from manufacturers; in other words, on the volume of their sales. Over a long period of time, of course, the volume of such sales is the same as the volume of goods retailed. During a particular year, however, the volume of sales by the manufacturer may differ widely from the volume retailed and therefore from the expenditures of the people during that time. A cursory examination of the indicies of wholesale and retail trade bears out this statement. There is the same type of error in the estimates derived from census data because the basis is the volume of goods produced during the particular year.

Another source of error arises from the conversion of estimated wholesale values of goods sold into retail values in order to determine the expenditures by the people. Only rough approximations were possible in estimating conversion rates because of the small amount of data available on wholesale and retail prices of these particular classes of articles, the wide variety of articles in any one of the classes, and the different grades of individual articles. Yet the fact remains that a slight change in the conversion rate, up or down, would make a significant difference in the smallest estimate and a very great difference in the estimate for automobiles.

Estimated Expenditures of the People of the United States for Certain Articles, 1920-1924.

(millions of dollars)

	1920	1921	1922	1923	1924
1. Automobiles and accessories (exclusive of trucks).....	$3,655	$2,924	$2,711	$3,730	$4,057
2. Cigars, cigarettes, tobacco, snuff, cigar and cigarette holders	1,865	1,742	1,647	1,815	1,847
3. Beverages (non-alcoholic), ice cream, sodas, etc. (1)	821	847	758	780(2)	820(2)
4. Theaters, movies, other amusements, dues, etc. (1)	894	1,047	872	842	934
5. Candy	810	715	603	660	689
6. Jewelry, watches, etc.	517	486	390	406	453
7. Firearms and shells	93	74	67	87	67
8. Pianos, organs, phonographs, etc.	545	463	340	--	440(3)
9. Sporting goods, games and toys, cameras, etc.	366(3)	---	335(3)	--	431(3)
10. Fur articles	306	182	224	--	333(3)
11. Perfumes and cosmetics	160(3)	---	214(3)	--	261(3)
12. Toilet soaps	128	144	151	--	153(3)
13. Chewing gum	75	89	85	--	87(3)
TOTAL	$10,235		$8,397		$10,572

(1) Estimated expenditures for ice-cream, sodas, etc., theaters, movies, and other amusements include the amount of tax paid. The tax is added to the regular price and paid by the consumer as an extra charge.

(2) Estimate based on trend in estimated expenditures for amusements, dues, and candy, since ice cream, sodas, etc., were no longer taxed.

(3) Estimate based on census of manufactures.

PREPARED BY THE SECTION OF STATISTICS,
OFFICE OF THE SECRETARY, TREASURY DEPARTMENT
April 23, 1925.

Treasury Department,
May 4, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

March 31, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 12,646,000,000	$1,897,000,000(1)	$10,749,000,000
Territories, insular possessions, and District of Columbia	135,000,000	16,000,000(2)	119,000,000
United States Government	2,175,000,000	670,000,000(3)	1,505,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,514,000,000	104,000,000(4)	1,410,000,000
Total March 31,1925.	$ 16,470,000,000	$2,687,000,000	$13,783,000,000
Comparative totals:			
February 28, 1925	$ 16,370,000,000	$2,675,000,000	$13,695,000,000
December 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
December 31, 1923(5)	14,936,000,000	2,571,000,000	12,365,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasuer of the United States.
(4) Note (3), also partly owned by the United States Government.
(5) Revised as to estimate of issues by states, counties, cities, etc.

(T.D. 3714)

Admissions Tax - Revenue Act of 1918 - Decision of the Supreme Court.

1. EMBEZZLEMENT.

A person required by law to pay over to the Government taxes collected on admissions is a debtor and not a bailee. Conversion of such taxes to his own use does not constitute embezzlement.

2. WILLFUL FAILURE TRULY TO ACCOUNT FOR AND PAY OVER TAXES ON ADMISSIONS.

A person required truly to account for and pay over to the United States taxes collected on admissions may not, through technicality, escape his liability for willful failure so to do.

Treasury Department,
Office of Commissioner of Internal Revenue.
Washington, D. C.

To Collectors of Internal Revenue and Others Concerned:

(The decision of the Supreme Court of the United States, rendered May 11, 1925, in the case of the United States of America, petitioner, vs. James J. Johnston, the syllabus of which appears above, is published not as a ruling of the Treasury Department, but for the information of internal revenue officers and others concerned. Therefore, the text of the decision is not printed here but will be issued in the regular edition of the Weekly Treasury Decisions and the Internal Revenue Bulletin.)

C. R. NASH,
Acting Commissioner of Internal Revenue.

Approved: May 25, 1925.

A. W. MELLON,
Secretary of the Treasury.

Treasury Department
June 5, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

April 30, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking fund.	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 12,719,000,000	$1,908,000,000(1)	$10,811,000,000
Territories, insular possessions, and District of Columbia	136,000,000	16,000,000(2)	120,000,000
United States Government	2,175,000,000	670,000,000(3)	1,505,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,521,000,000	101,000,000(4)	1,420,000,000
Total April 30,1925	$ 16,551,000,000	$2,695,000,000	$13,856,000,000

Comparative totals:

March 31, 1925	$ 16,470,000,000	$2,687,000,000	$13,783,000,000
Dec. 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec. 31, 1923(5)	14,936,000,000	2,571,000,000	12,365,000,000
Dec. 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec. 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Dec. 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.
(5) Revised as to estimate of issues by states, counties, cities, etc.

TREASURY CERTIFICATES OF INDEBTEDNESS AND TREASURY NOTES OUTSTANDING JUNE 16, 1925.

SERIES	INTEREST RATE	DATED AND BEARING INTEREST FROM	DUE
		(Tax Certificates)	
TS-1925	2¾%	Sept. 15, 1924	Sept. 15, 1925
TD-1925	3%	March 16, 1925	Dec. 15, 1925.
TJ-1926	3%	June 15, 1925	June 15, 1926
		(Treasury Notes)	
B-1925	4-3/8%	June 15, 1922	Dec. 15, 1925
A-1926	4¾%	March 15, 1922	March 15, 1926
B-1926	4¼%	Aug. 1, 1922	Sept. 15, 1926
B-1927	4¾%	May 15, 1923	March 15, 1927
A-1927	4½%	Jan. 15, 1923	Dec. 15, 1927

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.

Taxation as a Business Problem.

The Treasury, like the business world, views taxation largely as a business problem. It is interested primarily in the extent to which rates actually produce revenue, just as the average business man is concerned with the extent to which taxes actually reduce his income. In each case the controlling elements are fiscal and economic, not political. For this reason we can afford to approach the subject only from an economic or business viewpoint; and, so far as the Treasury is concerned, we have viewed it only from this angle. In urging tax reform Secretary Mellon is actuated solely by the conviction that our present system has become unnecessarily complicated, is inefficient as a revenue producer, and threatens to constitute a drag on business progress and development.

We are still operating under an obsolete system of taxation, evolved during the war to meet conditions which no longer exist. The excessive rates of taxes, which obtain at the present time and to which we have gradually become accustomed, were precipitated on the country by the war. They are war taxes and nothing else. In the last year before America entered the war the normal income tax was 2 per cent and the maximum normal and surtax on the largest incomes was only 15 per cent. Then it became necessary to raise revenues with which to carry on the greatest war in history. With startling rapidity taxes mounted until in 1919 the tax on the greatest incomes reached a total of 77 per cent. In this way, we tried to tax the war profits and to make wealth carry its share of the war burden.

While wartime conditions prevailed, these rates were fairly effective in producing revenue. But as we gradually emerged from the war into the period of post-war readjustment and as business tried to carry on under conditions of peace-time competition, the average man began to look around for ways to avoid

paying what he considered to be excessive taxes. Needless to say, he was not long in finding ways of escape. Revenues began to fall off; and Senator Glass, who was then Secretary of the Treasury, diagnosed the situation as in part due to the surtaxes. He was the first to call attention to the necessity for reducing the rates, if the surtaxes were to continue effective as revenue producers. In his Annual Report to Congress for 1919, he pointed out that the upper brackets of the surtax had already passed the point of greatest productivity and that the only consequence of any further increase would be to drive possessors of great incomes more and more to place their wealth in tax-exempt securities.

In the same year, President Wilson reported to Congress as follows:

> "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 the then Secretary of the Treasury, Mr. Houston, again warned Congress of the harmful effects resulting from a continuance of wartime rates, and recommended that the excessive surtaxes be reduced.

So much for the views of the Wilson Administration. What are the views of leading Democrats to-day? In speaking from the same platform with Secretary Mellon in Richmond last March, Senator Glass showed that his convictions regarding the surtaxes have not changed.

> "To me" he said, "it is not exactly a new doctrine that excessive surtaxes are a distinct disadvantage to any government."

Unjust taxation, he characterized as legalized larceny, and added that he would vote for a maximum surtax of 20 per cent and would appreciably relieve the burden of the moderate taxpayers whose incomes range from $8,000 to $50,000. Senator Underwood, in an address on taxation at Montgomery a few days ago, said:

> "We have levied our taxes so high that we have chased much of the capital of the country into hiding and have reduced our revenue thereby . . . . If I had the power to write the tax law, I would go back to the tax of 1916, or something very like it, where the normal tax was 2 per cent and the highest bracket of the surtax was 13 per cent, and the highest tax on estates was 10 per cent."

In what way do these views which I have just quoted differ from those of the present Administration? In an address at New York last year, President Coolidge said:

> "The first object of taxation is to secure revenue. When the taxation of large incomes is approached with that in view, the problem is to find a rate which will produce the largest returns. Experience does not show that the higher rate produces the larger revenues. Experience is all the other way. . . . . There is no escaping the fact that when the taxation of large incomes is excessive, they tend to disappear . . . . Taken altogether, I think it is easy to see that I wish to include in the program a reduction in the high surtax rates, not that small incomes may be required to pay more and large incomes be required to pay less, but that more revenue may be secured from large incomes and taxes on small incomes may be reduced; not because I wish to relieve the wealthy, but because I wish to relieve the country."

Secretary Mellon has frequently pointed out that, in urging a reduction of the surtaxes, he has continued the policy which the Treasury has consistently advocated under a Democratic as well as a Republican Administration. And in speaking at Chicago a year ago, the Undersecretary of the Treasury, Mr. Winston, said:

"There is no reason why the subject of taxation cannot be approached from a purely non-partisan viewpoint . . . . There is nothing political in recommending a sound basis of taxation. It is simply common sense."

I have quoted the views of men in both parties at some length in order to show that a political case can hardly be made out as regards the reduction of the surtaxes. Certainly as between the two major parties, there is no cleavage in the philosophy of taxation in so far as the income or surtaxes are concerned. A small minority in both parties may subscribe to the theory "soak the rich" or "each for himself and the tax gatherer take the hindmost." But such, I take it, are hardly the sentiments of those who have the country's - and ultimately their own - best interests at heart, and who realize that none of us, whether we pay taxes directly or merely contribute indirectly in the increased cost of what we buy, can escape altogether the evil effects of an unsound system of taxation. If we are willing to look facts in the face, we know that a sound, workable system of taxation is preferable to one which levies excessive rates but is increasingly ineffective in collecting revenue, particularly from the higher brackets.

What is the situation which the country faces to-day as regards taxation? We are still living under a tax system which is fundamentally the same as it was during the war. It is true that the rates have been reduced and the burden of taxation has been greatly lightened. The Revenue Act of 1924 incorporated in the tax system many desirable administrative and structural changes, such as the establishment of a Board of Tax Appeals. Some improvement may be expected from these changes. It will be possible to expedite the settlement of contested cases and thereby to relieve the taxpayer of the fear

of unknown future assessments. But these changes, while excellent in themselves, do not go to the heart of tax reform. They fail entirely to take into account the defects of a system which seeks to build a fence around wealth in the form of high surtaxes and at the same time provides an easy means of escape through investment in tax-exempt securities. Such a system has two thoroughly undesirable results: it both encourages tax avoidance and discourages business enterprise.

Tax reform does not mean merely a reduction in rates. It means revising the whole tax system in such a way that it will produce the revenue required for the Government's needs over a long period of years, without having a detrimental effect on the normal, healthy development of the country. Of course, tax reduction gives the opportunity for tax reform. It is only by reducing rates scientifically and perhaps omitting altogether the imposition of some taxes, such as the Federal estate tax, that we can achieve the end desired.

In tax reform, there are two main objectives: first, to make the income tax effective and thereby to insure its preservation as a permanent source of revenue for the Government; and second, to work out a basis of cooperation between the Federal Government and the various States, by which over-lapping taxes, such as the Federal estate tax, shall be eliminated.

There is only one way to make the income tax effective. That is, by putting an end to tax avoidance. We have a blind faith in this country in the miraculous power of legislative action. We pass an act in order to achieve certain desired ends and then shut our eyes to the fact that the law is being evaded on every side. Too much evasion will, of course, destroy respect for the law and in the end will bring it into contempt.

That is the situation which confronts us to-day with regard to the graduated

income tax. We have a law which levies rates so high as to make tax avoidance worth while. At the same time, we provide legal means of escape by which the largest taxpayers can avoid all payment of taxes.

There are in this country today over $13,000,000,000 of tax-exempt securities, issued by States, counties and municipalities; and this amount is increasing at the rate of about $1,000,000,000 a year. All that is necessary is for the rich man to invest in these securities and he need pay no income tax at all. Wealth is more and more tending to do this, and to leave the tax burden to be borne by the smaller taxpayer and by the man engaged in active business, whose capital cannot be transferred to this form of investment.

The strange anomaly is that the very persons who champion high surtaxes as a means of taxing the rich are most insistent upon holding open the door of escape provided by tax-exempt securities. It is all done in the belief that some right -- or advantage -- of the States is involved. Tax-exempt securities represent largely public improvements; and public improvements, of course, are vitally necessary, particularly in the South, where increase in land values follows in the wake of better roads and schoolhouses. But public improvements do not necessarily depend upon the tax-exempt feature. Before the imposition of high surtaxes, sound State and municipal bonds were readily absorbed in the immediate locality and by insurance companies, trust funds and other conservative investors, who no longer cared to take the risk involved in business enterprise. These bonds would continue to find a wide market among such investors, regardless of the tax-exempt feature.

Men in active business, however, before the days of high surtaxes, did not seek this form of investment; and it is their present tendency to do so which is

giving cause for concern. In the South, as elsewhere, it is far more necessary that capital should seek business investments and build up cotton mills, railroads and other productive enterprises, rather than lie inactive in municipal and county bonds. At the present time, however, on account of the combination of high surtaxes and tax-exempt securities, capital is more and more tending to leave business and go into less productive forms of investment.

There are only two remedies for this situation. The first is to pass a Constitutional Amendment prohibiting future issues of tax-exempt securities. Secretary Mellon and the Treasury have frequently recommended the passage of such an amendment; and, as Mr. Mellon remarked last month in Mississippi, "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 taxes."

I have never felt that the States would give up any material right in supporting a Constitutional Amendment such as was passed by the House of Representatives a year ago, giving reciprocal authority to both State and Federal Governments to tax future issues of securities by either Government. It is in the power of the Federal Government now to issue its own bonds free of Federal taxation and thus largely destroy the artificial value attaching to State and municipal securities on account of their exemption from Federal taxes.

But there is no immediate prospect of a Constitutional Amendment being passed; and even if such an amendment were passed it could not affect the billions of dollars of securities already issued. Under these circumstances there is obviously only one course to pursue -- that is to reduce surtaxes to a point where capital will find it worth while to remain in active business and pay the tax rather than go into tax exempt bonds.

This, as Secretary Mellon has frequently pointed out, is the only reason for advocating a reduction of the surtaxes. In the words of Professor Thomas S. Adams, of Yale, who is one of the foremost authorities on taxation in the country

> "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 get 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 . . . . 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."

Taking up the question of rates: It may sound paradoxical, but it can be mathematically demonstrated, as the Government has found to its sorrow, that excessively high rates produce less revenue than lower ones. In taxes, just as in selling, there is a point of maximum return. If the selling price is too high, fewer articles are sold; if it is too low, sales increase but profits diminish. The Ford car offers a striking example of this. As we all know, the number of sales increases every time the price of the cars is reduced, which is, of course, easy enough to understand. But there is a point on the lower side of the profit belt, beyond which prices cannot be reduced without too great a loss of revenue; and so it is with taxes. We cannot levy rates below the point which will produce revenue sufficient to run the Government.

What has been the Government's experience in fixing rates? In 1916, under a maximum surtax of 13 per cent the total amount of incomes of $300,000 or over reported for taxation was $992,000,000 and the Government collected $81,000,000 in surtaxes. In 1921, under a maximum surtax of 65 per cent, the total amount of incomes of this class fell to $153,000,000 and the Government collected $84,000,000 in surtaxes. In 1922, the surtax was reduced from 65

per cent to 50 per cent, and what happened? The amount of income reported for taxation by the largest taxpayers rose to $365,000,000 as compared with $153,000,000 the previous year, and the Government collected in surtaxes $111,000,000 under the lower rates as compared with $84,000,000 under the higher rates. In 1923, the amount of income reported for taxation by the highest brackets increased to $371,000,000 and the amount of tax collected was $93,000,000. This tax was realized after allowing the retroactive reduction of 25 per cent authorized in the Revenue Act of 1924. Without such reduction there would have been collected taxes amounting to $124,000,000.

Under the 1924 Act the maximum surtax has been reduced to 40 per cent and, while the reductions granted are not enough to bring wealth as a whole back under taxation, it may be expected that there will be a still further increase in revenue from the higher brackets. Figures such as the above are convincing evidence that in taxation it is not always the highest rates which bring in the greatest revenue.

What is the situation as regards the rates now in effect? Under the present law, some of our most prosperous citizens are taxed as much as 46 per cent on the higher brackets of their income. I do not say that many of them are actually paying that much. But at least the law imposes a total maximum tax of 46 per cent. To the average man that seems fair enough. He reasons that a man with an income of $200,000 or $300,000 a year can afford to pay nearly half of it as taxes and still eke out not too miserable an existence. But regardless of whether the theory is right or wrong, it works out in practice so that the Government fails to get its share of the income. In order to avoid taxes which he considers excessive, the man of large wealth is investing more and more in tax-exempt securities and taking advantage of the other means of

avoidance made possible under the law. It is just as well to realize that capital, no less than labor, can not be forced to work unless it is profitable to do so; and under the present high surtaxes, capital does not find it worth while to take a chance.

A man of large income has the choice of investing in a taxable or a tax-exempt bond. He weighs the relative attractiveness of a safe tax-exempt security paying a lower rate of interest against that of a taxable security paying a higher return but involving the usual element of risk attendant upon business enterprise. If he is subject to the highest surtax, he finds that he must receive at least 8 per cent from the taxable investment to equal the net return of 4½ per cent from a tax-exempt bond. There are no bonds of sound security paying 8 per cent and very few safe business investments which insure such a return on the capital invested. The consequence is that capital is attracted to the tax-exempt investment and the man of large income pays no taxes. If, however, the maximum normal and surtax were reduced to a total of 20 per cent, a taxable business security need yield only about 5½ per cent to equal the net return of a 4½ per cent municipal bond.

It is easy to see what would happen under such circumstances. Capital would find it more profitable to invest in business and pay a moderate tax, rather than go to the trouble, as at present, of avoiding taxes. This is the reason for advocating a reduction of the surtaxes; and there can be no sound and permanent reform of the tax system which ignores the necessity for such reduction.

The second objective in tax reform involves a revision of the death taxes. Both the Federal and the State Governments are attempting to exploit this field of taxation. The result is that estates, with widely scattered assets, are frequently subjected to overlapping and confiscatory taxes, resulting in a depletion

of capital, which must ultimately have a serious effect on the country's development. It is possible for estates having widely scattered assets to be taxed more than 100 per cent of the value of the estate. This, of course, does not often happen; but, under our present laws, it is entirely possible and when it does happen, we have not taxation, but confiscation. There is no getting around the fact that death taxes are merely a form of capital levy; and the Treasury has taken the position that, regardless of the soundness of such taxes as levied in moderation by the States or by the Federal Government when necessity may require, it is unwise to defray the current expenses of the National Government out of excessive levies on capital when there is no pressing need for the revenue derived from such sources.

The inheritance tax is essentially one which should be levied by the States. The property taxed is located in the States, and its transfer to heirs at death is governed by State, not Federal, laws. The right of the Federal Government to impose estate taxes is based upon the theory of an excise tax; that is, a tax upon the passing or transfer of property. Congress has levied such taxes only four times in the country's history and always for the purpose of providing revenue in periods of great emergency. Such taxes were levied immediately after the Revolutionary War and during the Civil and Spanish wars, and they were always repealed when the particular emergency had passed.

The present estate tax was first levied in 1916, when a maximum rate of 10 per cent was imposed. Instead of later repealing the law, the tax was subsequently increased to 25 per cent, and in the 1924 Revenue Act the maximum rate was raised from 25 per cent to 40 per cent. These rates, after allowing certain credits for State taxes, are imposed in addition to the inheritance taxes levied by nearly all the State Governments.

The result is to subject estates to a double burden of taxation. In the end this tends to destroy capital values and also to dry up a source of revenue of great importance to the State Governments. It is for this reason that the President and Secretary Mellon have advocated that the Federal Government retire from the field of death taxes and leave these taxes to the States, to whom they properly belong.

As a source of revenue, death taxes are not of very great importance to the Federal Treasury; and, under the high rates now imposed, they are becoming less and less productive of revenue. Under the 25 per cent maximum rate, the revenue derived by the Federal Government has steadily dropped from $154,000,000 in 1921, to $103,000,000 in 1924. In the latter year the amount raised by death taxes was only 2½ per cent of the total receipts of $4,000,000,000 which the Federal Government received from all sources.

The States, on the other hand, when deprived of revenue which they might have obtained from this source, are forced to make up the loss by other taxes, particularly on farm lands. In many States, taxes are already so high as seriously to menace the prosperity of the farmer. The farmer nearly always pays a disproportionately large share of his earnings in taxes. He does not, as a rule, pay income taxes, so that this large part of his income which is

absorbed by taxation represents almost wholly direct taxes on his property. If there is to be any decrease in the amount of revenue available to the State Governments from inheritance taxes, as a result of the Federal law, it is obvious that the States must make up this loss by heavier taxes on tangible property. As a result, the taxes on farm lands will increase rather than diminish; and an increasingly heavy burden will be placed on the shoulders of those least able to bear it. The Treasury is constantly hearing of cases in different parts of the country where local taxes are so high as to make farming unprofitable with the result that the farm is subsequently abandoned in favor of some form of livelihood on which the burden of taxation does not fall so heavily.

State and local taxes are increasing at an alarming rate. They constitute by far the heaviest part of the tax burden which the American people are called upon to carry. In the decade from 1912 to 1922, the cost of state and municipal governments increased from about half a billion to over four billion dollars a year. The expenditures of the national government increased in like proportion, but these included the cost of financing our allies and carrying on the war; and since the war the national government has made heroic and successful efforts at retrenchment.

In 1920 the per capita Federal tax was $54; in 1923 this tax had been cut to $29; and in the current year to about $27. The per capita state and municipal tax, on the other hand, increased from $31 in 1920 to $41 in 1923, and the tendency is towards a further increase each year.

It is only fair, in any survey of our present burden of taxation, to apportion the responsibility where it properly belongs. It is state and local taxation which weighs most heavily on the average taxpayer, for out of a total

population of 110,000,000 people only about 3,600,000 or slightly over 3 per cent, pay an income tax direct to the Federal Government. A much larger proportion of the population, however, pays state and local taxes; and practically every one is taxed in the increased cost of what he buys.

The income tax or the surtax is frequently shifted from the manufacturer to the middleman and finally to the ultimate consumer, who pays the entire tax in the increased cost of the suit of clothes or the automobile or whatever the article may be. This is what is known as the incidence of taxation - that is, the shifting of the tax to the one on whom it finally rests. It is this incidence which is of interest to the average citizen.

Is this burden increased by reason of excessive surtaxes? The Treasury believes that it is. This is one of the reasons for advocating a reduction of the present rates; and the other, as I have said above, is because excessive taxes are nearly always avoided and do not have even the merit of producing revenue for the Government. Taxpayers will always find ways to avoid excessive taxes by investing in tax-exempt securities or by taking advantage of the other available means of tax avoidance. It may be a troublesome procedure to change the form of one's investments; but, if the rates are high enough, the taxpayer will find it worth while to go to that trouble and eventually he will put himself in a position where he can laugh at the tax gatherer.

There is an old story of one of the tyrant kings of ancient Greece, who imposed a tax so heavy that his people groaned but paid the tax. Finally he increased the tax to such unheard-of limits that a change came over his people's behavior. Instead of groans and curses, they went about the streets laughing at his tax - and, of course, not paying it. When the tyrant heard what they were doing, he ordered the tax reduced at once, for, he said, when they laugh

at your tax it means that they have no intention of paying it. He found, just as we are finding to-day in the case of excessive surtaxes, that there is such a thing as encroaching too far on the limits of taxable capacity.

We have found that we can collect a moderate tax. But when we try to impose too high a rate - and especially when at the same time we offer legal means of avoidance - wealth escapes and eventually the Government will have to fall back on levying higher taxes on the smaller incomes and on the man in active business in order to raise the required revenue. From the standpoint of Government income, better results can be obtained from moderate rates than from excessive ones. Certainly, as regards the interests of the taxpayers themselves, it is important to have a taxing system which produces revenue without affecting adversely the growth and development of the country on whose prosperity we must all, as individuals, depend.

Taxation, as I said at the beginning, is neither a partisan nor a sectional question. It is, on the other hand, a matter which vitally affects the welfare of every one in every part of the country; and, if the nation as a whole will get behind the movement for tax reform, it will prove, as we proved during the war, that America can always think and act as a unit when once she is convinced that the national interest is involved.

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.

I think it was Thomas Jefferson who said "That Government governs best which governs least". We often hear the statement today, overwhelmed as we are by a multiplicity of laws, the grist of the legislative mills of forty-eight States and the National Government. We feel that we should return to the simpler forms of our forefathers, and that we should have less laws regulating, as they do, almost every detail of society and business.

The early days when each family was almost a self-sustaining group by itself and touched its neighbors only incidentally, have gone. The interrelationship between people within the country and with the peoples of other nations is now so constant that a return to such earlier forms is impossible. Civilization is complex, and necessarily this complexity produces in the minds of the legislators the desirability of more intimate regulation by Government. I do not believe that we can expect less government in the sense of less laws by the sovereign. It lies, however, within your power by your influence upon public sentiment and within our power as servants of the Government to see to it that we approach the same end by less friction between the nation and its citizens. This we can do by the adoption and maintenance of sound policies and methods.

Government must, and always will, exercise a profound influence upon the happiness of its people and their prosperity. We cannot escape this influence. We probably cannot prevent new influences, -- equally

as capable of good or ill. New conditions will arise, or seem to arise, and new laws will be passed by reason of these conditions. There is nothing to be feared in this, provided the theories upon which the laws are passed are proven by experience. Soundness cannot be a question of new conditions or of complexity of civilization. Principles do not change with the times. A people with laws based on sound principles and with sound methods of administration presents the characteristic of being the best governed because the normal conduct of its life is least disturbed. It is on this subject I wish to speak.

There is no closer contact with the people of this country, and certainly with you and your business, than the fiscal operations of the United States. I can speak of the Treasury because here is a field with which I have become familiar, and I can show you what I mean by being governed less upon three different points where the Treasury meets the public: first, one of existing policy; second, one of method; and, third, one of future policy. I have taken these three examples because they are varied. The existing policy referred to is that of public debt retirement; the method is that of handling Government securities; and the future policy is reform in our taxation.

Alexander Hamilton said "Public and private credit are closely allied if not inseparable. There is perhaps no example of the one being in a flourishing where the other was in a bad state".

This principle applicable to our finances as a young nation at the close of the Revolutionary War was equally true of our situation at the close of the World War period when we owed at the peak over $26,000,000,000. We set out then upon the policy of orderly refunding and liberal retirement of our public debt.

Our situation today shows how far we have advanced in our refunding program along the line dictated by good finance. We owe now all told $20,550,000,000. In the next three years we have debt maturities of $2,500,000,000; on September 15, 1928, $2,900,000,000 of the Third Liberty Loan comes due, and the remainder of the debt matures over a further period of 23 years. While some of the short-term debt may not be retired as it comes due, what is left should be quite simple to handle, and the only major operation in sight is the Third Liberty Loan of 1928. This loan has already been reduced over $1,290,000,000, and with open years into which to refund what cannot be paid, the problem presented does not appear serious.

Looking at the other side of the picture, that is, not when we must pay but when at our option we can elect to pay if we have extra cash with which to retire the debt or if we can refund on better terms, 50 per cent of our total debt matures or is callable within three and one-half years and 95 per cent within nine years. We have flexibility. Our public debt structure is then substantially in shape, the Treasury cannot be hurt in a crisis, and we have a control to be exercised as advantages the United States. Our program of

refunding has been orderly. We have governed well because we have eliminated disturbance in the past and menace in the future.

Coming to debt retirement, some say that our policy in this respect is too drastic. We are charged with being too anxious to see the debt reduced and therefore its payment is made burdensome to the country. It is argued that the present generation should not pay but should pass the debt on to a later generation. Taking the people as a whole, there is nothing in this argument. The money represented by the debt was spent for the war. The evidence of the debt, the bonds, are all held in this country. If the first generation passed on to the second generation the burden of paying the debt at the same time the second generation must inherit the bonds representing the debt, so the second generation would receive both a liability and its equivalent asset. No net burden would pass. While taking the people as a whole it is immaterial when the debt is paid, still, as between different classes of people, the investing class holding the bonds and the producing class from whom a larger part of our taxes are collected, inequality may exist. We should not tax too heavily the producers to pay the security holders. It is for this reason that we have sought a balance between debt reduction and tax reduction. The surplus of receipts over expenditures in the past five years has accounted for over a third of the total reduction during these years of 3¾ billion dollars. Annual surplus is the margin available and which should be devoted to tax reduction.

There are, however, certain factors which must continue the orderly retirement of the debt. Roughly, $20,000,000,000 of war debt is represented one-half by money spent by America in the war and one-half by money loaned to the Allies. A sinking fund based on 2½ per cent of the $10,000,000,000 used domestically was established in 1919 and it was intended that the $10,000,000,000 loaned abroad should be taken care of by repayment of the loans by the foreign borrowers. Here we have a two-fold agrangement for retirement of the war debt. In the public debt structure one obligation has no distinction over another. Each is based solely on the credit of the United States irrespective of rate of interest, date, or maturity. It is one debt. We may look at the situation, therefore, as if a company had mortgaged several pieces of property and in the mortgage had convenanted for a sinking fund each year and for the use of the proceeds of any property sold from under the mortgage toward retirement of the debt. The mortgage bondholder has a contract, legally binding on the mortgagor, that these covenants be performed. In like manner the Government bondholder has a contract, morally binding on the United States, since to violate it would be partial repudiation, that the sinking fund will be continued in accordance with its terms and that repayments of foreign loans will go to decrease the debt which was incurred for their creation. Within the limits thus placed sound policy now requires that any surplus in Government receipts over expenditures should be distributed, just as the profits of any other mutual organization are distributed, among its members,-the taxpayers - through a reduction in their forced contributions to the State.

I wish to emphasize that the retirement of the public debt has actually aided future relief from taxation. This is an

accumulative aid, growing more important with time. Interest is roughly a third of Government expenditures outside of debt retirement. In 1921 this interest was a billion dollars; in the year just closing it will be about $870,000,000, a saving of $130,000,000 a year. All of this saving has not taken place, because there are less bonds outstanding upon which interest must be paid, but a very substantial part is accountable because, through improved credit, we have had to pay less for money borrowed. Of the $130,000,000 saved, over $30,000,000 represents the decrease in the average rate of interest in 1925 under that paid in 1921. It is true this reduction in average interest rate does not seem large in itself, but spread over such an enormous total of debt it gives, as you can see, substantial results. The reduction in average rate is brought about by refunding only a part of the total debt on a lower interest basis, and the full effect of this improvement in credit is not now felt. If we had been able to refund the entire debt on the basis of what our refunding during the past two years actually cost us, we would have saved an additional $85,000,000. This benefit will come in the future as further refunding is practicable.

You need not go far to find examples of what a fiscal policy, simply because of its soundness, may add to a country's resources and to the freedom of its people. England, with perhaps greater financial understanding than that possessed by any other nation, has but recently taken the fourth step in its plan of fiscal reform. It balanced its budget, settled the American debt, provided for the gradual retirement of the internal debt, and brought its currency

system back to the gold standard. These were all essential parts of its program and the courageous last step would have been impossible without the earlier stages. Take, just for a minute, the situation in France. It was devastated by the war, and physical restoration had to precede financial restoration. It takes time to put a house in order after a cyclone, and America admires the courage with which France has gone about its difficult task. The French are an industrious, saving, logical people, and understand the advantages of a sound fiscal policy. Towards this end their government is now moving. It has not yet arrived, however. France has an internal debt of 280 billion francs, say, $14,000,000,000, England one of over twice that. Interest on this debt represents more than half of the French expenditures, and something over a third of England's. While the French short-term debt has been forced out at a comparatively low rate of interest, the effect of which is probably inflationary and, therefore, in the end expensive, the true test of credit is the longer term security which is taken by the investing public. Since 1920 in France the rate of interest on this type of security has gone steadily up from 5¾% in 1920 to 8.62% in 1924, whereas in England the reverse has taken place and during the same period the basis of England's refunding has decreased from 5¾% to about 4¾%. A like situation is reflected by the dollar loans of the two countries quoted on the New York market. If the average rate of interest which France now has to pay could be reduced by even one per cent, it would mean a saving of nearly a tenth of the governmental expenditures. We must look forward to France

balancing its budget, refunding its foreign debts and stabilizing its currency, and so reestablishing its credit as actually to save money in the transaction. Through a sound policy, and only through such a policy, England has been able to command the unexcelled credit necessary to protect it on the restoration of the gold standard. Such a policy pays.

I think it is clear that the adoption and maintenance of sound ideas increase the freedom of the people, and, therefore, furnish the characteristic of better government through less government.

I come to another point of contact with Government which can be illustrated by the handling of securities. If the Treasury were to sell, say, $500,000,000 of Government bonds for cash and have payment made into the Federal Reserve Banks, the $500,000,000 would be taken out of the usual commercial channels, since it would be taken from the commercial banks and off the market, and money would abruptly tighten by reason of the decreased supply. The only way the Treasury could restore the equilibrium would be by redepositing the proceeds of the security sale with commercial banks until the Government was ready to spend the money. The redeposit would mean the selection of the depositaries in some arbitrary manner, with the certainty of undue pressure being put upon the Treasury to favor one bank as against another. Such a procedure is unscientific and dangerous. When it was in effect upon even as small a flotation as the Spanish War $200,000,000 issue, great anxiety was felt of disturbance to the money market, and elaborate provisions had to be made for anticipation of interest payments and redemption of other maturing securities to keep the market

in order until the money could be returned to commercial channels by redeposit in the National Banks. This is a difficulty in the usual method of selling securities. There is also an advantage in managing security issues in another particular.

Speaking quite roughly, if we eliminate the income tax from the receipts side of the Government account and interest from the expenditures side, other receipts about balance other expenditures. Our receipts from income tax payments pile up in the four installment months of March, June, September and December. Our expenditures for interest payments are spread throughout the year. If we permitted these tax payments to lie in the Federal Reserve Banks, outside of the ordinary channels of trade until we needed them for interest, we would have a stringency in the money market every quarter until the money was redistributed to the commercial banks.

We had, then these two points to meet - the usual method of sale of securities meant taking their purchase price temporarily out of the money market, and, second, the peaks in income tax payments made it desirable to adopt some way of keeping the market level.

The solution is quite simple and entirely effective. We arrange our schedule of security maturities so that we have a maturity at each quarterly tax payment date of three to five hundred million dollars. To the extent of our excess cash we retire the maturing securities and refund the balance by the sale of new securities on credit. We conduct

this credit sale by authorizing a bank to be designated a special Government depositary and within the limits of its designation to purchase on credit Government securities. When a bank is allotted securities on the subscription for itself or its customers, it simply gives the Treasury a deposit credit on its books for the price. On the date of issue, the banks receive the securities, which they can dispose of as they think fit, and the Treasury has a deposit credit with the banks. No cash has gone out of the market. There is no disturbance. The amount of the credit is fixed by the bank's own subscription and is not the result of discretion on the part of the Treasury. We do not have to distribute favors. From time to time thereafter, as the Treasury needs money for its checking account with the Federal Reserve Banks to meet its immediate payment, it draws from these deposit credits to its checking account. In general the excess tax payments in the quarter are used to pay off the maturing obligations, and the proceeds of the new obligations go to carry the Treasury over the next three months.

Suppose on September 15 we had $300,000,000 of notes maturing and expected a like amount of excess income taxes, and needed 250 million to run the Government for the next three months. We would pay off our notes out of the excess income tax collections, and we would sell a new issue of 250 million of securities on credit. The result is plain. There would come out of the commercial banks in payment of taxes 300 million dollars; there would go back into the commercial

banks in payment of securities matured 300 million dollars. Two hundred and fifty million of new securities would be sold on credit and no cash would come out of the commercial banks on account of this sale until the Treasury required the money, to pay interest for example, and then it would promptly be returned to the commercial banks through cashing of the interest coupons.

When operations are as large as those in which the Government is frequently involved, it is essential that we do not unnecessarily disturb other businesses. By lack of intelligence in method or by the failure to take into account all of the elements which are affected by a Governmental action, we may bring with our transactions confusion and loss. This we seek to avoid.

The future policy by the adoption of which we can obtain less friction in Government's relation to its people, and, therefore, better government, is that of reform in taxation. Taxation is the power of the State to raise money that the State may live to-day and every day. The purpose of taxation is, not only to acquire a revenue this year, but to keep the fields of revenue fertilized and plowed so that we may have assurance of crops of revenue in years to come. The most important principle of taxation is, then, a taxing system which will preserve and not destroy the sources upon which it must feed. With estate taxes which confiscate up to 40 per cent of capital, we are overcropping our land; with income taxes reaching 46 per cent, we are not letting our crops come to maturity. In both lines we destroy the

sources of revenue by killing the incentive to the production of more wealth or more income to replace that taken by taxation. The system seeks its justification not as a bona fide effort to raise revenue, but as some sort of social reform; it is politics, not economics. So long as we have economically unsound rates of tax which yield in revenue to the Government an amount entirely incommensurate with the harm they do the taxpayer, we will have undue interference of Government in the affairs of the people. Tax reform is not a question of tax reduction but of tax policy. The policy which the Treasury believes the country should adopt consists not in any particular schedule of rates but in such scientific, economic rates as will produce revenue sufficient for the country's needs over a long period and with the least possible interference in the life of the people.

In other words, we want a taxing system which operates with a minimum of friction and still meets the money requirements of the Government. As we approach the realization of such an ideal, capital will get out of unproductive investments; industry will return from abnormal channels; and taxation, unburdened by waste in collection, will produce for the Government a net income more nearly corresponding with what the taxpayers give up. When such a reform is accomplished - and I have confidence that the American people understand its importance and demand its adoption - then we will indeed be in a position to give you better government by less government. These three contacts of yours with Government are, as I said at the beginning, various. But they are alike in that each is builded upon the rock of sound policy. It is to bring all Government activities to this solid foundation that our efforts must be directed.

Treasury Department,
July 1, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

May 31, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$12,890,000,000	$1,934,000,000(1)	$10,956,000,000
Territories, insular possessions, and District of Columbia	136,000,000	18,000,000(2)	118,000,000
United States Government	2,175,000,000	670,000,000(3)	1,505,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,527,000,000	101,000,000(4)	1,426,000,000
Total May 31, 1925	$ 16,728,000,000	$2,723,000,000	$ 14,005,000,000
Comparative totals:			
April 30, 1925	$ 16,551,000,000	$2,695,000,000	$ 13,856,000,000
Dec. 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec. 31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Dec. 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec. 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Dec. 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.

PRELIMINARY TABLE OF INHERITANCE TAX RECEIPTS BY THE VARIOUS STATES FOR THE YEARS 1916 TO 1924 INCLUSIVE

	1916	1917	1918	1919	1920	1921	1922	1923	1924
Alabama	------	------	------	------	------	------	------	------	------
Arizona	$7,978	$7,233	$7,477	$20,722	$31,690	$17,198	$65,104	$61,820	not received
Arkansas	84,865	76,042	125,541	177,685	215,833	91,484	362,895	270,644	$356,824
California	3,145,211	3,830,952	2,725,407	3,409,911	2,678,159	6,804,732	6,344,644	4,777,950	6,463,326
Colorado	295,480	773,983	538,330	302,944	991,361	500,485	512,695	911,212	239,415
Connecticut	1,310,763	1,050,988	1,527,165	850,873	1,987,777	1,855,856	2,327,809	2,573,704	1,960,628
Delaware	11,093	8,876	15,575	56,505	37,249	240,387	153,137	127,913	86,155
Florida	------	------	------	------	------	------	------	------	------
Georgia	81,745	245,105	191,336	168,053	210,482	327,265	282,813	291,599	336,259
Idaho	5,603	4,050	27,285	21,834	33,022	27,955	15,081	93,170	15,037
Illinois	2,120,895	1,959,635	1,959,636	2,965,397	2,965,398	3,373,610	3,373,611	7,640,438	7,640,439
Indiana	323,139	589,706	452,481	430,211	660,111	669,362	978,198	885,673	892,803
Iowa	361,792	398,704	471,009	575,205	649,007	626,632	764,076	1,073,815	1,006,510
Kansas	64,118	372,567	150,345	248,531	426,118	556,118	333,398	346,015	380,569
Kentucky	136,513	145,398	988,296	235,059	435,562	250,627	2,573,826	360,498	not received
Louisiana	56,267	56,268	45,086	45,086	144,736	144,736	142,080	142,080	835,300
Maine	223,876	215,824	273,643	411,665	594,020	213,526	564,247	1,116,023	552,105
Maryland	293,484	547,926	343,092	347,588	656,028	562,131	541,331	445,770	564,339
Massachusetts	4,223,843	3,900,247	5,841,205	5,002,697	4,607,663	7,322,947	6,805,977	6,158,925	6,489,174
Michigan	478,146	775,368	597,621	512,594	780,183	1,391,678	1,250,660	1,075,981	3,492,614
Minnesota	2,594,488	873,123	683,608	1,056,687	1,074,039	966,539	1,502,185	1,237,670	902,854
Mississippi	------	------	1,754	24,492	65,638	106,675	98,095	91,763	235,787
Missouri	392,413	445,877	361,595	1,408,174	1,472,223	1,229,001	1,374,883	1,055,074	1,193,721
Montana	55,568	44,046	46,546	74,089	73,749	73,718	61,374	71,590	165,845
Nebraska	Administered by county judges. No figures received yet								
Nevada	3,887	953	5,351	3,285	14,863	57,594	1,962	1,714	5,308
New Hampshire	174,583	101,499	193,802	199,745	204,389	251,313	504,742	462,422	354,726
New Jersey	3,331,909	3,626,386	2,930,363	3,991,524	5,192,498	4,709,434	4,425,504	4,867,064	7,010,026
New Mexico	------	------	------	------	1,181	998	6,063	5,337	14,383
New York	5,984,018	13,791,970	11,433,400	13,339,583	21,259,641	18,135,507	15,385,042	17,786,389	19,369,394
North Carolina	30,919	162,183	316,520	595,682	603,230	328,740	955,009	335,799	511,125
North Dakota	26,673	41,993	71,640	75,430	64,089	99,341	63,442	48,858	43,554
Ohio	186,445	331,698	287,549	367,222	456,368	1,184,806	1,510,973	1,357,236	1,348,611
Oklahoma	13,863	43,435	97,173	23,532	100,554	155,068	75,372	90,188	161,517
Oregon	87,969	75,645	195,643	346,277	214,215	209,937	464,810	331,282	414,618
Pennsylvania	2,598,084	2,391,215	5,646,604	7,161,198	10,198,718	7,722,946	11,669,077	12,991,818	11,482,039
Rhode Island	224,183	224,184	277,085	396,301	1,447,769	519,489	1,333,484	336,753	467,864
South Carolina	------	------	------	------	------	------	------	252,070	230,094
South Dakota	43,400	214,480	94,628	110,988	224,338	177,654	147,824	258,281	198,975
Tennessee	140,979	238,522	238,523	187,939	187,939	309,246	309,247	377,643	377,644
Texas	30,006	46,431	32,805	254,995	547,227	95,417	162,227	114,064	145,215
Utah	138,788	87,000	87,001	207,007	207,007	245,726	245,726	339,157	339,157
Vermont	101,593	88,221	133,272	89,389	117,759	118,982	117,574	156,385	145,824
Virginia	70,991	118,936	144,791	100,513	199,538	409,513	331,043	429,206	628,538
Washington	136,549	197,246	225,179	257,068	277,795	460,166	327,956	476,039	664,383
West Virginia	156,442	265,914	339,929	288,840	321,131	755,887	636,118	778,000	765,144
Wisconsin	502,938	860,779	517,390	778,022	1,115,644	1,265,457	1,186,485	1,946,379	2,902,203
Wyoming	Previous to 1921 tax collected by counties; figures not yet received					1,185	18,183	22,981	61,881
Total of above	$30,251,499	$39,230,608	$40,642,681	$47,120,452	$63,745,941	$64,567,068	$70,305,982	$74,574,392	$81,451,927

NOTE: Some of these figures are for calendar years while others are for fiscal years. In a few cases when there was a change from one fiscal year to another the figure is for the six months period. Most of the figures appear to be of collections, while some are of assessments. Apparently most but not all of the figures are net after deduction of refunds. Also it is not clear which figures are reduced by the cost of collection. Where the figures were for a biennial period they were equally divided for the two years.

Treasury Department,
August 4, 1925.

ESTIMATED AMOUNT OF WHOLLY TAX EXEMPT SECURITIES OUTSTANDING

JUNE 30, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 13,010,000,000	$ 1,952,000,000(1)	$ 11,058,000,000
Territories, insular possessions, and District of Columbia	136,000,000	18,000,000(2)	118,000,000
United States Government	2,175,000,000	669,000,000(3)	1,506,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,554,000,000	98,000,000(4)	1,456,000,000
Total June 30, 1925	$16,875,000,000	$ 2,737,000,000	$ 14,138,000,000
Comparative totals:			
May 31, 1925	$ 16,728,000,000	$ 2,723,000,000	$ 14,005,000,000
Dec.31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec.31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Dec.31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec.31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Dec.31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.

Treasury Department
August 31, 1925

Estimated Amount of Wholly Tax-Exempt Securities Outstanding
July 31, 1925

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$13,103,000,000	(1) $1,966,000,000	$11,137,000,000
Territories, insular possessions, and District of Columbia	136,000,000	(2) 18,000,000	118,000,000
United States Government	2,176,000,000	(3) 670,000,000	1,506,000,000
Federal land banks, intermediate credit banks and joint-stock land banks	1,559,000,000	(4) 97,000,000	1,462,000,000
Total July 31, 1925	$16,974,000,000	$2,751,000,000	$14,223,000,000
Comparative totals:			
June 30, 1925	$16,875,000,000	$2,737,000,000	$14,138,000,000
Dec. 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec. 31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Dec. 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec. 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Dec. 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Note (3), also partly owned by the United States Government.

Treasury Department,
October 2, 1925

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES OUTSTANDING

August 31, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$ 13,159,000,000	$1,974,000,000 (1)	$ 11,185,000,000
Territories, insular possessions, and District of Columbia	139,000,000	19,000,000 (2)	120,000,000
United States Government	2,176,000,000	671,000,000 (3)	1,505,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,568,000,000	92,000,000 (4)	1,476,000,000
Total August 31, 1925	$ 17,042,000,000	$2,756,000,000	$ 14,286,000,000
Comparative totals:			
July 31, 1925	$ 16,974,000,000	$2,751,000,000	$ 14,223,000,000
December 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
December 31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
December 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
December 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
December 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Includes amount held in trust by the Treasurer of the United States and also the amount owned by the United States Government.

October 19, 1925.

TREASURY STATEMENT BEFORE

WAYS & MEANS COMMITTEE OF THE HOUSE

SURPLUS

The first matter which must be considered in any revenue bill is how much revenue the Government requires. You must start then, with the probable receipts and expenditures which can be fairly accurately estimated for the fiscal year ending June 30, 1926, and with somewhat less certainty for the next fiscal year. In June last the President stated that the probable surplus for the fiscal year 1926 would be $290,000,000. Since June various items have come in to both sides of our statement which, while they do not change the net result, alter very considerably the total figures of expenditures and of receipts. For example, $10,000,000 will have to be added for pensions and $22,000,000 for contributions to the States for hard roads, and additional amounts to customs and internal revenue refunds. The principal items, however, of additional expenditure which must be made in this year is for adjusted compensation. The Adjusted Compensation Act provides that on the first of January each year the Government shall appropriate and invest a sum sufficient to pay the premium on the policies in force. The act further appropriated for January 1, 1925, for this purpose $100,000,000. In the appropriation bills of the last session, $50,000,000 was arbitrarily taken as the amount which would be necessary to pay premiums due on January 1, 1926. At the time these appropriations were made, no one knew how many applications would be made for policies or how much insurance would be in force, and, therefore, it was impossible to estimate accurately the amounts which under the statute should be appropriated for in 1925 and 1926. The total actual appropriations on these two dates aggregated $150,000,000. From the applications now in and from those that can now reason-

ably be expected to be filed by January 1, 1926, these two appropriations should be $256,000,000 instead of $150,000,000. This will necessitate a supplemental appropriation in the current year of $106,000,000. This sum must be added to the expenditures as estimated last June.

Looking at the other side of the picture, our estimates of income tax receipts were made before we had received the June installment of taxes and were based upon previous experience of the ratio that the March payments bore to the total income tax receipts. Under other revenue acts the March installment had been a certain percentage of the total annual revenue. Our June and September results, however, show that this ratio had changed materially. The explanation appears to be this: The large taxpayers pay in installments throughout the year; the small taxpayers pay in full in March. The taxes of the small taxpayers had been so reduced by the new law that their payments in full did not constitute such a material part of the whole. We accordingly underestimated the enormous increase in taxable income through the slight reform carried in the 1924 act. A review of our estimates permits us to add over $190,000,090 of tax revenue to our expected receipts. Taking into account other adjustments in expenditures and receipts, it is now estimated that the surplus for 1926 will come close to $290,000.000.

For 1927 the Budget has not yet determined the total of expenditures which will be necessary to run the Government. I think, however, that the surplus in 1927, with revenue based, of course, upon the present tax bill, would be between 250 and 300 million dollars. This, it seems to me, is a figure which it is safe to take as the amount by which taxes can now be permanently reduced.

A reform in taxation such as a reduction of the high surtaxes increases the taxable income through stimulation of business and productive investment so that what apparently would be a loss is later made up. Still it is well not to cut revenue beyond the reasonable requirements of the Government. In this connection remember

that since the war period we have been living partially upon capital. I refer to the return of our investment in the War Finance Corporation, repayment of loans to railroads, the sale of surplus supplies, etc. As these sources give out, we will have to pay our current expenses out of current revenue. It seems to the Treasury that we should keep this figure of $250,000,000 to $300,000,000 as our goal of tax reduction.

ESTIMATES

Estimates of probable receipts from taxation are, of course, not always borne out by results. For example, the 1924 Act levied a tax on mah-jongg sets presumably to bring in revenue, but I hardly think that this tax is now considered a reliable source. In the Treasury, we have endeavored to reach our estimates from various viewpoints, so as to ensure a probable degree of accuracy. Customs receipts are estimated by the Director of Customs, who is the practical operating man, by Mr. McCoy, the Government Actuary, and by Mr. Riddle, head of the Statistical Division of the Treasury. Income and miscellaneous taxes are estimated by Mr. McCoy, Mr. Riddle, and Mr. Nash, Deputy Collector of Internal Revenue. The last in his end is the practical man. Mr. Riddle's estimates are based on a study of past and existing business conditions and industrial cycles. For instance, prosperity of corporations in one year is reflected in the dividends received by their stockholders in the later years. Mr. McCoy has his own method of figuring. I confess I do not always understand it, but he certainly obtains remarkably accurate results. All of the estimates are gathered together and at a conference, the differences are threshed out and the most probable figure is selected. Approaching as we do the subject from a practical and two different theoretical viewpoints, I think we achieve as accurate a result as is obtainable.

DEBT PAYMENT

The suggestion has been made that we are retiring our public debt too rapidly. It is argued that the present generation should not pay but should pass the debt on to a later generation. Taking the people as a whole, there is nothing in this argument. The money represented by the debt was spent for the war. The evidence of the debt, the bonds, are all held in this country. If the first generation passed on to the second generation the burden of paying the debt at the same time the second generation must inherit the bonds representing the debt, so the second generation would receive both a liability and its equivalent asset. No net burden would pass. While taking the people as a whole it is immaterial when the debt is paid, still, as between different classes of people, the investing class holding the bonds and the producing class from whom a larger part of our taxes are collected, inequality may exist. We should not tax too heavily the producers to pay the security holders. It is for this reason that we have sought a balance between debt reduction and tax reduction.

If we analyze the sources by which our debt has been reduced nearly $5,000,000,000 from its peak to June 30, 1925, they are as follows: Over $1,033,000,000, or 20 per cent, has come from a decrease in the general fund balance; $1,678,000,000, or 33 per cent, from the surplus; $1,423,000,000, or 28 per cent, from the sinking fund, and the balance from miscellaneous sources, including foreign repayments.

The decrease in the general fund balance means that the Treasury has been able to reduce its cash in bank by over $1,000,000,000. This shows economy in the operation of the Treasury, since so long as we are borrowing money we ought not to carry any more cash than we need. The present working balance, however, is as low as we can safely go. In September, for instance, it was

lower than at any time since 1917. This 30 per cent factor of debt reduction will have no influence in the future.

There are, however, certain factors which must continue the orderly retirement of the debt. Roughly, $20,000,000,000 of war debt is represented one-half by money spent by America in the war and one-half by money loaned to the Allies. A sinking fund based on 2½ per cent of the $10,000,000,000 used domestically was established in 1919 and it was intended that the $10,000,000,000 loaned abroad should be taken care of by repayment of the loans by the foreign borrowers. Here we have a two-fold arrangement for retirement of the war debt. In the public debt structure one obligation has no distinction over another. Each is based solely on the credit of the United States irrespective of rate of interest, date, or maturity. It is one debt. We may look at the situation, therefore, as if a company had mortgaged several pieces of property and in the mortgage had covenanted for a sinking fund each year and for the use of the proceeds of any property sold from under the mortgage toward retirement of the debt. The mortgage bondholder has a contract, legally binding on the mortgagor, that these covenants be performed. In like manner the Government bondholder has a contract, morally binding on the United States, since to violate it would be partial repudiation, that the sinking fund will be continued in accordance with its terms and that repayments of foreign loans will go to decrease the debt which was incurred for their creation.

We come now to the other principal factor in debt reduction, that of surplus, which has accounted to date for over one-third of the reduction in our debt. It is proposed to exhaust this surplus by reducing taxes. This is sound policy. A surplus of Government receipts over expenditures should be distributed just as the profits of any other mutual organization are distributed, among its members - the taxpayers - through a reduction in their forced contributions to the State.

Of the three factors in the reduction of the debt, reduction in the general fund balance will have no effect in the future. It is intended that the surplus be exhausted by tax reduction. There remain only the sinking fund and foreign repayments. It is admitted that Congress has the legal authority to repudiate the contract for the sinking fund and for the application of foreign repayments. It is denied that it has the moral authority. This Government has yet to break faith with the investors in its securities.

Money taken to pay the public debt is not lost. It is not paid outside the country. Payment means a return of cash to the security holders who must immediately find other investments. The Treasury debt payment has turned back to the American people $5,000,000,000 and this sum has gone into land, farm loans, and industrial and other investments. Far from hurting the country, the past policy has been a great benefit to all those who needed capital.

Let us look at this debt reduction from another standpoint. This country is to-day exceedingly prosperous. It can afford to pay off its debts without undue burden upon its taxpayers. Its history has always been prompt extinguishment of its war debts. It is ready for the next emergency when it comes. The time to repair your roof is in good weather, not when it is raining. The time to pay your debts is when you can.

SURTAXES.

In determining what taxes should be first reduced, it is important to bear in mind the distinction between a reduction of taxes which reforms the tax system and a reduction in taxes which simply reduces revenue. It has been the experience of the Treasury that every time there has been a material reduction in surtaxes it has stimulated business and brought about an increase in taxable income which has made up a great part, if not all, of the loss in revenue from the higher incomes. In 1922, under the 1918 Act, with maximum normal and surtaxes of 73 per cent, the total income collections, personal and corporate,

were $1,501,000,000. In 1923, under the 1921 Act, with maximum sur- and normal taxes of 58 per cent, the collections were $1,825,000,000. In 1924, with the 25 per cent credit but before the effect of the reduction of surtaxes could be reflected in taxable income, the collections were $1,806,000,000. In 1925, the first year influenced by the 1924 Act, it is estimated that the collections will be $1,833,000,000. In other words, in spite of the very sweeping reductions carried by the 1924 Act in the lower brackets and the comparatively less reduction in the upper brackets, we will collect in 1925 more money at lower rates than we collected in 1923 at higher rates.

A reduction of the lower brackets in itself means no increase in taxable income. A man with a $5,000 salary does not carry funds in non-productive investments and a reduction of his taxes does not, therefore, create additional taxable income. A reduction in the surtax, however, increases the amount of capital which is put into productive enterprises, stimulates business, and makes more certain that there will be more $5,000 jobs to go around. It seems to me quite clear that a man with a $3,000 job, who, if married and without dependents, pays a tax of but $7.50 under the present law, or a man with a $5,000 job, who, under the same conditions, pays a tax of $37.50, is more interested in having a job than in having his taxes further reduced. What we mean by tax reform is to make more of these jobs.

Let me illustrate how the order of tax reduction affects the amount of tax reduction. Reform should come first. Suppose that the total surplus available were $130,000,000, and, except for the effect of tax reduction, no change need be expected in governmental receipts and expenditures in future years. In other words, if there were no tax reduction there would be a continuing surplus each year of $130,000,000. Now $130,000,000 is about what we get from automobile taxes. Assuming we left the high surtaxes untouched and abolished the automobile taxes. The Government will lose $130,000,000 of revenue. There is

no stimulation of taxable income by such reduction. There would be no surplus in subsequent years and no further tax reduction. Suppose, however, we reversed the procedure and first reduced the surtaxes to a figure which, based on last year's returns, would indicate a loss of $130,000,000. The effect of this reform would be to stimulate the creation of additional taxable incomes and therefore the collection of substantially as much revenue under lower rates of surtax as under the existing rates. In other words, in a year or so the revenue would be restored, there would again be a surplus of $130,000,000 a year, and the automobile taxes could also be eliminated. So, if the taxing system is reformed first you can have two tax reductions. If revenue is lost first you can have but one tax reduction.

What we should try to do in our taxing system is to get the lowest rates of tax consistent with adequate revenues. We want not only revenue to-day, but sources from which we can get revenue in the years to come. The point at which the most revenue can be derived with the least disturbance to business is one which cannot be determined with certainty in advance, but at best it must be the result of experience. What this point is, I have heard frequently discussed, both in the Treasury and by economists. Some place it is as low as 10 per cent, some at 15 per cent, but certainly it is not in excess of 25 per cent.

The Treasury feels that to-day we are in the position to approach more closely to this point of maximum revenue and minimum disturbance to business. The revenue is available. It is estimated by the Government Actuary that if the maximum total income tax is fixed at 25 per cent, being 5 per cent normal and 20 per cent surtax, the loss of revenue in the next calendar year would be $140,000,000, and in the following calendar year $100,000,000. In other words, the first year after the act was effective, one-third of the revenue loss would be restored, and, of course, in subsequent years additional revenue would come in. It should be remembered that this loss of $140,000,000 in the first year,

reduced to $100,000,000 in the second year, is a loss on the personal income taxes. It does not take into account the greater prosperity of corporations through the stimulation of business by tax reform in the personal taxes. I again refer to the fact that our total income tax revenue in 1925 exceeded that in 1923, although the former year had much higher rates. The Treasury does not propose any definite rates, but it presents to you the certainty that tax reform can go to a 25 per cent maximum normal and surtax without the slightest danger to our future revenues. In fact, such a reform will insure the source from which we expect to get our revenue in the future.

ESTATE TAXES.

It is the opinion of the Treasury that the Federal estate tax should be repealed. The reasons for this position have been frequently stated, but I can summarize them as follows:

There is no logical basis for the Federal Government collecting this tax. The right of inheritance is controlled by the States and the Federal estate tax is based only upon the theory that to transmit property by death is the exercise of a privilege which can be made subject to taxation, just as we might levy a tax on the privilege of selling property. The present law, with its 40 per cent maximum, has not been before the Supreme Court, and the question has never been determined as to whether or not you can confiscate a large part of the property through a tax on the exercise of the privilege of transferring it. Would a sales tax be constitutional which took the bulk of the property sought to be sold? The States are confronted with no such question. They alone control inheritance. I raise this point simply to show that the tax is one belonging to the States and not to the Federal Government.

Estate taxes have always been a source of emergency revenue. It is only in war periods that the Federal Government has made use of them, and except in the present case they have always been repealed when the emergency ended. They

should be saved for this purpose. We ought not to use our reserves in time of peace. We may need them badly when the next emergency arises. There is no emergency now.

Taxation by the Federal Government is going down and that of the States going up. The States need every source of revenue available. In the majority of States the Federal tax directly decreases the property which the State can tax. For example, if an estate pays $1,000,000 of tax, this is deducted from the net value of the property on which the State percentage is levied. The States get no tax on the value represented by what the Federal Government has taken. Aside from the direct loss of revenue to the States, there is an indirect loss. The present muddle of death taxes in this country could in some cases take more than 100 per cent of what a man leaves. Excessive Federal taxes, contribute largely to this muddle. The result must be that ultimately values are destroyed and with them the source from which the States must take revenue.

Under considerably lower rates the Federal estate tax once yielded about $150,000,000 a year revenue. This has gradually dropped off to $100,000,000, last year's revenue from this source being slightly below that of the year before. It is quite within the revenue requirements of the Government to eliminate this tax. If not in one year, certainly the rates might be materially cut in 1926 and the whole tax repealed in 1927. The revenue collections from this tax will exist for some time after the law is repealed. Taxes are not payable until a year after the death of the decedent. There are extensions of payment beyond that date without interest and further extensions with interest. The result is that a repeal of the act effective January 1, 1926, would not be reflected at all in revenue collections until after January 1, 1927, and then revenue from the tax would gradually diminish for the next four or five years. So an immediate repeal would not affect the revenue of the fiscal year 1926 and but half of that of 1927.

MISCELLANEOUS TAXES

Coming to the miscellaneous taxes, it seems to the Treasury that the gift tax should be repealed. This tax was fairly successful in 1925, bringing in $7,000,000, because the 1924 Revenue Act though passed in June was made retroactive in this particular to January 1st. The law, therefore, caught a lot of taxpayers who had made their gifts before they knew any such tax would be imposed. It is estimated, however, that receipts will drop to $4,000,000 this year and to $2,000,000 next year. Nothing illustrates as well the difficulty of preventing the avoidance of excessive taxation by statutory enactment as does this particular section of the law. When property is sold or exchanged, the difference between the value of the property and what is received is considered a gift. So if a seller makes a bad bargain, he must not only pay his loss, but he must pay a gift tax on his loss, and the more his loss the more tax he has to pay. If the gift tax is supposed to supplement the estate tax, it presents a peculiar inconsistency of reasoning. The estate tax is advocated to break up large estates. The necessary result of the gift tax is to keep property intact, that is, to prevent the owner of property giving it away. It is entirely proper that a wealthy man should distribute his property among his children in order that while he is still alive he can advise them. It is in his interest, in the interest of his children, and of the community generally, that such distributions be made. They were made long before any income tax or estate tax law was passed and they will continue unless prevented by tax. Like a great many other artificial restraints and inequalities now in our taxing law, if the surtaxes were reduced to a moderate rate, the excuse for the gift tax would disappear. It is the Treasury's view, therefore, that the tax should be repealed.

Admissions and dues brought in $31,000,000 last year, and are estimated to

bring in $33,000,000 this year. The tax applies only to admissions sold in excess of 50 cents. It does not seem that this tax is any particular burden and in the interests of the revenue it produces it ought to be retained.

Automobile taxes, which brought in $125,000,000 last year, can be divided roughly into $90,000,000 for automobiles and $35,000,000 for trucks, tires and accessories. The $35,000,000 might be taken off, but so long as the Federal Government is contributing over $90,000,000 a year to roads on which these automobiles run, they certainly ought to be made to pay their way.

The tax on jewelry, etc., was so amended as to make its avoidance easy. By fixing a minimum price at which taxation on jewelry sales begins, a seller can divide one piece of jewelry into several parts and sell them separately, thus avoiding or lessening the tax. The tax yielded $9,000,000 in 1925, and is estimated to yield $8,000,000 this year.

There are several of the miscellaneous taxes which hardly yield enough to justify their retention, and their elimination in the interests of simplicity in our tax law might be considered. For example, the tax on art works, almost all of which come from abroad, is usually avoided by purchasing abroad instead of in this country. By imposing the tax we simply deprive our own dealers of profit.

There is a provision in the present act for publicity of the amount of tax paid by every taxpayer. The publicity is utterly useless from a Treasury standpoint. We have caused inquiry to be made of every supervising internal revenue agent in the different field divisions and every collector of internal revenue. All of the supervising internal revenue agents report that no additional tax has been collected due to the publicity provision and all of them recommend its repeal. Of the 65 collectors of internal revenue, one of them stated that he has collected an additional tax of $420 and another an additional tax of $80. The rest of them state that no benefit has come from publicity. All of the collectors recommend repeal. Of course, from the standpoint

of the Treasury it is unnecessary for it to get its information as to what taxes a taxpayer pays from publications in the newspapers. The returns and all information in connection therewith are readily available to the Treasury. The amount of tax paid is no true indication of the income of the individual. There are all kinds of losses and deductions. To make publicity complete, would expose every trade secret to the taxpayer's competitor. It would do nothing to aid the Treasury or to increase the Government revenue. On the contrary, publicity encourages further tax evasion and loss of revenue. There is no excuse for the present publicity provision except the gratification of idle curiosity and the filling of newspaper space at the time the information is released. It is rather an interesting commentary to note the almost universal condemnation of this publicity in the editorial columns of the newspapers, while as a matter of news the lists occupy many pages in the same issue. No other country I know of publishes this information. Why should we in a free country insist on the exposure of the personal affairs of our citizens to the world?

There are several matters which had the consideration of your Committee when it was preparing the 1924 Act which I would like to bring before you again.

Tax-exempt securities. - Looking at the proposition logically, there is no reason for the existence of tax-exempt securities. There ought to be no refuge to which the wealthy man can go and avoid income taxes at times when the Federal Government needs the money. A constitutional amendment to make these securities taxable should be passed. The Treasury has consistently been the advocate of such reform. The delay, however, has been so long and the amount of securities now outstanding which would not be affected by the amendment has become so great -- it is over $14,000,000,000 now -- that the practical way of reaching the present situation seems to be by taking away the artificial advantage of these securities through the reduction of the surtax to a reasonable figure. If you place your surtax at a point where productive business and

investments can compete with tax-exempt securities in net return to a wealthy investor, you have solved the present difficulty. It is interesting to note that the First Liberty 3½'s, which alone of the Liberty bonds are wholly tax-exempt, have gone below par for the first time since June, 1922, reflecting the view that the expected reduction of surtaxes to a normal figure justifies the wealthy owners of these bonds in selling them to put their money into productive investment. We already are getting results on the mere belief in ultimate tax reform.

Community property. - There exists now in several of the States a preference to their citizens by reason of the existence of the so-called community property laws, which permit the husband and wife to return separately each one-half of their joint income, usually the income of the husband. There is a serious question in my mind as to whether or not any State, which has by the 16th Amendment granted to the Federal Government the right to levy income taxes, can make the graduated income tax of the Federal Government ineffective by passing a community property law. This is a question which is now before the Supreme Court of the United States and no legislative action is called for pending a decision. Like most difficulties, this, too, would be resolved from a practical standpoint if the surtax rates were reduced to a normal figure.

Earned income. - In the 1924 Act it was declared that all income under $5,000 was earned and no income in excess of $10,000 could be considered earned. This is a denial of what we all know are the facts. Many men do not earn the first $5,000 of their income and many others earn much more than $10,000. It is, of course, utterly unfair to tax a man whose capital is his brains at the same rate as a man whose capital is his money. The first is destroyed by sickness or death; the latter continues to exist. We appreciate, however, the difficulty of a definition accurately to describe what income is earned and what not earned. Again if the surtaxes are placed at a normal figure this inequality in taxation is not so pronounced and may be ignored.

The Board of Tax Appeals was intended to be a short cut to an impartial determination of tax liability. In the 1924 Revenue Act it was made an independent establishment, with quite formal rules of procedure. This was a complete departure from the original idea. The Board has, however, been extremely valuable in the establishment of precedents which have aided the Bureau in the determination of similar cases of other taxpayers. This appears to be their real function. When the Board was originally created, the cases coming before it did not justify the appointment of the entire Board. As time went on, however, its cases increased and it is now difficult for the Board to handle its business. It seems, therefore, to the Treasury to be unwise to increase the jurisdiction of the Board. On the other hand, it is quite apparent that for a useful continuation of its existence a membership of at least 16 will have to have your consideration. Such a membership would permit five divisions of three each, and a chairman. The present law will reduce the Board to seven after June of next year. The Board itself will present to you its detailed recommendations. It is in the interests of the Treasury only to see that there is in existence a board of capable men with the ability to decide tax questions fairly and promptly.

There are several matters of administrative detail which require the attention of your Committee. Mr. Gregg, who is the Solicitor of Internal Revenue and who worked as a representative of the Treasury in the drafting of the 1924 Act, will present these matters to you.

October 21, 1925.

Dear Mr. Chairman:

In my statement before your Committee on October 19th I said:

> "The Treasury does not propose any definite rates, but it presents to you the certainty that tax reform can go to a 25 per cent maximum normal and surtax without the slightest danger to our future revenues."

In order to insure the accuracy of such a statement, it was necessary for the Government Actuary to work out definite schedules of normal and surtax rates within this limit of 25 per cent, and upon these schedules to estimate the probable loss of revenue. Your Committee requested that we file the set of rates upon which the estimates had been based. The Actuary had used two tentative schedules which yielded substantially the same revenue. The one originally filed with you called for normal taxes of 1 per cent on the first $3,000 of taxable income, 3 per cent on the next $4,000, and 5 per cent on the remainder. The alternative schedule of the Actuary is probably more satisfactory and should have been used. This schedule of normal taxes is 1 per cent on the first $3,000, 2 per cent on the next $1,000, 3 per cent on the next $4,000, and 5 per cent on the remainder. I desire, therefore, to substitute this alternative schedule for the first one already filed.

Your Committee will work out its own specific rates within such limits as the Committee may determine, and the Actuary's rates are used solely to illustrate a possible schedule within the limits mentioned by me. The press has assumed that the Actuary's schedules of rates represent definite Treasury proposals, and I am writing you now to assure you that the Treasury has made no change in the position taken in the statement quoted above, and does not wish to be understood to be proposing definite rates of tax.

Very truly yours,

A. W. MELLON,

Secretary of the Treasury.

Hon. Wm. R. Green,
Chairman, Ways and Means Committee,
House of Representatives.

Treasury Department
October 29, 1925.

Estimated Amount of Wholly Tax-Exempt Securities Outstanding.

September 30, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$13,251,000,000	$1,988,000,000 (1)	$11,263,000,000
Territories, insular possessions, and District of Columbia	139,000,000	19,000,000 (2)	120,000,000
United States Government	2,176,000,000	670,000,000 (3)	1,506,000,000
Federal land banks, intermediate credit banks, and joint stock land banks	1,578,000,000	83,000,000 (4)	1,495,000,000
Total Sept. 30, 1925	$17,144,000,000	$2,760,000,000	$14,384,000,000
Comparative totals:			
Aug. 31, 1925	$17,042,000,000	$2,756,000,000	$14,286,000,000
Dec. 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec. 31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Dec. 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec. 31, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Dec. 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Includes amount held in trust by the Treasurer of the United States and also the amount owned by the United States Government.

Treasury Department
December 1, 1925.

Estimated Amount of Wholly Tax-Exempt Securities Outstanding.

October 31, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	$13,305,000,000	$1,996,000,000 (1)	$11,309,000,000
Territories, insular possessions, and District of Columbia	142,000,000	19,000,000 (2)	123,000,000
United States Government	3,176,000,000	671,000,000 (3)	1,505,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,598,000,000	82,000,000 (4)	1,516,000,000
Total October 31, 1925	$17,221,000,000	$2,768,000,000	$14,453,000,000
Comparative totals:			
Sept. 30, 1925	$17,144,000,000	$2,760,000,000	$14,384,000,000
Dec. 31, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Dec. 31, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Dec. 31, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Dec. 31, 1916	9,506,000,000	1,799,000,000	7,707,000,000
Dec. 31, 1912	5,554,000,000	1,468,000,000	4,086,000,000

(1) Total amount of state and local sinking funds.
(2) Total amount of sinking funds and amount held in trust by the Treasurer of the United States.
(3) Amount held in trust by the Treasurer of the United States.
(4) Includes amount held in trust by the Treasurer of the United States and also the amount owned by the United States Government.

12/7/25

The Revenue Bill of 1926

TREASURY ESTIMATES

TAX ON SPECIFIED INCOMES UNDER PROPOSED BILL

Married person with no dependents--All income earned up to $20,000

Net income	Normal tax	Surtax	Total tax	
			Amount	Per cent of income
$ 3,000	$ 0.00	----------	$ 0.00	0.000
4,000	5.63	----------	5.63	.141
5,000	16.88	----------	16.88	.338
6,000	28.13	----------	28.13	.469
7,000	39.38	----------	39.38	.562
8,000	56.25	----------	56.25	.703
9,000	78.75	----------	78.75	.875
10,000	101.25	----------	101.25	1.013
11,000	123.75	$ 7.50	131.25	1.193
12,000	153.75	15.00	168.75	1.406
13,000	191.25	22.50	213.75	1.644
14,000	228.75	30.00	258.75	1.848
15,000	263.25	45.00	311.25	2.075
16,000	303.75	60.00	363.75	2.273
18,000	378.75	105.00	483.75	2.688
20,000	453.75	165.00	618.75	3.094
22,000	553.75	265.00	818.75	3.722
24,000	653.75	385.00	1,038.75	4.328
26,000	753.75	525.00	1,278.75	4.918
28,000	853.75	685.00	1,538.75	5.496
30,000	953.75	865.00	1,818.75	6.063
32,000	1,053.75	1,065.00	2,118.75	6.621
34,000	1,153.75	1,265.00	2,418.75	7.114
36,000	1,253.75	1,485.00	2,738.75	7.608
38,000	1,353.75	1,725.00	3,078.75	8.102
40,000	1,453.75	1,985.00	3,438.75	8.597
45,000	1,703.75	2,665.00	4,368.75	9.708
50,000	1,903.75	3,405.00	5,358.75	10.718
55,000	2,203.75	4,205.00	6,408.75	11.652
60,000	2,453.75	5,005.00	7,458.75	12.431
70,000	2,953.75	6,705.00	9,658.75	13.798
80,000	3,453.75	8,505.00	11,958.75	14.948
90,000	3,953.75	10,405.00	14,358.75	15.954
100,000	4,453.75	12,305.00	16,758.75	16.759
150,000	6,953.75	22,305.00	29,258.75	19.506
200,000	9,453.75	32,305.00	41,758.75	20.879
250,000	11,953.75	42,305.00	54,258.75	21.704
500,000	24,453.75	92,305.00	116,748.75	23.352
1,000,000	49,453.75	192,305.00	241,758.75	24.176

The Revenue Bill of 1926

TAX ON SPECIFIED INCOME UNDER 1924 ACT

Married man without dependents—$5,000 earned income

Rates of 1924 act

Net income	Normal Tax	Surtax	Total tax	
			Amount	Per cent of net income
$ 3,000	$ 7.50	-------	$ 7.50	0.25
4,000	22.50	-------	22.50	.56
5,000	37.50	-------	37.50	.75
6,000	57.50	-------	57.50	.94
7,000	87.50	-------	87.50	1.25
8,000	127.50	-------	127.50	1.59
9,000	167.50	-------	167.50	1.86
10,000	207.50	-------	207.50	2.08
11,000	257.50	$ 10	267.50	2.43
12,000	317.50	20	337.50	2.81
13,000	377.50	30	407.50	3.13
14,000	437.50	40	477.50	3.41
15,000	497.50	60	557.50	3.72
16,000	557.50	80	637.50	3.98
18,000	677.50	140	817.50	4.54
20,000	797.50	220	1,017.50	5.09
22,000	917.50	320	1,237.50	5.63
24,000	1,037.50	440	1,477.50	6.16
26,000	1,157.50	580	1,737.50	6.68
28,000	1,277.50	740	2,017.50	7.21
30,000	1,397.50	920	2,317.50	7.73
32,000	1,517.50	1,120	2,637.50	8.24
34,000	1,637.50	1,320	2,957.50	8.70
36,000	1,757.50	1,540	3,297.50	9.16
38,000	1,877.50	1,780	3,657.50	9.63
40,000	1,997.50	2,040	4,037.50	10.09
45,000	2,297.50	2,730	5,027.50	11.17
50,000	2,597.50	3,540	6,137.50	12.28
55,000	2,897.50	4,470	7,367.50	13.40
60,000	3,197.50	5,480	8,677.50	14.45
70,000	3,797.50	7,780	11,577.50	16.56
80,000	4,397.50	10,480	14,877.50	18.60
90,000	4,997.50	13,540	18,537.50	20.60
100,000	5,597.50	17,020	22,617.50	22.62
150,000	8,597.50	35,520	44,117.50	29.41
200,000	11,597.50	54,020	65,617.50	32.81
250,000	14,597.50	73,020	87,617.50	35.05
500,000	29,597.50	170,020	199,617.50	39.92
1,000,000	59,597.50	370,020	429,617.50	42.96