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TREASURY DEPARTMENT

Treasury Department  
January 4, 1926.

Estimated Amount of Wholly Tax-Exempt Securities  
Outstanding.

November 30, 1925.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds.	Amount held out- side of Treasury and sinking funds.
States, counties, cities, etc.	\$13,344,000,000	\$2,001,000,000 (1)	\$11,343,000,000
Territories and insular possessions	143,000,000	19,000,000 (2)	124,000,000
United States Government	2,176,000,000	671,000,000 (3)	1,505,000,000
Federal land banks, in- termediate credit banks, and joint-stock land banks	1,603,000,000	82,000,000 (4)	1,521,000,000
Total November 30, 1925	\$17,266,000,000	\$2,773,000,000	\$14,493,000,000

Comparative totals:

Oct. 30, 1925	\$17,221,000,000	\$2,768,000,000	\$14,453,000,000
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  
February 2, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING DECEMBER 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.	\$13,462,000,000	\$ 2,019,000,000 <sup>(1)</sup>	\$11,443,000,000
Territories and insular possessions	143,000,000	21,000,000 <sup>(2)</sup>	122,000,000
United States Government	2,176,000,000	671,000,000 <sup>(3)</sup>	1,505,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,611,000,000	82,000,000 <sup>(4)</sup>	1,529,000,000
Total Dec. 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
Comparative totals:			
Nov. 30, 1925	\$17,266,000,000	\$2,773,000,000	\$14,493,000,000
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  
March 1, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING JANUARY 31, 1926.

Issued by	Gross amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds.
States, counties, cities, etc.	\$13,507,000,000	\$ 2,026,000,000 (1)	\$11,481,000,000
Territories and insular possessions	148,000,000	21,000,000 (2)	127,000,000
United States Government	2,168,000,000	670,000,000 (3)	1,498,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,649,000,000	82,000,000 (4)	1,567,000,000
Total Jan. 31, 1926	\$17,472,000,000	\$ 2,799,000,000	\$14,673,000,000
Comparative totals:			
Dec. 31, 1925	\$17,392,000,000	\$ 2,793,000,000	\$14,599,000,000
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  
March 29, 1926.

Estimated amount of Wholly Tax-Exempt Securities  
Outstanding.

February 28, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$13,630,000,000	\$ 2,044,000,000 (1)	\$ 11,586,000,000
Territories and insular possessions	148,000,000	21,000,000 (2)	127,000,000
United States Government	2,168,000,000	639,000,000 (3)	1,499,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,666,000,000	82,000,000 (4)	1,584,000,000
Total February 28, 1926	\$17,612,000,000	\$ 2,816,000,000	\$ 14,796,000,000

Comparative totals:

January 31, 1926	\$17,472,000,000	\$ 2,799,000,000	\$ 14,673,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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.

TREASURY DEPARTMENT

April 17, 1926.

Letter from Secretary Mellon to the President of the Senate in response to Senate Resolution 199, concerning Alien Property:

April 16, 1926.

Dear Mr. President:

In response to Senate Resolution 199, the following report is made:

In the course of the preparation of the Settlement of War Claims Act of 1926 which deals with the settlement and payment of American claims against Germany, the Treasury has at no time dealt, directly or indirectly, with representatives of the German Government. No representatives of the Treasury Department have carried on negotiations in Germany.

In the last sessions of the former Congress and in the present Congress numerous bills have been introduced for the disposition of the property held by the Alien Property Custodian. Some of the bills covered only particular classes of persons interested in the alien property. Some of the bills returned all of the property and would create a flood of claims against the United States which might become a serious drain on the Treasury. There was no legislation introduced to cover the subject as a whole and finally. Litigation is pending against the United States for compensation for ships of German citizens taken during the war and is still undisposed of. The Mixed Claims Commission, set up between Germany and the United States to determine American claims against Germany, is approaching the completion of its work. There is, however, no provision for the payment of awards of the Mixed Claims Commission which adequately

compensates the private American claimants. The advice of the Treasury had been sought by Frederick C. Hicks, the former Alien Property Custodian, in reorganizing his office, and from its study of the situation the Treasury believed that it was uneconomical, both from the standpoint of the owner and of the United States, to continue indefinitely the operation of the trusts by the Alien Property Custodian. Questions of policy in the management of the businesses and of the disposition of securities are continually arising which are too complicated and responsible to be left to a public trustee. These and other related matters had come to the direct attention of the Treasury.

Here then were a series of questions of importance demanding action and toward the entire solution of which there had been no plan suggested. I believe that a sound national policy is against the confiscation of the property of private citizens to pay the debts of their government. Yet this German property was pledged as security for the claims of our nationals against Germany. To release the security without providing for the payment of American private claims would be in effect to avoid confiscation of German private rights by the confiscation of American private rights. To hold the German property until the American claims were paid out of the annuity provided under the Dawes Plan meant holding the property indefinitely and therefore substantially confiscation of the German property and at the same time, since this annuity represents our share of all Germany can pay, such inadequate payment of the American claims as to render them valueless. If it is right that we should reaffirm the American policy that private property shall not be taken for public use without just compensation, then there seemed to me to be no practical solution of the entire problem except that suggested by the Treasury. The Treasury, therefore, in the interest of all concerned undertook the preparation of a plan for the consideration of the Congress.

The Treasury was advised by Mr. Chandler P. Anderson, the American Commissioner on the Mixed Claims Commission, that Dr. Wilhelm Kiesselbach, the German Commissioner on the Mixed Claims Commission, and Dr. Karl von Lewinski, the German agent on such Commission, as individuals, represented a group of the private German owners whose property was held by the Alien Property Custodian. The Treasury also learned that most of the American claimants before the Mixed Claims Commission had united in the American War Claimants Association. The Treasury consulted with representatives from these groups and with others who appeared interested in the questions involved and proposed a tentative plan, which differed from that carried in the proposed "Settlement of War Claims Act of 1926" only in respect to the manner of financing the payments. In the tentative plan it was proposed that the United States should assign the payments to be received by it under the Dawes Plan to a trustee against the issue of bonds payable either in marks or dollars and guaranteed by the United States. These bonds were to be used for the payments required of the United States. Since bonds instead of the cash in the hands of the Alien Property Custodian belonging to Germans were to be returned and bonds were also to be used in payment for German ships and American claims it was deemed advisable that the consent of those who were to receive the bonds should be had in order to avoid any charge that just compensation was not paid. The representatives of the American claimants consented. On November 23, 1925, I wrote to Dr. Kiesselbach a letter (copy of which is attached) setting out in substance the tentative plan. He took the letter to Germany and obtained there the consent of the German owners of the ships and of the property in the hands of the Alien Property Custodian. Dr. Kiesselbach did not represent the German Government, but the private German owners of ships and property.



The tentative plan provided for bonds bearing 5% interest. This rate of interest was necessary in order that bonds, payable in marks in Germany, should be worth par in the German market, where interest rates are very much higher than here. This is to us a high rate of interest, and since the United States was guarantor of the bonds and the sole beneficiary of the Dawes payments after the bonds should be paid, upon further consideration I came to the conclusion that it was preferable for the Treasury to use its own obligation payable in dollars, which could be marketed on as low as a  $3\frac{3}{4}\%$  basis. In preparing the proposed "Settlement of War Claims Act of 1926", therefore, the provision for financing the project by the issuance of bonds against the payments to be received from Germany, guaranteed by the United States, was eliminated, and the plan simplified by meeting all payments in cash, just as any other expenditures authorized by Congress, and leaving to the Treasury the finding of the money under its general powers.

In preparing the plan the Treasury has been in consultation with Mr. Bonyng, the American Agent before the Mixed Claims Commission, with the Alien Property Custodian, with representatives from the Departments of State, Justice, War, and Navy, with representatives of the American claimants, and with Dr. Kiesselbach and Dr. von Lewinski, representing the private German owners of ships and property. The purpose of these consultations was to obtain the views of all interested parties in the preparation of a plan to meet the many technical difficulties involved and to cover the entire field.

The consideration which induced me to prepare the plan was to suggest to Congress comprehensive legislation to settle, promptly and permanently, questions left over from the war with Germany, to remove

possible sources of friction between the two nations and to reaffirm our high standard of national policy, just alike to the citizens of a former enemy and to our own citizens who had been injured in the war.

Very truly yours,

A. W. MELLON

Secretary of the Treasury.

Hon. Charles G. Dawes,

The President of the Senate.

Letter from Congressman Oliver to Secretary  
Mellon regarding plan for settlement of Alien Property claims.

April 21, 1926.

*no journal  
release.*

My dear Mr. Secretary:

Permit me in response to your statement regarding the policy outlined in the Mills bill, to offer a plan as a substitute.

I am particularly shocked to learn that claimants for damages for the sinking of the "Lusitania" will be compelled to wait for eighty years for complete settlement. I hope that some just and equitable program can be worked out under established principles of international law for a definite and early closing of the entire subject of American claims and German Alien property.

Therefore, I submit the outline of my suggestion:

1. Subordinate Army of Occupation claims and Government claims to American Nationals.
2. Pay to American Nationals:
  - a. \$12,000,000 now received from Dawes annuities on account of Army of Occupation claim..
  - b. \$11,000,000 now received from Dawes annuities on account of American Nationals' claims.
3. Give preference to all claims of Lusitania victims and all other claims for personal injury and loss of life, and use the \$30,000,000 of earnings made by the Treasury out of money in the Alien Property Custodian's charge and which cannot be allocated, and any other moneys received by the United States under the Dawes Plan first as a fund for such cash payments. Pay these immediately.

This plan would settle the payment of all claims of American Nationals in eight years.

4. Establish a commission of three men of recognized business experience to evaluate the following properties seized from German Nationals and used by the United States:

- a. Ships
- b. Wireless plant
- c. Patents and inventions

Limit the total valuation to \$100,000,000 as you have suggested.

5. Pay this money with reasonable interest out of current taxes in five years.
6. Restore all property now in the hands of the Alien Property Custodian to the rightful owners.
7. After the claims of American Nationals are fully paid, apply entire sums received in the future under the Dawes Plan to the settlement of our claim for the Army of Occupation.

Faithfully,

(Signed) Frank Oliver.

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

April 23, 1926.

*not a general release.*

My dear Congressman:

I have your letter of April 21st, suggesting a substitute for the plan proposed by the Treasury for the disposition of the German property and the payment of the American mixed claims.

There is but one substantial difference between us. I proposed that the United States use the money now in hand in the unallocated interest fund and with the Transfer Agent in Germany and advance the balance necessary to pay the private American claims in cash. You intend to use the same money now in hand, but instead of the United States advancing the balance, you propose to pay the American claimants out of the proceeds of the Dawes annuities as they are received from Germany, both on account of the mixed claims and on account of the Army costs, until the private American claims are paid. Under each plan the United States takes all of the annuities after the claims are paid.

Under each plan the German property would be returned, under my plan simultaneously with the payment of the American claims, and under yours prior to such payment. The effect of your plan, therefore, is to deprive a large proportion of the American claims of the security of the German property to which they are entitled under the Berlin Treaty and to substitute nothing in place of the security. In other words, in order to do prompt justice to German citizens we would be depriving American citizens of their rights.

If we use the estimate of \$190,000,000 as the amount of the private American claims, deduct from this \$30,000,000 as representing the unallocated interest fund, and \$8,200,000 of marks now in Germany with the Transfer Agent, there would have to be paid \$151,800,000. If the United

States should advance the money, it can borrow at  $3\frac{3}{4}\%$ , and the Dawes annuities, if paid in full, would reimburse the United States with interest in a little less than eight years, at a total cost of \$179,700,000. The awards of the mixed claims carry 5% interest, and taking the same principal amount of American private claims to be paid and again applying all of the Dawes annuities, it would take  $8\frac{1}{2}$  years to pay the claims at a total cost of \$191,600,000. Under both plans the United States is the sole beneficiary of all the Dawes annuities when the American private claims are paid. Assuming full payment of the Dawes annuities, the Treasury would save \$11,900,000 by advancing the money in the first instance, and there could be no objection to the immediate return of the German property.

I am, as I have publicly stated, quite open-minded on this problem. If some way can be found to give the American citizens adequate substitute for the security of the German property to which they are legally entitled, and if at the same time the plan will not be ultimately more expensive to the Treasury, I should be glad to give it my support.

Very truly yours,

A. W. MELLON

Secretary of the Treasury.

Hon. Frank Oliver,  
House of Representatives.

Treasury Department  
April 29, 1926.

Estimated Amount of Wholly Tax-Exempt Securities  
Outstanding.

March 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds.	Amount held out- side of Treasury and sinking funds
States, counties, cities, etc.	\$13,721,000,000	\$2,058,000,000 (1)	\$11,663,000,000
Territories and insular possessions	151,000,000	22,000,000 (2)	129,000,000
United States Government	2,168,000,000	670,000,000 (3)	1,498,000,000
Federal land banks, in- termediate credit banks, and joint-stock land banks	1,679,000,000	72,000,000 (4)	1,607,000,000
<b>Total March 31, 1926</b>	<b>\$17,719,000,000</b>	<b>\$2,822,000,000</b>	<b>\$14,897,000,000</b>

Comparative totals:

February 28, 1926	\$17,512,000,000	\$2,816,000,000	\$14,796,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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
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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.

THE TREASURY DEPARTMENT

An outline of the duties of the Secretary  
of the Treasury, and the various offices  
and bureaus in the Treasury Department.

Prepared by the Section of Statistics,  
Office of the Secretary, Treasury Department,  
April, 1926.

*Last copy of this  
taken out of file  
By Mrs. Matthews  
4/25/1934  
JAB*



THE TREASURY DEPARTMENT

The following is an outline of the various offices and bureaus of the Treasury Department and the divisions of the Secretary's Office, together with the duties of each:

The Secretary of the Treasury.

The Undersecretary of the Treasury:

The Finances  
Commissioner of Accounts and Deposits  
    (a) Division of Bookkeeping and Warrants  
    (b) Division of Deposits  
Foreign Loans  
Advances and Loans to Railroads under the Transportation Act, 1920.  
Federal Farm Loan Bureau  
Section of Statistics  
Government Actuary

Assistant Secretary in Charge of Fiscal Offices:

Treasurer of the United States  
Comptroller of the Currency  
Commissioner of the Public Debt  
    (a) Division of Loans and Currency  
    (b) Register of the Treasury  
    (c) Division of Public Debt Accounts and Audit  
    (d) Division of Paper Custody  
Bureau of Engraving and Printing  
Mint Bureau  
Secret Service Division  
Disbursing Clerk  
Section of Surety Bonds of the Division of Appointments

Assistant Secretary in Charge of Internal Revenue and Miscellaneous:

Chief Clerk  
    (a) Division of Mail and Files  
Bureau of Supply  
    (a) General Supply Committee  
Division of Appointments  
Division of Printing  
Bureau of Internal Revenue  
Bureau of the Public Health Service  
Supervising Architect's Office

Assistant Secretary in Charge of Customs, Coast Guard, and Prohibition:

Customs Service  
Coast Guard  
Prohibition Unit  
    (a) Narcotic Division

Brief History:

The forerunners of the Treasury Department as it now exists were a Superintendent of Finance, created during the Revolutionary War, and a subsequent Board of the Treasury.

Robert Morris was the first and only Superintendent of Finance, serving from 1781 to 1784. Upon his resignation a Board of the Treasury consisting of three members was appointed. This Board handled the finances of the Government until Alexander Hamilton assumed the newly created office of Secretary of the Treasury in 1789. From the beginning to the present (April, 1926) there have been forty-seven different secretaries, the last of whom entered office on March 4, 1921.

The Secretary:

The Secretary of the Treasury is charged by law with the management of the national finances. He prepares plans for the improvement of the revenue and for the support of the public credit; superintends the collection of the revenue, grants warrants for all moneys drawn from the Treasury in pursuance of appropriations made by law, and for the payment of moneys into the Treasury; and submits a report annually to Congress on the condition of the public finances and the results of activities under his supervision. He controls the construction and maintenance of public buildings; the coinage and printing of money; the administration of the Coast Guard and the Public Health branches of the public service, and furnishes generally such information as may be required by either branch of Congress on all matters pertaining to the foregoing. He is ex officio chairman of the Federal Reserve Board, created by act approved December 23, 1913, known as the Federal Reserve Act; ex officio chairman of the Federal Farm Loan Board, created by act approved July 17, 1916, known as the Federal Farm Loan Act;

chairman of the World War Foreign Debt Commission; honorary chairman of the United States section of the Inter-American High Commission; chairman Rock Creek and Potomac Parkway Commission; member board of trustee, Postal Savings System; member board of trustees, Smithsonian Institution; member Federal Narcotics Control Board; chairman board of directors, War Finance Corporation.

The Undersecretary:

The office of Undersecretary of the Treasury was created in the Deficiency Appropriation Act of June 16, 1921. To the Undersecretary and the Assistant Secretary in Charge of Fiscal Offices, who acts under the intermediate supervision of the Undersecretary, are assigned the general supervision of all matters relating to the fiscal bureaus, offices, and divisions, as follows: Foreign loans, Advances and Loans to Railroads under the Transportation Act, 1920; Commissioner of Accounts and Deposits; Division of Bookkeeping and Warrants; Division of Deposits; Treasurer of the United States; Comptroller of the Currency; Federal Farm Loan Bureau; Section of Statistics; Government Actuary; Public Debt Service; Bureau of Engraving and Printing; Mint Bureau; Secret Service Division; Disbursing Clerk, Surety Bonds Section.

The Undersecretary also is charged with the supervision of the finances, and is authorized to act, for and by direction of the Secretary, in any branch of the department, and represents the Secretary in dealings with the Federal Reserve Board, the War Finance Corporation, and the Farm Loan Board.

Assistant Secretaries of the Treasury:

To the Assistant Secretary in Charge of Fiscal Offices, acting under the intermediate supervision of the Undersecretary, is assigned supervision of matters relating to the fiscal bureaus, offices, and divisions as indicated under the duties of the Undersecretary.

To the Assistant Secretary in Charge of Internal Revenue and Miscellaneous is assigned the general supervision of all matters pertaining to the following bureaus and divisions: Chief Clerk; Division of Mail and Files; Bureau of Supply; General Supply Committee; Division of Appointments; Bureau of the Public Health Service; Division of Printing; Bureau of Internal Revenue; Supervising Architect's Office.

To the Assistant Secretary in Charge of Customs, Coast Guard, and Prohibition is assigned the general supervision of those respective services.

THE UNDERSECRETARY OF THE TREASURY:

Commissioner of Accounts and Deposits:

The Office of Commissioner of Accounts and Deposits was created in January, 1920, on account of the large increase in the accounting transactions of the Treasury in connection with receipts and expenditures and the deposit of public funds throughout the country. The commissioner, under the Fiscal Assistant Secretary, was given administrative supervision over the Division of Bookkeeping and Warrants and its relations to the office of the Treasurer of the United States. He was later given supervisory direction over the Division of Deposits which was created on May 19, 1920, as a part of this reorganization. The commissioner likewise was given control of all accounts of investments of the Government and was made responsible for the proper custody of all investments and securities held by the Treasurer of the United States and the Federal reserve banks for which the Secretary is responsible other than those related to the public-debt operations.

Division of Bookkeeping and Warrants: This Division, established in 1894, is by law the official bookkeeping organization of the Government so far as appropriation accounts and covering of public moneys into the Treasury are concerned. The accounts and records of disbursements in this Division are on a basis of warrants issued and necessarily differ materially from the actual cash expenditures as shown in the daily Treasury statement prepared in the office of the Treasurer of the United States. Reconciliations between these accounts, both as to receipts and expenditures are made in order to exhibit properly the receipts and expenditures of the Government. Among the many functions of this Division the following are the most important; - It makes analysis of all Acts of Congress carrying

Commissioner of Accounts and Deposits: (Continued)

appropriations and opens up the necessary appropriation accounts on its ledgers; it issues all warrants for placing disbursing funds to the credit of disbursing officers and for the payment by the Treasury of claims settled by the General Accounting Office; it issues all warrants covering into the Treasury the revenues and receipts of the Government from the various authorized sources, and all repayments to the Treasury of the unexpended balances of appropriations; and handles the work involved in the Secretary's Special Deposit Accounts including those of the Alien Property Custodian kept with the Treasurer of the United States. It compiles for submission through the Bureau of the Budget the regular estimates of appropriations and the supplementary and deficiency estimates for the service of the Treasury. It compiles for transmission to Congress an annual combined statement of the receipts, disbursements, and unexpended balances under each appropriation account.

In addition to the above this division compiles and publishes the annual digest of appropriations made by Congress and makes miscellaneous statistical reports as requested by Congress or by the Secretary of the Treasury and carries on the correspondence and miscellaneous work incident to its activities. It has also been assigned the duties formerly under the Division of Public Moneys, so far as they related to the covering of revenue and repayments into the Treasury, the issuance of duplicate checks and warrants and the certification of outstanding liabilities for payment.

Division of Deposits: - This Division is charged with the administration of matters pertaining to designation of Government depositaries and the deposit of Government funds in the Federal reserve banks, national banks, special depositaries under the Liberty loan acts, foreign depositaries, Federal land banks, and the Philippine Treasury. This Division supervises

Commissioner of Accounts and Deposits: (Continued)

all depositaries and obtains proper security for all Government Deposits. It issues directions to all public officers as to the deposit of public moneys collected by them and is charged generally with the administration of all matters pertaining to the foregoing.

The Federal Farm Loan Bureau:

The Farm Loan Board through the Farm Loan Bureau administers the Farm Loan Act of July 17, 1916, and that part of the Agricultural Credits Act of March 4, 1923, providing for the establishment and operation of Federal Intermediate Credit Banks.

The Federal Farm Loan Act was passed in order to provide the American farmer with long-term credit at a low rate of interest. Prior to the passage of this Act the capital requirements of American agriculture could not be met through the ordinary channels of commercial banking or through the Federal Reserve System. The Intermediate Credits Act of March 4, 1923, was designed to furnish to agriculture a short-term credit but of a longer maturity than could ordinarily be provided by commercial banks but not so long as that provided by the Federal Farm Loan Act.

The Federal Farm Loan Act provides for twelve Federal Land Banks and such number of Joint Stock Land Banks and National Farm Loan Associations as the Farm Loan Board may approve. The oversight and regulation of all these organizations are in the hands of the Farm Loan Board. It is necessary that Federal Land Banks and Joint Stock Land Banks have the approval of the Farm Loan Board before any bonds can be issued and sold. Likewise, a Federal Intermediate Credit Bank must secure the Board's approval before it can issue debentures provided for under the Agricultural Credits Act.

The Federal Farm Loan Bureau: (Continued)

This Board has such incidental powers as are necessary to fulfill its duties and to carry out the purposes of the Act creating the institution for which it is responsible.

The Section of Statistics:

This Section makes statistical studies on receipts, expenditures, the public debt, and other questions of public finance that arise in connection with the Treasury administration. It estimates future tax receipts on the basis of a statistical analysis of tax receipts and business conditions. It prepares correspondence and reports for the Secretary and Undersecretary dealing with financial subjects. Under the direction of the Undersecretary it assembles, edits, and prepares articles for the annual report of the Secretary of the Treasury. During the sessions of Congress, the progress of legislation in which the Treasury may be interested is summarized daily and distributed to the various divisions and bureaus of the Treasury Department. The Library of the Office of the Secretary is a part of the Section of Statistics.

The Actuary:

This officer makes estimates relative to population, revenues, and finances for the Treasury Department, for Congress, and various committees of Congress and members of Congress. He assists in the preparation of revenue and tariff acts by giving details to the Ways and Means Committee and the Finance Committee. He issues a monthly circular showing the market prices and investment value of United States securities daily. He is sometimes detailed to other Departments and Commissions to assist on actuarial work, such, for instance, as the negotiation of trade treaties with foreign countries through the Department of State, and to the Joint



The Actuary: (Continued)

High Commission in dealing with Canada. He is a member of the Board of Actuaries in connection with the Bureau of Pensions.

ASSISTANT SECRETARY IN CHARGE OF FISCAL OFFICES:

Treasurer of the United States:

The Treasurer of the United States is charged with the receipt and disbursement of all public moneys that may be deposited in the U. S. Treasury and in all other depositories authorized by the Secretary of the Treasury to receive deposits of Government funds for credit in the account of the Treasurer of the United States; is trustee for bonds held to secure national bank note circulation and public deposits in national banks and bonds held to secure postal savings in banks; is custodian of miscellaneous securities and trust funds and is fiscal agent for the issue and redemption of United States paper currency, for payment of principal and interest on the public debt and for payment of principal and interest on bonds of the Porto Rican and Philippine Governments, of which the Secretary of the Treasury is the transfer agent; and is Treasurer of the Board of Trustees of the Postal Savings System. The Treasurer is agent for the redemption of national bank notes, Federal Reserve notes and Federal reserve bank notes and makes exchanges and redemptions of the paper money and the gold, silver and minor coin of the United States. Funds advanced to disbursing officers for the use of Government departments and establishments under the appropriation of Congress are credited in the accounts of such disbursing officers on the books of the Treasurer and disbursements therefrom are made by checks drawn on the Treasurer.

There are in the office of the Treasurer seven divisions: -

The Chief Clerk, Cashier, Division of Securities, Redemption Division, Division of General Accounts, Accounting Division, and National Bank Redemption Agency.

Chief Clerk: - The Chief Clerk has supervision of all employees and conducts all correspondence relative to personnel, and answers all

Treasurer of the United States: (Continued)

miscellaneous letters not properly chargeable to the other divisions. He is responsible for the distribution of all mail, telegrams, etc., for the office, and has direct supervision of the preparation of pay rolls and payment of salaries. He prepares all requisitions for supplies and prepares all estimates of appropriations for the Treasurer's office. He supervises the operation of the confidential code and system of test-words between the Treasurer's Office and the Federal reserve banks and conducts all transactions under the Retirement Act of May 22, 1920. He is charged with the responsibility of enforcing those regulations of the Department relating to the Treasurer's Office. He prepares all special reports for the Budget and the Secretary of the Treasury. He compiles reports of the different divisions as to classification and efficiency ratings and is a member of the Board of Review to pass upon such ratings. He is responsible for the safe handling of the valuable mail received and sent.

Cashier: - The Cashier receives public deposits made in Washington and pays over the counter Treasury checks, interest checks, coupons and disbursing officers' checks when presented. He receives from the Bureau of Engraving and Printing United States paper currency and stores it in the reserve vaults until it is required for issue to replace mutilated currency destroyed. He issues all United States paper currency and makes shipment of it in denominations required by the Federal reserve banks and the public. He makes collection through Federal reserve banks and national bank depositaries of all checks deposited in payment of Government obligations.

Treasurer of the United States: (Continued)

Division of Securities: - This Division has custody of all bonds held to secure circulation of national bank currency, for deposits of public moneys, for postal savings deposits and miscellaneous accounts for the Secretary of the Treasury; collects the semi-annual tax on national bank circulation and examines and proves all public debt items charged as redemptions and taken up in the Treasurer's account current affecting all public debt redemptions in both principal and interest, and prepares requisition for reimbursement therefor; issues Treasurer's checks in redemption of Treasury savings certificates and other obligations of the United States; verifies and arranges by loans all checks paid on account of interest on the public debt, making search for stoppage of payment; issues interest checks on registered bonds of the Philippine Islands and Porto Rico, and renders the account current of the Treasurer for these disbursements; makes investments and holds securities for the District of Columbia Teachers' Retirement Fund; receives and verifies all securities purchased for retirement by the Secretary of the Treasury and acts as disbursing agent for the Secretary's account of investments for the Civil Service Retirement Fund, Foreign Service Retirement Fund, and Adjusted Service Compensation Fund; and has custody of and maintains an accurate account of all foreign obligations to the United States.

Redemption Division: - This Division receives and verifies unfit United States paper currency forwarded to the Treasurer for redemption and directs payment therefor; cancels and cuts in two lengthwise this unfit currency and delivers same to the Division of Loans and Currency for recount and destruction; receives and makes test counts of the upper halves of unfit United States paper currency forwarded by Federal reserve banks and their branches; adjusts differences found by the Division of

Treasurer of the United States: (Continued)

Loans and Currency in its complete count of corresponding lower halves; receives from banks in Washington, currency for telegraphic credit with the Federal Reserve Bank of Richmond; keeps the necessary books covering all transactions, functioning credits or directing issue of checks in payment of remittances received. It establishes the standard of fitness of notes for circulation and checks shipment of half notes received from Federal reserve banks and branches and reports in this particular matter to the Treasurer of the United States, and to the Commissioner of the Public Debt. The Redemption Division is charged with the responsibility of detecting all counterfeit, short notes, pieced notes and raised notes found in currency presented for redemption.

Division of General Accounts: - This Division prepares and issues, for the Secretary of the Treasury, the daily Treasury statement of the United States, the monthly preliminary statement of the public debt, and the monthly preliminary statement of classified expenditures of the Government. It publishes the monthly statement of the outstanding paper currency of the Government and maintains the accounts from which it compiles the figures for such statements. It issues Treasurer's checks as authorized by settlement warrants in payment of claims settled by the Comptroller General, and certificates of deposit placing funds to the credit of disbursing officers as authorized by accountable warrants; maintains registers as to such warrants and checks issued, paid and outstanding; makes reclamation of payment of checks returned by the Comptroller General for which credit is disallowed in the Treasurer's account; collects interest on daily balances with Government depositaries and renders report of same to the Comptroller General; authorizes and directs

Treasurer of the United States: (Continued)

transfers of currency and coin between Treasury offices and Federal reserve banks and branch banks; restores depleted balances in general national bank depositaries to the limits authorized by the Secretary of the Treasury; and handles applications for coins received from banking institutions, individuals and others. It also maintains general Treasury ledger accounts of all of the accounts of the trust fund, the reserve fund, the gold settlement fund, and the general fund; the record accounts of the classified assets and liabilities of the Government; the individual and controlling reserve, issue and redemption accounts of the paper currency of the Government, by classes and denominations; the individual ledger and individual transit accounts of Treasury offices, Federal reserve banks and branch banks, foreign depositaries, and national bank depositaries; Federal reserve bank and branch bank telegraphic report accounts; fiscal agent accounts of deposits in special depositaries; and individual accounts, by banks and classes, of payments for and redemption of Public Debt securities; and the accounts of the covered and uncovered revenue and repayment receipts of the Government. It renders the bullion fund accounts of United States mints and assay offices; the Treasurer's quarterly account of receipts and expenditures by warrants; and the account of the Government's paper currency issued, redeemed and in reserve.

Accounting Division: - This Division receives daily from the Federal reserve banks and their branches and from the general national bank depositaries transcripts of the account of the Treasurer of the United States with such banks, accompanied by certificates of deposit representing the credits in the Treasurer's account and by checks representing the charges in the Treasurer's account. It proves and classifies the deposits

Treasurer of the United States: (Continued)

and checks for posting to the general ledger accounts and for use in the Daily Statement of the United States Treasury. It maintains individual accounts with disbursing officers, examines and proves checks presented for payment, and renders monthly statements of such accounts to the disbursing officers and to the General Accounting Office. It causes investigations to be made of claims of nonreceipt of checks, reclaims payment from indorsers when checks are fraudulently negotiated, and transmits to the payees the funds thus recovered. It forwards to payees bonds of indemnity required to obtain duplicates of disbursing officers' checks, interest checks and Treasurer's checks and it receives and files bonds of indemnity given to obtain duplicate Treasurer's checks and interest checks. It maintains files of authorities required for the indorsement of checks. The Accounting Division also records stoppages of payment, returns to the presenting banks checks which cannot be paid, and conducts correspondence relating to disbursing officers' checks and accounts.

National Bank Redemption Agency: - The Agency receives shipments of national bank notes, Federal reserve notes and Federal reserve bank notes sent to the Treasurer for redemption by Federal reserve banks and other institutions. It directs payment for such remittances either by Treasury checks, by credits with Federal reserve banks or by transfers between redemption funds. It makes three assortments of national bank notes in order to assemble the notes according to the banks of issue, using as a basis of assortment the charter numbers on the notes. Federal reserve notes and Federal reserve bank notes received from other than Federal reserve banks are assorted to banks of issue by the Agency. Federal reserve notes assorted and cut in half before shipment by Federal reserve banks are verified by the Agency as to count and assortment. Federal reserve notes assorted and

Treasurer of the United States: (Continued)

cut in half before shipment by Federal reserve banks are verified by the Agency as to count and assortment.

The Agency delivers all notes unfit for use or subject to retirement to the Comptroller of the Currency and returns to the banks of issue any notes that are fit for further circulation. It keeps accounts of the redemption funds of the national and Federal reserve banks, crediting the respective banks with deposits made and debiting them with notes redeemed or refunds made. It keeps account of all expenses incurred by the Government in the redemption and transportation of national and Federal reserve currency and assesses such expenses upon the banks in proportion to the amount of their notes redeemed.

The Agency is responsible for the integrity of the cash in its possession, the detection of counterfeits, raised and pieced notes presented for redemption, and with protection of the Government against fraud in the redemption of burned and mutilated currency.

Comptroller of the Currency:

The Comptroller of the Currency is the chief officer of the Bureau of the Comptroller of the Currency established under the act of June 3, 1864, known as the National Bank Act. In the beginning emphasis was placed primarily upon those functions of the Bureau concerned with the issue and regulation of the national bank notes, secured by United States bonds. In the course of time this phase of the work of the Bureau has decreased in relative importance and the primary functions of the Comptroller of the Currency now are those relating to the organization of new national banks, the general supervision over the national banks in operation and the administration through receivers of national banks which have failed.



Comptroller of the Currency: (Continued)

Under the direction of the Comptroller, the national bank examiners make regular examinations of the affairs of all national banks. A report of each of these examinations is made in writing by the examiner to the Comptroller. These examinations show the condition of the bank with reference to its solvency and whether or not it has violated any of the provisions of the National Bank Act. In the case of such violations of law, suit may be brought in the name of the Comptroller against any such bank for the forfeiture of its charter.

If it appears to the Comptroller that any national bank is in an insolvent condition, it is his duty to appoint a receiver therefor for the purpose of winding up the affairs of the bank.

The reports of condition of all national banks are required to be made to the Comptroller by the banks not less than three times a year upon a date fixed by the Comptroller.

The Comptroller of the Currency is an ex officio member of the Federal Reserve Board and sits regularly with the Board. He also by virtue of the provisions of the Federal Reserve Act executes and issues the charters for the Federal reserve banks, and his Bureau issues to the Federal reserve banks the Federal reserve circulating notes.

The Comptroller of the Currency is required by law to report annually directly to Congress and to recommend to Congress amendments to the national banking laws.

The Commissioner of the Public Debt:

The Commissioner of the Public Debt has supervision over all transactions in the public debt and the paper currency issues of the United States, and the miscellaneous work incident thereto. The Public Debt Service

The Commissioner of the Public Debt: (Continued)

includes the Division of Loans and Currency, the Office of the Register of the Treasury, the Division of Accounts and Audit, and the Division of Paper Custody.

The Division of Loans and Currency is the issuing branch of the Public Debt Service. It receives, examines and has custody of all public debt securities printed by the Bureau of Engraving and Printing. It is charged with the original issue of public debt securities, and thereafter conducts transactions therein, including exchanges, transfers, conversions and replacements, the maintenance of accounts with the holders of registered bonds, and the preparation of checks for the payment of interest thereon. This division also handles the public debt issues of the Philippine Government, the Government of Porto Rico, and the District of Columbia; and audits all currency notes of United States paper currency issues received for redemption.

The Office of the Register of the Treasury is the retirement branch of the Public Debt Service. It is charged with the receipt, examination and custody of all public debt securities retired for any account, including paid securities and securities canceled against reissue or otherwise. Paid securities, including interest coupons, are forwarded by the Treasurer direct to the Register, and the Register's certificate of audit is accepted by the Comptroller General as verification of payment by the Treasurer. The Register's certificate is also accepted by the Secretary as evidencing credit to be given fiscal agents in the matter of returned securities, and the same procedure exists with respect to canceled securities delivered by the Division of Loans and Currency and by the Postal Service to the Register for credit.

The Commissioner of the Public Debt: (Continued)

The Division of Accounts and Audit maintains accounts of, and exercises control over, all transactions in the public debt from the time securities are printed until they are retired. It maintains the general accounts of the public debt with the Division of Loans and Currency with respect to issues; with the Register of the Treasury as to retirements; with the fiscal agents for all transactions conducted by them; with the Postal Service in connection with Treasury (war) savings securities; and with the Treasurer of the United States. Through administrative audits conducted from time to time, this division verifies the accuracy of public debt transactions. This division also maintains controlling accounts over all distinctive and non-distinctive security paper used by the Bureau of Engraving and Printing and the work in process, and conducts administrative audits thereof.

The Division of Paper Custody receives from various contractors the distinctive paper used in printing the public debt obligations and the paper currency of the United States, internal revenue stamps and other securities. It issues such paper to the Bureau of Engraving and Printing, and requires that Bureau to account for every sheet issued, either through delivery of perfect work to the several Treasury offices or through the return of imperfect or mutilated stock to the Division of Paper Custody. The manufacture of the distinctive paper used in the printing of public debt obligations and paper currency issues is supervised by a representative of this division detailed to the paper mills of the contractor for that purpose.

The function of the United States Government Savings System is the furthering of sales of Treasury savings certificates, and the encouragement of thrift and saving and the investment of savings in Government securities.

ASSISTANT SECRETARY IN CHARGE OF FISCAL OFFICES:(Continued)

Bureau of Engraving and Printing:

This Bureau designs, engraves, and prints for the Government all United States bonds, certificates of indebtedness, Treasury notes, United States currency, national bank currency, Federal reserve notes, Federal farm loan and joint stock land bank bonds; revenue, customs, and postage stamps; disbursing officers', pension, retirement, and interest checks; liquor permits, drafts, warrants, transportation requests; certificates, commissions, and licenses for various purposes; and many other classes of engraved work for governmental use. It also designs, engraves, and prints bonds, currency, revenue, and postage stamps as authorized by the Bureau of Insular Affairs for the insular possessions of the Government.

Mint Bureau:

The Director of the Mint has general supervision of all the mints and assay offices of the United States. He prescribes the rules, to be approved by the Secretary of the Treasury, for the transaction of business at the mints and assay offices, receives daily reports of their operations, directs the coinage to be executed, reviews the accounts, authorizes all expenditures, superintends the annual settlements of the several institutions, and makes special examinations of them when deemed necessary. All appointments, removals, and transfers in the mints and assay offices are subject to his approval.

Tests of the weight and fineness of coins struck at the mints are made in the assay laboratory under his charge. He publishes quarterly an estimate of the value of the standard coins of foreign countries for custom house and other public purposes. An annual report is prepared by the Director, giving the operations of the mint service for the fiscal year, printed

Mint Bureau: (Continued)

in the Finance Report of the Secretary of the Treasury, and giving statistics of the production of the precious metals in the United States and the world for the calendar year.

Secret Service Division:

This division is charged with the suppression of counterfeiting, the protection of the President of the United States and his family and the person elected to be President, and investigations of violations of the Farm Loan Act, the War Finance Act, and such other matters relating to the Treasury Department and the several branches of the public service under its control as are directed by the Secretary of the Treasury.

Disbursing Clerk:

The work of this office is concerned with paying by check or cash those obligations of the Treasury which have been certified by the proper division as due. The payments for salaries, expenses and supplies cover disbursements for all bureaus and divisions of the Treasury Department in the District of Columbia (except the Bureau of Engraving and Printing) and a large proportion of the salaries and expenses outside of the District of Columbia under the Public Health Service, the Supervising Architect's Office, the Bureau of Internal Revenue, the Federal Farm Loan Board, the Comptroller of the Currency, the Coast Guard, the Secret Service, the Customs Division, and the Public Debt Service. Upon the approval of the Commissioner of Internal Revenue checks drawn on account of claims for refund of internal revenue taxes illegally collected are mailed directly by the Disbursing Clerk.

In addition to making disbursements, an important function of the office is receiving and accounting for moneys due the United States on account of rents for buildings and real estate owned by the Government, as well as of

Disbursing Clerk: (Continued)

public property under the various bureaus and offices.

Section of Surety Bonds of the Division of Appointments:

The Division of Appointments has administrative control over fifty surety companies authorized to transact business with the Government; fixes the qualifying power of each company; supervises the audit of the financial statements of the companies quarterly; notifies the companies of the settlement of fiscal officers' accounts under Fidelity bonds, and has custody of all bonds running to the Government except those for Post Office employees and certain Internal Revenue bonds.

ASSISTANT SECRETARY IN CHARGE OF INTERNAL REVENUE AND MISCELLANEOUS:

Chief Clerk:

The Chief Clerk and Superintendent is the chief executive officer of the Secretary, and, under the direction of the Secretary, the Undersecretary, and Assistant Secretaries, is charged with the enforcement of departmental regulations general in their nature; is by law superintendent of the Treasury Building, and in addition superintends the Register's Liberty Loan, Butler, Auditors', and Treasury Annex Buildings, and all other Treasury buildings in the District of Columbia except the Bureau of Engraving and Printing; has direct charge of motor trucks belonging to the department; the direction of engineers, machinists, watchmen, firemen, laborers, and other employees connected with the maintenance and protection of the Treasury Building and annexes; the expenditures of appropriations for contingent expenses; the administrative control of appropriations made for Government exhibits at various expositions; handles offers in compromise cases; the custody of the records and files of the Secretary's office; the custody of all sites for proposed public buildings in Washington; custody of the official seal of the Treasury Department; the handling of requests for certified copies of official papers; as department representative handles all matters relating to personnel classification and efficiency ratings; and has charge of all business of the Secretary's office unassigned.

Under the Chief Clerk is operated the Medical Relief Service which was organized and is supervised by the Treasury Physician. In the various buildings occupied by Treasury personnel there are ten relief rooms operated by graduate registered nurses. These rooms are established for the relief and protection of employees who become ill or are injured while on duty.

Chief Clerk: (Continued)

So far as practicable, this service is limited to first aid treatments, however, this service is open to all employees in a building whether on the Treasury roll or not. The main Relief Room, which is also the Physician's Office, is in charge of the Head Nurse, and is located in the Treasury Building.

An average of 66,500 employees are treated annually in the Treasury Relief Rooms, about 25% of whom are men.

Bureau of Supply:

This Bureau has charge of all of the functions in connection with the purchase of equipment and supplies formerly carried on by offices, divisions, services, and bureaus of the Treasury Department in Washington and in the field, except those of the Mint Bureau, Coast Guard, and Bureau of Engraving and Printing. The bureau further has control over the storage and distribution of stocks of stationery, etc., belonging to the department. Accounting for the funds allotted to the bureau for the purchase of supplies, together with the approval of vouchers for payments, is also a function of this bureau. The bureau exercises supervision over the activities of the General Supply Committee.

General Supply Committee:

The General Supply Committee was created by the act of June 17, 1910, and is composed of one representative from each of the executive departments, designated by the head thereof. The Superintendent of Supplies, who is an official of the Treasury Department is ex officio secretary of the committee, and he conducts its correspondence, supervises the preparation of its contracts, and performs such other duties as the Secretary of the Treasury may



General Supply Committee: (Continued)

direct. It is the duty of the committee to prepare annually a schedule of miscellaneous supplies in common use by or suitable to the ordinary needs of two or more executive departments or government establishments in Washington; to standardize such supplies; and to solicit bids therefor, tabulate proposals received, and recommend awards.

By the Executive order of December 3, 1918, and Treasury Department Regulations dated December 10, 1918, the General Supply Committee has charge of the transfer and sale of surplus office material, supplies, and equipment in the hands of the executive departments and other establishments of the Government in the District of Columbia.

The Executive order of August 27, 1919, carrying into effect the provisions of the act of July 11, 1919, designates the General Supply Committee as the central agency to maintain records of surplus Government material, supplies, and equipment throughout the United States.

Division of Appointments:

This Division has supervision over all matters relating to the appointments and other changes in the personnel of the Departmental and Field Services of the Treasury Department; the preparation of nominations and commissions of Presidential officers and of all bonds of Treasury officials, where required; prepares and approves the payrolls of the Treasury Department in Washington, and prepares reports relative to the personnel required by law or requested by Congress. Has supervision over the work connected with the retirement and retention of employees under the retirement law and certifies to the Pension Office all amounts refunded under this law to employees leaving the service. It also supervises the preparation of correspondence with members of Congress and others relative to appointments and other personnel matters and conducts correspondence with the United States

Division of Appointments: (Continued)

Civil Service Commission and other Departments relative to personnel matters and changes in the service.

Division of Printing:

This Division orders from the Government Printing Office, and supervises the production of and accounting for, all printing and binding for the Treasury Department, and its outside services and on requisition supplies such printed material to all Treasury activities, wherever located. It orders from the Bureau of Engraving and Printing and supervises the production of all plate printing and engraving not having a money face-value, including disbursing officers' checks for the entire Government establishment. Places Department advertising, designating the newspaper or periodical, issuing written authority for publication, and settling the accounts therefor. Administers the Treasury appropriation for postage.

Bureau of Internal Revenue:

The Commissioner of Internal Revenue under the direction of the Secretary of the Treasury, has general superintendence of the assessment and collection of all internal revenue taxes; the enforcement of internal revenue laws; the enforcement of the National Prohibition Act and the Harrison Narcotic Act; the selection, compensation and assignment to duty of all internal revenue officers and employees, and the preparation and distribution of instructions, regulations, forms, blanks, stationery, stamps, etc.

For the purpose of efficient and effective administration, the duties of the Bureau are assigned to various units as follows:

Bureau of Internal Revenue: (Continued)

B U R E A U

The Internal Revenue Bureau in Washington is made up as follows:

Prohibition Unit

Miscellaneous Tax Unit

Accounts and Collections Unit

Income Tax Unit

Solicitor's Unit

Commissioner and Miscellaneous Unit

The Prohibition Unit is charged with the enforcement of the Federal Prohibition Act and the Harrison Narcotic Act.

The Miscellaneous Tax Unit is charged with the responsibility of administering the estate tax, the gift tax and the capital-stock tax laws; interpretation and administration of Title V and VII of the Revenue Act of 1924 and similar provisions of the Revenue Acts of 1917, 1918, and 1921, also completing cases under these prior acts involving repealed sections imposing other sales taxes, tax on telegraph and telephone messages, and tax on transportation charges; the administration of laws and regulations relating to taxes on tobacco, snuff, cigars and cigarettes, cigarette papers and tubes, oleomargarine, adulterated and renovated butter, mixed flour, filled cheese, phosphorous matches, playing cards, documentary stamps, sales of products for future delivery, tax upon the use of boats and special taxes upon businesses and occupations.

Bureau of Internal Revenue: (Continued)

The Accounts and Collections Unit is charged with the administration of matters having to do with the organization and management of internal revenue collectors' offices, including their field forces; with the administrative audit of the disbursing accounts of all collectors, revenue agents in charge of divisions, federal prohibition administrators, and other special disbursing agents in the internal revenue bureau and service; office procedure and accounting methods in collectors' offices; the administrative audit of all revenue accounts submitted by collectors, and the issue of stamps to collectors of internal revenue.

The Income Tax Unit is the agency of the Bureau of Internal Revenue for administering the income and profits tax laws. Its duties are to prepare regulations for the administration of laws relating to taxes on income and profits; to conduct correspondence relating to the subject matter of income and profits taxes; to receive from collectors of internal revenue returns (except individual returns showing gross income not in excess of \$25,000) covering taxes on income and profits; to audit and verify returns (except individual returns showing gross income not in excess of \$25,000); to see that all original and additional assessments of income and profits taxes are made; to review and dispose of claims for refund, abatement and credit of income and profits taxes; to compile statistics relating to income and profits taxes, and to control and operate the field forces of revenue agents and inspectors assigned to the duty of auditing income and profits tax returns (except individual returns showing gross income not in excess of \$25,000).

The Solicitor's Unit is the legal branch of the Bureau and acts as the legal advisor to the Commissioner and to the administrative units of the

Bureau of Internal Revenue: (Continued)

Bureau; represents the Bureau in cases before the United States Board of Tax Appeals and in cooperation with the Department of Justice represents the Government in all Federal courts. The various functions of this office are separated into five divisions as follows:

Civil Litigation Division  
Penal Division  
Interpretative Division No. I  
Interpretative Division No. II  
Review Division  
Appeals Division

The Commissioner & Miscellaneous Unit comprises the immediate office of the Commissioner and his Assistant, the Intelligence Unit, Appointment Division, Communication Division, and Division of Supplies and Equipment, and makes all details of personnel to offices outside of the Bureau.

F I E L D

There are three main divisions of the field service as follows:

Collection Service - Made up of 65 collection districts, each under a collector of internal revenue appointed by the President, with the advice and consent of the Senate. This field service is under the immediate direction of the Deputy Commissioner in charge of the Accounts and Collections Unit.

Field Audit Service - Made up of 34 field divisions, each under a revenue agent in charge. These 34 divisions are assembled into eight supervisory districts, each under a supervising internal revenue agent who is also the agent in charge of the division where his headquarters are located. These eight supervising agents answer directly to the Deputy Commissioner of the Income Tax Unit.

Bureau of Internal Revenue: (Continued)

Prohibition Service - Made up of 24 districts, each under a federal prohibition administrator. This field service is under the direction of the Assistant Secretary of the Treasury in charge of prohibition enforcement.

In addition to the above three main divisions of the field service, there are the following traveling forces operating from Washington:

Intelligence Service - Under the immediate direction of the Chief, Intelligence Unit, who answers to the Commissioner.

Force of Supervisors of Accounts and Collections - Operating under the immediate direction of the Deputy Commissioner in charge of the Accounts and Collections Unit.

Force of Miscellaneous and Sales Tax Agents - Operating under the immediate direction of the last named official.

Force of Narcotics Agents and Inspectors - Operating under the Head of the Narcotics Division, Prohibition Unit, who answers direct to the Federal Prohibition Commissioner, who in turn answers to the Assistant Secretary of the Treasury in charge of narcotic enforcement.

Force of Prohibition Investigators - Operating under a Chief Prohibition Investigator who answers direct to the Assistant Secretary of the Treasury in charge of prohibition enforcement.

Bureau of the Public Health Service:

The Bureau of the Public Health Service at Washington comprises seven divisions, and the chief clerk's office, the operations of which are coordinated and are under the immediate supervision of the Surgeon General.

Bureau of the Public Health Service: (Continued)

The Division of Scientific Research conducts the scientific investigations of the Service. Intensive studies of diseases of man, including cancer, clonorchiasis, diphtheria, encephalitis lethargica, goiter, influenza, leprosy, malaria, Malta fever, pellagra, pneumonia, poliomyelitis, Rocky Mountain spotted fever, scarlet fever, smallpox, trachoma, tuberculosis, tularaemia, typhoid fever, typhus fever; of child, mental, and industrial hygiene; of public health administration; of morbidity; of milk; and of stream pollution and sewage are carried on from special headquarters in the field in cooperation with State and local health authorities. Technical and purely laboratory studies are conducted at the Hygienic Laboratory in Washington, at special field laboratories, and at the leprosy investigation station in Hawaii, the latter being carried on in connection with the medical treatment of lepers. Information obtained from these investigations is disseminated through publications, correspondence, lectures, and conferences with health authorities concerning the results of field studies in their jurisdictions. Through this Division the Department enforces the Act of July 1, 1902, to regulate the sale inter-state traffic of viruses, serums, toxins, and analogous products, including arsphenamine.

Through the Division of Foreign and Insular Quarantine and Immigration, the Surgeon General administers the quarantine laws and regulations of the United States and conducts the medical inspection of aliens. Seventy-three quarantine inspection stations are maintained in the United States and 27 stations in its insular possessions and dependencies. Twenty-six of these stations are equipped for the housing of persons detained in quarantine. Forty-six medical officers of the Public Health Service are assigned to American Consulates for the purpose of supervising the enforcement of the quarantine regulations on the part of vessels about to depart for the

Bureau of the Public Health Service: (Continued)

United States. The medical inspection of aliens is conducted by medical officers of the Public Health Service at 120 stations in the United States and Canada and at 9 stations in Europe. At 65 of the above named stations both quarantine and immigration activities are carried on. The Division of Foreign Quarantine is also concerned with the observance of the international treaties relating to the public health.

The Division of Domestic Quarantine carries out measures to suppress epidemics, such as plague and typhus fever, and measures to prevent the spread of epidemic diseases in the United States.

The latter includes --

1. Enforcement of the Interstate Quarantine Regulations of the United States.
2. Development of State departments of health, especially divisions of communicable diseases and sanitary engineering.
3. Control over water supplies used for drinking and culinary purposes on railroads, vessels, and other interstate carriers.
4. Sanitation of the National Parks in cooperation with the National Park Service.
5. Rural sanitation and measures against trachoma.

The Division of Sanitary Reports and Statistics collects and publishes information regarding the prevalence and geographic distribution of diseases dangerous to the public health in the United States and foreign countries. Court decisions, laws, regulations, and ordinances pertaining to the public health are compiled, digested, and published. Its publications contain articles on subjects relating to the public health. The division issues the Public Health Reports (weekly), and supplements to and reprints from



Bureau of the Public Health Service: (Continued)

the Public Health Reports. The section on Public Health Education cooperates with State, local, and volunteer health agencies to extend health educational service throughout the United States. This involves the preparation and distribution of bulletins, stereopticon slides, moving pictures, exhibits, posters, placards, and charts on subjects relating to public health.

Through the Division of Marine Hospitals and Relief, hospital and out-patient treatment is provided at 25 marine hospitals and 127 other relief stations of the Service to seamen from documented American vessels and ships belonging to the Coast Guard, Lighthouse Service, Coast and Geodetic Survey, Mississippi River Commission, and Bureau of Fisheries, Lepers, immigrants sick and detained at Ellis Island, lighthouse keepers, Coast Guard surfmen, civil employees (seamen) on U. S. Army vessels, civil employees of the Government injured while in the performance of their duties, and patients of the U. S. Veterans' Bureau, are also beneficiaries of the Service. Physical examinations are made of Coast Guard personnel, masters, mates, pilots, and engineers applying for licenses, civil service applicants and employees, claimants of the U. S. Bureau of Pensions, food handlers employed on vessels in interstate trade, able seamen seeking rating as such, and all seamen when presented to determine fitness for duty at sea. Instruction and examination in first-aid are given to masters, mates, pilots, and engineers applying for licenses. Medical advice to ships at sea is transmitted by radio. Certificates for the purchase and possession of narcotics and liquors to fulfill medicinal needs aboard ship are issued. Medical and dental officers are assigned to duty at the Coast Guard Academy and medical officers are furnished to all cruising cutters and important shore stations of the Coast Guard.

Bureau of the Public Health Service: (Continued)

Under the supervision of the Surgeon General, the Division of Personnel and Accounts transacts all bureau matters relating to the appointment, promotion, transfer, resignation, or other change in status of service personnel; convenes boards for the examination or discipline of medical officers; and maintains all personnel records. Through the Section of Finance and Accounts of this division all appropriations for the service are allotted, all vouchers covering expenditures examined, and all expenditures recorded. The Property Record Section maintains records, by stations, of all non-expendable property belonging to the Service; prepares authorizations for transfers of property between stations; and arranges for the inspection and disposition of all property reported as worn out or un-serviceable.

The Division of Venereal Diseases was created by Act of Congress in July, 1918, "(1) to study and investigate the cause, treatment, and prevention of venereal diseases; (2) to cooperate with State boards or departments of health for the prevention and control of such diseases within the States; and (3) to control and prevent the spread of these diseases in interstate traffic".

The provision for cooperating with the State departments of health provides concurrent opportunities for practical studies and investigations of the social and clinical causes, treatment, and prevention of these diseases. The results of these studies are shown in the publications of the division and in the progressive improvement of the control measures. During the past seven years this cooperative control resulted in the establishment of more than 900 locally supported clinics for the examination

Bureau of the Public Health Service: (Continued)

and treatment of indigent patients; a very much larger body of physicians has been interested in actively cooperating with the health authorities; educational pamphlets, motion picture films, stereopticon slides and poster exhibits have been developed and made available through each of the State boards of health; schools and colleges have become interested in the teaching of sex hygiene; standard laws and ordinances have been enacted, and throughout the country there has arisen an indicative public attitude which is reflected in the growing interest of life insurance companies, large industries, labor organizations, civic organizations, juvenile courts and institutions. Interstate quarantine regulations to prevent the spread of these diseases in interstate traffic have been promulgated by the Secretary of the Treasury.

A review of the field to be covered and the work that has been done indicates an outstanding achievement in modern public health maintenance.

The General Inspection Service carries out all special investigations and makes inspections of all activities of the service.

The Chief Clerk has charge of the following: (1) Appointments, promotions, and discipline of the clerical personnel of the bureau. (2) Time records and leave of absence. (3) Office quarters occupied by the bureau in Washington, and equipment therein. (4) Furnishing supplies of stationery and blanks to the bureau and field stations. (5) The official files of the bureau and the receipt and dispatch of mail. (6) The bureau library. (7) Procuring of printing through the Government Printing Office, and supervision of the appropriation therefor. (8) Improvement of office methods. (9) Classification and efficiency ratings.

Supervising Architect:

Subject to the direction and approval of the Secretary of the Treasury, the duties performed by the Supervising Architect embrace the following:

Supervising Architect: (Continued)

Securing cessions from States of jurisdiction over sites and the payment for the same; preparation of drawings, estimates, specifications, etc., for, and the superintendence of the work of, constructing, rebuilding, extending, or repairing public buildings; the care, maintenance, and repair of public buildings, the direction of the operating force in public buildings, and the supply of furniture, carpets, lighting fixtures, mechanical equipment, safes, and miscellaneous supplies for use of custodians' and engineers' forces in the care of public buildings.

ASSISTANT SECRETARY IN CHARGE OF CUSTOMS, COAST GUARD, AND PROHIBITION:

Customs Service:

The principal function of the Customs Service is the collection of import duties; incident to this the prevention of smuggling, the difficulties in which latter connection are greatly increased since the enactment of the prohibition amendment. The Special Agency Service which operates as a part of the Customs Service is an investigative service. There is a force of about 72 in the department at Washington and approximately 8,100 in the field.

Import duties are either specific or ad valorem or both. The ad valorem duties are assessed principally upon the foreign market value or the export value. By far the greater part of the import duties are collected from commercial shipments, the rest principally from mail importations and passengers' baggage.

The Customs Service also cooperates with other services in the Treasury and other executive departments in the enforcement of the preventive, sanitary and other laws under their administration relating principally to articles brought to this country and in some cases to articles sent out of the country.

Coast Guard:

The Coast Guard is one of the oldest organizations in the Government, having been established originally in 1790 as a result of the need for the services of a coastal patrol for the enforcement of the customs laws and an organized armed force for the protection of the seacoast.

The Commandant of the Coast Guard is charged by law with the administration of the Coast Guard, under the direction of the Secretary of the Treasury in time of peace and under the direction of the Navy in time of war.

Coast Guard: (Continued)

Headquarters are located at present in the Darby Building, Fourteenth and E Streets. The Act of January 28, 1915, provided that the Coast Guard be created in lieu of the then existing Revenue Cutter Service and the Life Saving Service, and to be composed of those two organizations. It also provided that it shall constitute a part of the military forces of the United States, and shall operate under the Treasury Department in time of peace and operate as a part of the Navy, subject to the orders of the Secretary of the Navy, in time of war or when the President shall so direct.

In general, the duties of the Coast Guard may be classified as follows: Rendering assistance to vessels in distress and saving life and property; destruction or removal of wrecks, derelicts, and other floating dangers to navigation; extending medical aid to American vessels engaged in deep-sea fisheries; protection of the customs revenue; operating as a part of the Navy in time of war or when the President shall direct; enforcement of law and regulations governing anchorage of vessels in navigable waters; enforcement of law relating to quarantine and neutrality; suppression of mutinies on merchant vessels; enforcement of navigation and other laws governing merchant vessels and motor boats; enforcement of law to provide for safety of life on navigable waters during regattas and marine parades; protection of game and the seal and other fisheries in Alaska, etc.; enforcement of sponge fishing laws.

To assist the Commandant in conducting the business of his office there are established at headquarters an inspector, having cognizance of matters relating to the inspection of vessels, stations, boats, and all other property, and the following:

Division of operations: Having cognizance of matters relating to the operations and personnel of the service.

Coast Guard: (Continued)

Division of matériel: Having cognizance of matters relating to supplies, outfits, equipment, accounts, and the files.

Office of construction and repair: Having cognizance of matters relating to the construction of and repairs to the hulls of vessels and boats, stations, wharves and all other property.

Office of engineer in chief: Having cognizance of matters relating to the construction of and repairs to the motive power of vessels and boats and the machinery of all other property.

Under the direction of the Commandant statistics are prepared of casualties to vessels of the United States. He is also required to acquaint himself, as far as practicable, with all means employed in foreign countries which may seem to affect advantageously the interests of the Coast Guard, and to cause to be properly investigated all plans, devices, and inventions for the improvement of life-saving apparatus for use at the stations which may appear to be meritorious and available.

Prohibition Unit:

This Unit is charged with carrying out the provisions of the National Prohibition Act and the act supplemental thereto (Willis-Campbell Act), the internal revenue laws relating to intoxicating liquor, and the Harrison Narcotic Act, as amended. Its work involves securing evidence of violation of those acts, investigating violations and alleged violations, including conspiracy cases, and making reports thereof to the Department of Justice with a view of bringing violators to trial; the issuance or withholding of permits to use or sell intoxicating liquor, including industrial alcohol, and narcotic drugs; the assessment of taxes for illegal manufacture and sale, and the handling of offers in compromise of civil liability incurred.

ASSISTANT SECRETARY IN CHARGE OF CUSTOMS, COAST GUARD, AND PROHIBITION UNIT:  
(Continued)

Prohibition Unit: (Continued)

Narcotic Division:

To the Narcotic Division, Office of Federal Prohibition Commissioner, of the Bureau of Internal Revenue is assigned the enforcement of the act of December 17, 1914, as amended, known as the Harrison Narcotic Law, the act of January 17, 1914, regulating the manufacture of smoking opium, and related statutes. In developing cases of violation under the foregoing laws charges are often also found to accrue under the Narcotic Drugs Import and Export Act, the disposition of which in such cases is also accomplished through the Narcotic Division.

The Head of the Narcotic Division is in direct charge of the narcotic agents and inspectors which constitute the narcotic field force. The country, including Hawaii, is divided into fifteen divisions, each under the supervision of a narcotic agent in charge. The activity of the force is directed through these agents in charge who are directly responsible to the Head of the Narcotic Division of the Bureau. All reports, expense claims and papers pertaining to salaries, appointments, transfers, resignations, etc., follow these channels.

The work of this Division is otherwise divided between two sections. The Legal Section receives and examines all reports of violations of the internal revenue narcotic laws, directing the action to be taken in each case by investigating officers, makes recommendations with respect to offers in compromise of violations which are submitted by proponents, recommends the action to be taken with respect to each application for parole filed by a convict serving sentence for violation of the narcotic laws, fixes assessment of taxes under the act of December 17, 1914, as amended, and specific penal-



Prohibition Unit: (Continued)

Narcotic Division: (Continued)

ties and recommends the action to be taken relative to all claims for abatement or refund of taxes or specific penalties collected under that Act. Model indictments are drawn, opinions prepared, and all other work of legal character performed which would be of advantage in the prosecution of any case under the narcotic laws. The correspondence is conducted chiefly with narcotic agents in charge, collectors of internal revenue, and United States attorneys.

The other section, known as the Returns Section, audits all monthly returns of purchases and sale of taxable narcotic drugs and preparations required to be rendered by importers, manufacturers, and wholesale dealers. The purpose of this audit is to prevent any diversion of opium or coca leaves permitted to be imported for the purpose of manufacturing drugs and medicines needed for medicinal preparations. Sales which appear to be excessive are reported to field officers for investigation. In this section is compiled all statistics relating to imports, exports, and sales of drugs, violations of the laws and seizures and confiscations of narcotic drugs thereunder. All statistical information required by the Federal Narcotics Control Board to determine the quantities of crude opium and coca leaves to be imported is furnished together with information necessary in connection with the issuance of export permits by that Board under the provisions of the Narcotic Drugs Import and Export Act.

THE MONETARY SYSTEM OF THE UNITED STATES.

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A brief statement by the  
Treasury Department with reference  
to the various kinds of money in  
circulation in the United States.

Revised - April, 1926.

MONETARY SYSTEM OF THE UNITED STATES.

In 1786 the Congress of the Confederation adopted as the monetary unit the dollar of 375.64 grains of pure silver. Following the inauguration of the present form of Government the Congress, by the act of April 2, 1792, established the first monetary system of the United States. Two units were adopted: the gold dollar, containing 24.75 grains of pure gold, and the silver dollar, containing 371.25 grains of pure silver. The ratio of gold to silver was 1 to 15. Both gold and silver were legal tender; the standard was double.

Various changes in the ratio were made from time to time until the act of February 12, 1873, which provided that the unit of value of the United States should be the gold dollar of the standard weight of 25.8 grains. The act of February 28, 1878, directed the coinage of standard silver dollars, and provided that they should be full legal tender, except where otherwise expressly stipulated in a contract.

The act of March 14, 1900, declares that the dollar, consisting of 25.8 grains of gold 0.900 fine, "shall be the standard unit of value", and makes it the duty of the Secretary of the Treasury to maintain all forms of money issued or coined by the United States at a parity of value (i.e. equality of purchasing power) with this standard. This act also provides that nothing shall be construed to affect the legal tender quality, as now provided by law, of the silver dollar or of any other money coined or issued by the United States. The Federal Reserve Act of December 23, 1913, reaffirms the parity provisions of the above act and the authority of the Secretary of the Treasury to borrow or buy gold in order to maintain such parity.

The money in circulation in the United States consists of gold, silver, nickel and bronze coins and various kinds of paper currency including bank notes. The coins are produced by the mints at Philadelphia, Denver, and San Francisco, while all the paper money is produced by the Bureau of Engraving and Printing at Washington. Both the mints and the Bureau of Engraving and Printing are under the Treasury Department.

Legal tender is a quality given a circulating medium by Congress and, possessing this quality, it becomes lawful money. Legal tender is money which a debtor may legally require his creditor to receive in payment of a debt, in the absence of any special agreement in the contract or obligation itself. Not all kinds of money possess full legal tender qualities, yet all kinds circulate freely at par and are convertible into standard money.

#### Metallic Money.

Gold coins: The gold dollar is the standard unit of value in the United States. Gold coins are now minted in denominations of \$2.50, \$5, \$10, and \$20, termed respectively quarter eagles, half eagles, eagles, and double eagles. The gold dollar weighs 25.8 grains in the proportion of 900 parts of pure gold to 100 parts of alloy. The coining value of a troy ounce of pure gold is \$20.67183 and the coining value of a troy ounce of standard (0.900 fine) gold is \$18.60465. The weight of \$1000 in United States gold coin is 53.75 troy ounces, equivalent to 3.685 pounds avoirdupois. Gold coins, when not reduced in weight below the limit of tolerance fixed by law, are full legal tender at their nominal or face value in payment of all debts, public and private, and when below such standard weight and limit of tolerance they are legal in proportion to their weight. Being

standard money, gold coins are not redeemable, but may be exchanged for other forms of money, particularly gold certificates.

Standard silver dollars: The standard silver dollar contains 412.5 grains of silver 0.900 fine. The coining value in standard silver dollars of a troy ounce of pure silver is \$1.2929, and the coining value of a troy ounce of standard silver is \$1.1636. The weight of \$1000 in standard silver (0.900 fine) dollars is 859.375 troy ounces, equivalent to 58.928 pounds avoirdupois. Standard silver dollars are legal tender at their nominal or face value in payment of all debts, public and private, without regard to the amount, except where otherwise expressly stipulated in a contract. Being standard money, standard silver dollars are not redeemable, but may be exchanged for other forms of money, particularly silver certificates.

Subsidiary silver coins: The subsidiary silver coins issued are half dollars, quarter dollars and dimes. These coins are legal tender for amounts not exceeding \$10 in any one payment. They may be presented in sums or multiples of \$20 to the Treasurer of the United States for redemption or exchange into lawful money. They will also be received for redemption by the Federal reserve banks and branches.

Minor coins: Minor coins of nickel or bronze are issued in five cent pieces and one cent pieces. They are legal tender for amounts not exceeding twenty-five cents in any one payment. They may be presented for redemption or exchange under the same conditions as subsidiary silver coins.

The following table shows the denominations, fine metal and alloy content, and weight of the coins of the United States as at present issued:

Kind and Denomination	Fine gold silver or copper contained (grains)	Alloy contained(1) (grains)	Weight (grains)
Gold:(2)	Gold(3)	Copper	
Double eagle (\$20)	464.40	51.60	516.00
Eagle (\$10)	232.20	25.80	258.00
Half eagle (\$ 5)	116.10	12.90	129.00
Quarter eagle(\$2.50)	58.05	6.45	64.50
Silver:	Silver(3)	Copper	
Standard dollar	371.250	41.250	412.50
Half dollar	173.610	19.290	192.00
Quarter dollar	86.805	9.645	96.45
Dime	34.722	3.858	38.58
Minor coins:	Copper	Alloy	
Five cents(4)	57.87	19.29	77.16
One cent (5)	45.60	2.40	48.00

- (1) The alloy neither adds to nor detracts from the value of the coin.
- (2) The coinage of the gold dollar was discontinued by the act of September 26, 1890.
- (3) Gold and silver coins contain 900 parts of pure gold or pure silver and 100 parts of copper alloy.
- (4) Seventy-five per cent copper, 25 per cent nickel.
- (5) Ninety-five per cent copper, 5 per cent tin and zinc.

Paper Money

There are seven kinds of paper currency in circulation in the United States: United States notes, gold certificates, silver certificates, Treasury notes of 1890, Federal reserve notes, National bank notes, and Federal reserve bank notes.

United States notes: United States notes are often referred to as "greenbacks" or "legal tenders". These notes were originally issued under authority of the acts of February 25 and July 11, 1862, and March 3, 1863. The highest amount outstanding at any time was \$449,338,902 on January 30, 1864. This amount was gradually reduced until the act of May 31, 1878, which required the notes to be reissued when redeemed. Since that time the amount outstanding has remained \$346,681.016.

United States notes are protected by a gold reserve of approximately \$154,000,000 held in the Treasury. They are full legal tender for all debts, public and private, except duties on imports and interest on the public debt. Since the resumption of specie payments on January 1, 1879, however, these notes have been freely accepted in payment of customs dues and interest, or any other public dues. They are redeemable in gold coin and will be received for redemption by the Treasurer of the United States or any Federal reserve bank or branch. United States notes may be issued in any denomination not less than \$1. At the present time these notes are issued in denominations of \$1, \$2, \$5, \$10, and \$20, though notes of the denominations of \$50, \$100, \$500, and \$1000 are outstanding and in circulation.

Gold certificates: Gold certificates are issued against deposits of gold coin with the Treasurer of the United States or with the Federal reserve banks and branches, deposits of gold bullion or foreign gold coin with the mints and assay offices, or against available gold in the general fund of the Treasury. Gold certificates may also be obtained in payment of obligations of the United States payable in gold, in payment of checks issued by the mints and assay offices of the United States for deposits of gold bullion and foreign gold coin, in exchange for other forms of United States paper currency, or in the ordinary course of Government payments when paid out by the Treasurer or the Federal reserve banks. These certificates, payable to bearer on demand, are legal tender in payment of all debts and dues, public and private, and will be received by the Treasurer of the United States or by any Federal reserve bank for redemption in gold.

Gold certificates may be issued in any denomination not less than \$10. The following denominations are now outstanding: \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, and \$10,000.

Silver certificates: Silver certificates are issued against deposits of standard silver dollars or available silver dollars in the general fund of the Treasury, and may be obtained in exchange for other forms of United States paper currency or in the ordinary course of Government payments, when available. These certificates are redeemable only in standard silver dollars and may be presented for redemption to the Treasurer of the United States or to any Federal reserve bank or branch. They are not legal tender but are receivable in payment of all public dues and when so received may be reissued. They may be held as lawful reserve by Federal reserve banks.

Silver certificates may be issued in the following denominations: \$1, \$2, \$5, \$10, \$20, \$50, and \$100. However, there are still outstanding some certificates of \$500 and \$1000 denominations issued prior to 1900. At the present time new issues of silver certificates are restricted to the lower denominations.

Treasury notes of 1890: Treasury notes of 1890 were issued in payment of silver bullion purchased under the act of July 14, 1890, the so-called Sherman Act. The act also provided for the coinage of the silver purchased into standard silver dollars, and the Treasury notes were retired whenever redeemed in silver dollars. Under the act of March 14, 1900, these notes have been canceled and retired whenever received, and only a small amount remains in circulation (\$1,367,304 on April 1, 1926). Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in a contract. They are redeemable in United



States gold coin or in standard silver dollars, at the option of the holder, on presentation to the Treasurer of the United States or any Federal reserve bank. These notes were issued in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, and \$1000.

Federal reserve notes: The Federal Reserve Act, approved December 23, 1913, established the Federal Reserve System and provided for an elastic currency in the form of Federal reserve notes. Federal reserve notes are issued at the discretion of the Federal Reserve Board, through the Federal Reserve Agents, for the purpose of making advances to Federal reserve banks to supply currency requirements. Any Federal reserve bank requiring additional notes makes application therefor to its Federal Reserve Agent, who is a representative of the Federal Reserve Board. Such application must be accompanied by a tender of collateral in amount equal to the sum of the Federal reserve notes applied for. This collateral may consist of gold or gold certificates, or paper which has been discounted or purchased in the open market by the Federal reserve banks and which meets certain other requirements as set forth in the Federal Reserve Act. Each Federal reserve bank is required to maintain a reserve in gold of not less than 40 per cent against its Federal reserve notes in actual circulation. The gold redemption fund maintained on deposit in the Treasury of the United States, which must be not less than five per cent of the Federal reserve notes issued less the amount of gold and gold certificates held by the Federal Reserve Agent as collateral security, may be counted as a part of the required 40 per cent reserve.

Federal reserve notes are obligations of the United States and are receivable on all accounts by all Federal reserve banks, National banks and other member banks. They are also receivable for all taxes, customs, and

other public dues. They are redeemable in gold on demand at the Treasury Department, in Washington, or in gold or lawful money at any Federal reserve bank.

Federal reserve notes are issued in the following authorized denominations: \$5, \$10, \$20, \$50, \$100, \$500, \$1000, \$5000 and \$10,000.

National bank notes: Any National bank may issue National bank notes upon the deposit of certain prescribed United States bonds bearing the circulation privilege in trust with the Treasurer of the United States. The amount issued may not exceed the par value of the bonds so deposited, nor the amount of the capital stock of the issuing bank actually paid in. Each bank is required to maintain upon deposit at all times with the Treasurer of the United States lawful money equal to 5 per cent of its note circulation, the fund to be held and used for redemption purposes. National bank notes are obligations of the issuing bank, they are not legal tender, but are receivable for all public dues, except duties on imports, and may be paid out by the Government for all purposes except interest on the public debt and for redemption of the National currency. They are redeemable upon demand in lawful money of the United States by the Treasurer of the United States and by the issuing bank. Payments in lawful money on account of redemption may also be effected through the Federal reserve banks and branches.

National bank notes are authorized to be issued in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500, and \$1000. Only a comparatively small amount of the \$1, \$2, \$500, and \$1,000 notes are outstanding, however, and at the present time these notes are issued only in denominations of \$5, \$10, \$20, \$50, and \$100.

Federal reserve bank notes: Federal reserve bank notes are identical in all their attributes with National bank notes, except that the amount issued is not limited to the paid-in capital stock of the issuing Federal reserve bank. They may be issued in the same denominations as National bank notes. Only a small amount of these notes is now outstanding. The following denominations are at present in circulation: \$1, \$2, \$5, \$10, \$20, and \$50.

How Money Gets Into Circulation.

There are many ways in which money gets into circulation. The holder of gold bullion or foreign gold coin, for example, may deposit the same at a mint and receive therefor coin equal in value to the bullion deposited. If the owner of gold coin or bullion prefers, he may exchange his gold for gold certificates or other forms of currency. Money may also get into circulation through the payment by the Government of its obligations in cash. Exchanges of new money for old and of one kind for another are also going on constantly; e.g., silver certificates issued in exchange for silver dollars, or subsidiary silver and minor coins issued in exchange for other forms of money. National banks and Federal reserve banks put their notes into circulation either by paying them out to depositors and bona fide holders of checks in due course, or through the proceeds of loans granted by these banks.

TREASURY DEPARTMENT

May 28, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES

OUTSTANDING  
April 30, 1926

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$13,805,000,000	\$2,071,000,000 (1)	\$11,734,000,000
Territories and insular possessions	151,000,000	22,000,000 (2)	129,000,000
United States Government	2,168,000,000	670,000,000 (3)	1,498,000,000
Federal land banks intermediate credit banks and joint-stock land banks	1,692,000,000	70,000,000 (4)	1,622,000,000
<b>Total April 30, 1926</b>	<b>\$17,816,000,000</b>	<b>\$2,833,000,000</b>	<b>\$14,983,000,000</b>

Comparative totals:

March 31, 1926	\$17,719,000,000	\$2,822,000,000	\$14,897,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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.

THE MONETARY SYSTEM OF THE UNITED STATES.

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Standard silver dollars: The standard silver dollar contains 412.5 grains of silver 0.900 fine. The coining value in standard silver dollars of a troy ounce of pure silver is \$1.2929, and the coining value of a troy ounce of standard silver is \$1.1636. The weight of \$1000 in standard silver (0.900 fine) dollars is 859.375 troy ounces, equivalent to 58.928 pounds avoirdupois. Standard silver dollars are legal tender at their nominal or face value in payment of all debts, public and private, without regard to the amount, except where otherwise expressly stipulated in a contract. Being standard money, standard silver dollars are not redeemable, but may be exchanged for silver certificates.

Subsidiary silver coins: The subsidiary silver coins issued are half dollars, quarter dollars and dimes. These coins are legal tender for amounts not exceeding \$10 in any one payment. They may be presented in sums or multiples of \$20 to the Treasurer of the United States for redemption or exchange into lawful money. They will also be received for redemption by the Federal reserve banks and branches.

Minor coins: Minor coins of nickel or bronze are issued in five cent pieces and one cent pieces. They are legal tender for amounts not exceeding twenty-five cents in any one payment. They may be presented for redemption or exchange under the same conditions as subsidiary silver coins.

The following table shows the denominations, fine metal and alloy content, and weight of the coins of the United States as at present issued:



Kind and Denomination	Fine gold silver or copper contained (grains)	Alloy contained(1) (grains)	Weight (grains)
Gold:(2)	Gold(3)	Copper	
Double eagle (\$20)	464.40	51.60	516.00
Eagle (\$10)	232.20	25.80	258.00
Half eagle (\$ 5)	116.10	12.90	129.00
Quarter eagle(\$2.50)	58.05	6.45	64.50
Silver:	Silver(3)	Copper	
Standard dollar	371.250	41.250	412.50
Half dollar	173.610	19.290	192.00
Quarter dollar	86.805	9.645	96.45
Dime	34.722	3.858	38.58
Minor coins:	Copper	Alloy	
Five cents(4)	57.87	19.29	77.16
One cent (5)	45.60	2.40	48.00

- (1) The alloy neither adds to nor detracts from the value of the coin.  
 (2) The coinage of the gold dollar was discontinued by the act of September 26, 1890.  
 (3) Gold and silver coins contain 900 parts of pure gold or pure silver and 100 parts of copper alloy.  
 (4) Seventy-five per cent copper, 25 per cent nickel.  
 (5) Ninety-five per cent copper, 5 per cent tin and zinc.

#### Paper Money

There are seven kinds of paper currency in circulation in the United States: United States notes, gold certificates, silver certificates, Treasury notes of 1890, Federal reserve notes, National bank notes, and Federal reserve bank notes.

United States notes: United States notes are often referred to as "greenbacks" or "legal tenders". These notes were originally issued under authority of the acts of February 25 and July 11, 1862, and March 3, 1863. The highest amount outstanding at any time was \$449,338,902 on January 30, 1864. This amount was gradually reduced until the act of May 31, 1878, which required the notes to be reissued when redeemed. Since that time the amount outstanding has remained \$346,631,016.

United States notes are protected by a gold reserve of approximately \$154,000,000 held in the Treasury. They are full legal tender for all debts, public and private, except duties on imports and interest on the public debt. Since the resumption of specie payments on January 1, 1879, however, these notes have been freely accepted in payment of customs dues and interest, or any other public dues. They are redeemable in gold coin and will be received for redemption by the Treasurer of the United States or any Federal reserve bank or branch. United States notes may be issued in any denomination not less than \$1. At the present time these notes are issued in denominations of \$1, \$2, \$5, \$10, and \$20, though notes of the denominations of \$50, \$100, \$500, and \$1000 are outstanding and in circulation.

**Gold certificates:** Gold certificates are issued against deposits of not less than twenty dollars in gold coin with the Treasurer of the United States or with the Federal reserve banks and branches, deposits of gold bullion or foreign gold coin in sums not less than one thousand dollars with the mints and assay offices, or against available gold in the general fund of the Treasury. Gold certificates may be obtained in payment of obligations of the United States payable in gold, in payment of checks issued by the mints and assay offices of the United States for deposits of gold bullion and foreign gold coin, in exchange for other forms of United States paper currency, or in the ordinary course of Government payments when paid out by the Treasurer or the Federal reserve banks. These certificates, payable to bearer on demand, are legal tender in payment of all debts and dues, public and private, and will be received by the Treasurer of the United States or by any Federal reserve bank for redemption in gold.

Gold certificates may be issued in any denomination not less than \$10. The following denominations are now outstanding: \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, and \$10,000.

Silver certificates: Silver certificates are issued against deposits of standard silver dollars or available silver dollars in the general fund of the Treasury, and may be obtained in exchange for other forms of United States paper currency or in the ordinary course of Government payments, when available. These certificates are redeemable only in standard silver dollars and may be presented for redemption to the Treasurer of the United States or to any Federal reserve bank or branch. They are not legal tender but are receivable in payment of all public dues and when so received may be reissued. They may be held as lawful reserve by Federal reserve banks.

Silver certificates may be issued in the following denominations: \$1, \$2, \$5, \$10, \$20, \$50, and \$100. However, there are still outstanding some certificates of \$500 and \$1000 denominations issued prior to 1900. At the present time new issues of silver certificates are restricted to the lower denominations.

Treasury notes of 1890: Treasury notes of 1890 were issued in payment of silver bullion purchased under the act of July 14, 1890, the so-called Sherman Act. The act also provided for the coinage of the silver purchased into standard silver dollars, and the Treasury notes were retired whenever redeemed in silver dollars. As provided in the act of March 14, 1900, these notes are canceled and retired whenever received, and no more may be issued. Only a small amount remains in circulation (\$1,364,304 on May 1, 1926). Treasury notes of 1890 are legal tender for all debts, public and private, except where otherwise expressly stipulated in a contract. They are redeemable in United

States gold coin or in standard silver dollars, at the option of the holder, on presentation to the Treasurer of the United States or any Federal reserve bank. These notes were issued in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, and \$1000.

Federal reserve notes: The Federal Reserve Act, approved December 23, 1913, established the Federal Reserve System and provided for an elastic currency in the form of Federal reserve notes. Federal reserve notes are issued at the discretion of the Federal Reserve Board, through the Federal Reserve Agents, for the purpose of making advances to Federal reserve banks to supply currency requirements. Any Federal reserve bank requiring additional notes makes application therefor to its Federal Reserve Agent, who is a representative of the Federal Reserve Board. Such application must be accompanied by a tender of collateral in amount equal to the sum of the Federal reserve notes applied for. This collateral may consist of gold or gold certificates, or paper which has been discounted or purchased in the open market by the Federal reserve banks and which meets certain other requirements as set forth in the Federal Reserve Act. Each Federal reserve bank is required to maintain a reserve in gold of not less than 40 per cent against its Federal reserve notes in actual circulation. The gold redemption fund maintained on deposit in the Treasury of the United States, which must be not less than five per cent of the Federal reserve notes issued less the amount of gold and gold certificates held by the Federal Reserve Agent as collateral security, may be counted as a part of the required 40 per cent reserve.

Federal reserve notes are obligations of the United States and are receivable on all accounts by all Federal reserve banks, National banks and ~~other member banks.~~ They are also receivable for all taxes, customs, and

other public dues. They are redeemable in gold on demand at the Treasury Department, in Washington, or in gold or lawful money at any Federal reserve bank.

Federal reserve notes are issued in the following authorized denominations: \$5, \$10, \$20, \$50, \$100, \$500, \$1000, \$5000 and \$10,000.

National bank notes: Any National bank may issue National bank notes upon the deposit of certain prescribed United States bonds bearing the circulation privilege in trust with the Treasurer of the United States. The amount issued may not exceed the par value of the bonds so deposited, nor the amount of the capital stock of the issuing bank actually paid in. Each bank is required to maintain upon deposit at all times with the Treasurer of the United States lawful money equal to 5 per cent of its note circulation, the fund to be held and used for redemption purposes. National bank notes are obligations of the issuing bank, they are not legal tender, but are receivable for all public dues, except duties on imports, and may be paid out by the Government for all purposes except interest on the public debt and for redemption of the National currency. They are redeemable upon demand in lawful money of the United States by the Treasurer of the United States and by the issuing bank. Payments in lawful money on account of redemption may also be effected through the Federal reserve banks and branches.

National bank notes are authorized to be issued in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100, \$500, and \$1000. Only a comparatively small amount of the \$1, \$2, \$500, and \$1,000 notes are outstanding, however, and at the present time these notes are issued only in denominations of \$5, \$10, \$20, \$50, and \$100.

Federal reserve bank notes: Federal reserve bank notes are identical in their legal attributes with National bank notes, except that the amount issued is not limited to the paid-in capital stock of the issuing Federal reserve bank. Money has now been deposited to retire all Federal reserve bank notes outstanding; consequently the maintenance of the 5% redemption fund against these notes is no longer necessary. It is the Federal Reserve Board's policy to retire all of these notes as they are received for redemption. On the latest date available (April 30, 1926) only \$5,808,578 of these notes were outstanding. The following denominations are in circulation: \$1, \$2, \$5, \$10, \$20, and \$50.

How Money Gets Into Circulation.

There are many ways in which money gets into circulation. The holder of gold bullion or foreign gold coin, for example, may deposit the same at a mint and receive therefor coin equal in value to the bullion deposited. If the owner of gold coin or bullion prefers, he may exchange his gold for gold certificates or other forms of currency. Money may also get into circulation through the payment by the Government of its obligations in cash. Exchanges of new money for old and of one kind for another are also going on constantly; e.g., silver certificates issued in exchange for silver dollars, or subsidiary silver and minor coins issued in exchange for other forms of money. National banks and Federal reserve banks put their notes into circulation either by paying them out to depositors and bona fide holders of checks in due course, or through the proceeds of loans granted by these banks.

June 14, 1926.

Letter of Secretary of the Treasury Mellon to Congressmen Haugen, Dickinson and Anthony in response to their request for his views on one of the Agricultural bills.

June 14, 1926.

My dear Congressmen:

In accordance with your request made on the occasion of your recent visit to the Treasury, I am submitting my views on H. R. 7893, as amended and now pending in the Senate, providing for the establishment of a Federal Farm Board to control and dispose of the surplus of certain "basic agricultural commodities".

The purpose intended to be accomplished by the bill is to raise the prices of wheat, corn, cotton, and livestock above world prices. A board known as the Federal Farm Board, for which is appropriated \$250,000,000, plus \$300,000 for immediate expenses, is to arrange with cooperative associations and other dealers to purchase, store or export the surplus of these commodities beyond the demand for home consumption. The taking of this surplus off the home market is to raise the price in the home market. The surplus is to be sold abroad even if the foreign price is below cost. The loss on the storage, or on the sale of the surplus abroad, is to be paid in the first instance out of the fund appropriated from the Treasury. It is proposed to reimburse the fund by a fee ("equalization fee") or tax on all of these commodities sold by the farmer.

In other words, it is hoped to raise prices on part of the crop by taking a loss on a smaller part of it; and the method by which this is to be done is to divide the crop into two parts - the larger to be sold to American consumers at high prices and the smaller part to be sold abroad to foreign consumers at cheaper prices or even below the cost of production. The loss incurred in giving this advantage to foreign consumers is to be covered by money from the Treasury and from the higher prices paid by American consumers.

It is, of course, apparent at once that the effect of the bill will be to increase the cost of living to every consumer of the five basic agricultural commodities in this country. The "equalization fee", while it purports to be paid by the farmer, will be included in the increased price of the commodity and will, in the end, be borne not by the farmer but by the consumer. The net result will be that the American consumer will pay the increased domestic price which of necessity must include the "equalization fee" or the loss incurred in selling the surplus abroad. We shall have the unusual spectacle of the American consuming public paying a bonus to the producers of five major agricultural commodities with a resulting ~~decrease~~ in the purchasing power of wages, and at the same time contributing a subsidy to the foreign consumers, who under the proposed plan will secure American commodities at prices below the American level. European labor could purchase American products at a lower price and could live more cheaply than American labor. Foreign industrial costs would be lowered and the foreign competitor assisted in underselling American products abroad and <sup>in</sup> our home market. I can see no permanent relief for American agriculture through subsidizing foreign competition; and that, in my opinion, is what the bill, if it becomes a law, will do.

The so-called "equalization fee" is in reality a tax on every bushel of wheat or corn or head of live stock or bale of cotton sold by the farmer in this country; and the amount of the tax is to be fixed, levied and collected by the proposed Farm Board. The constitutionality of such a tax, fixed not by the Congress but by a board, imposed in such a manner and for such a purpose, is at least extremely doubtful and might render ineffectual any legislation embracing such a feature. But in any event there would seem to



be insuperable difficulties in collecting such a tax. The bill provides that the Board may require every person engaged in processing or in purchasing any of the five basic commodities "to file returns under oath and to report, in respect of his processing or purchasing of such commodity, the amount of equalization fees payable thereon and such other facts as may be necessary for the payment or collection of the equalization fees; to collect the equalization fee from the producer and to account therefor; and to issue to the producer a serial receipt for the commodity". Every person who fails to account for such "equalization fee" shall be liable for such fee and to a penalty of one-half the amount of such fee.

It is necessary only to remember the multitude of transactions which take place each year in the sale of cotton, corn, wheat, cattle and swine, to realize how vast would be the machinery necessary for the auditing of such returns, the collection from the farmer of such a tax and for its transmission to the "equalization funds" in the hands of the Farm Board. The intricacies of the income tax and prohibition enforcement appear simple by comparison.

What would be the net result of all this effort? In the end, the farmer might receive, if the plan worked successfully, a small increase in the price of his commodities. But in order to accomplish this result, the bill sets up a cumbersome machinery, involving not only the fixing of prices by the Farm Board, but a control on their part over the agricultural industry and a power in levying taxes never before given to any board or agency of the Government in this country.

The bill imposes upon the Farm Board the responsibility for determining what is a "fair and reasonable price" for the five basic commodities and their food products. It is provided that, in contracting with cooperatives or cor-

porations or other dealers in these commodities, no payment of losses shall be made by the Board unless the purchase is made at a price which, in the opinion of the Board, is not in excess of a fair and reasonable price; and no sale shall be made in respect of which a loss would be sustained unless such sale is authorized by the Board. Furthermore, it is provided that advances by the Board shall be payable on demand whenever the Board finds "that the market price in the principal markets of the United States for the basic agricultural commodity, or its food products, in respect of which the advance is made, is in excess of a fair and reasonable price". Under these provisions it would be necessary for the Board to enter into or approve a vast number of contracts, necessitating the employment of an enormous bureaucratic staff of government lawyers, auditors and inspectors. From a practical standpoint, I am unable to see how any Board, no matter how able or efficient, could possibly arrive at a proper determination of a "fair and reasonable price" and the many other complex questions assigned to them. This is particularly true in view of the variety in quality and standards of products which must be dealt with under the terms of this bill.

The purchasers and processors of farm commodities are to be reimbursed for any "losses, costs and charges" sustained in removing the surplus from the market and maintaining in this country a price in excess of world markets. This is in effect a guarantee by the Federal government against loss from storage at home or sale abroad. As our past average exports alone of the five basic agricultural commodities has been about \$1,500,000,000 per annum, it is possible to get some idea of the extent of financial liability which the Farm Board or the Government will incur under the guaranty provisions of this bill.

In the end it seems to me that the bill will defeat the very purpose which it seeks to accomplish. The chief obstacle to farm prosperity is avowedly the disposal of the surplus. The payment of a subsidy or the levying of an "equalization fee" or the artificial increase in any other way of the price of farm commodities, will inevitably result both in stimulating further production on the part of the farmer and in decreasing consumption on the part of the buying public, thus bringing about a still greater surplus of products. Furthermore, if a subsidy of this kind is given to five agricultural commodities, the Government could not logically refuse to give the same treatment to the textile, boot and shoe, coal and other industries which are finding some difficulty in disposing of their surplus products.

In general a surplus is taken care of by a decrease in production or by an increase in consumption. The natural result of the proposed bill will be to increase production through higher prices for the particular commodities dealt with in the bill, and for the same reason to decrease demand. That is, the bill proposes to correct an economic condition by ignoring two of the most powerful economic laws, which in the long run must control. It seems to me that we can advance further in aid to the farmer if we try to work with and not against the teachings of experience.

A way out of the difficulties lies in the elimination of waste between the producer and the consumer, so that the farmer may receive a higher net price and yet the ultimate consumer may not have to pay more. This purpose can be approached through more orderly marketing and cooperation. The second way is to increase the demand for our surplus and thus raise the price, not to our consumers alone but to the world.

Farming differs from most industries in that the output largely fixes the price, whereas in manufacturing the price largely controls output. For this reason, it would seem desirable to find some method not only of adjusting production, but of distributing and marketing products in the most efficient manner possible. Perhaps cooperative marketing to the extent that it can be developed, may help to solve the farmer's difficulties. There are, of course, many inherent weaknesses in cooperative marketing, particularly when great and widely spread industries, such as cotton, wheat, corn and livestock, must be organized. But it is along this line, in working out the best methods of distributing and marketing, that the Government can be of most help to the farmer.

Some of the measures which have been introduced for this purpose and are now pending in Congress attempt to place upon the Government too much financial responsibility for organizing, capitalizing and assisting business operations of doubtful merit. If public funds are to be employed, the same care should be exercised as would be taken by the average business man in using his own capital. They should not be thrown away as a bonus or subsidy to promote enterprises which could never succeed on their economic merits.

I believe there is a large field for the improvement of our farm conditions in the improvement of world conditions. An increased demand abroad betters prices here without throwing the entire burden, as the bill proposes to do, on our own people and in favor of the foreigner. War increased production in America but the after effects have left many of the countries of Europe with currencies of rapidly diminishing external purchasing power. Europe is indeed our best customer. It is in the real interest of the American farmer that the American Debt Commission has negotiated settlements with the debtor nations clearly within their ability to pay. This is but one step in the restoration of monetary stability but it does represent a great constructive work and one which the Administration has now practically concluded.

America's further aid cannot be governmental but depends upon the intelligence and courage of our bankers and investors in giving assistance to those countries willing to help themselves with a sound program of stabilization. I feel confident that within another year many of the nations whose buying from us is not paralyzed by a demoralized currency will have recognized and adopted plans for permanent

restoration of stable money. With this reform the purchasing power of Europe should increase and with it the demand for, and the price of, our surplus.

In conclusion, I do not believe the principles contained in the bill now under consideration are sound or that the plan proposed would prove either workable or beneficial to agriculture. The unfortunate condition in which many American farmers find themselves today will be aggravated, not improved, by unsound legislation. We cannot successfully oppose fundamental economic laws.

Sincerely yours,

A. W. MELLON

Secretary of the Treasury.

Hon. Gilbert W. Haugen,  
Hon. L. J. Dickinson,  
Hon. Daniel R. Anthony, Jr.,  
House of Representatives.

TREASURY DEPARTMENT.

FOR RELEASE, MORNING PAPERS,  
Saturday, June 19, 1926.

Speech of  
Hon. A. W. Mellon  
Secretary of the Treasury  
at the unveiling of  
The Robert Morris Memorial  
in Philadelphia  
on June 18, 1926.

## The Financial Policy of Robert Morris.

Few men are indispensable, but in American history there have been at least three whose work was essential in giving the nation the form in which it exists today. Washington founded the nation. Hamilton gave us our Federal Union and prevented our growth as a collection of petty sovereignties. And Robert Morris, by his patriotism and financial genius, not only <sup>helped to</sup> ~~make~~ possible the military success of Washington but laid the foundation for Hamilton's later work and, with Washington and Hamilton, was instrumental in taking the steps which led to the Constitutional Convention and the formation at last of a strong National Government.

So accustomed are we to the smooth functioning of that Government today, that we are apt to underestimate the difficulties of the men who carried through the Revolutionary War. We are prone to forget that our present Governmental institutions had not then come into existence and that Morris, as Financier of the Revolution, was forced to solve his problems without the aid of a sound currency or a tax system that was effective in producing revenue, or even an adequate Government organization or a strong central authority.

The people of the thirteen States were patriotic and loyal in their support of the War, and the army fought with a courage and patriotism that have never been excelled. But Congress possessed no power to levy or collect taxes, and could make only recommendations and appeals to the States for contributions. Even today, with all the prestige of a firmly established and efficient National Government and with the strong sense of nationality which has grown up with it, we most assuredly could not secure the funds needed by the Treasury if we depended upon voluntary contributions from the State Governments.

At first the Continental Congress attempted to raise funds by issuing vast quantities of paper money in the belief that it would be given value by mere



patriotic sentiment. Morris constantly remonstrated with Congress against the practice of issuing such currency without silver back of it. But Congress passed laws, providing severe penalties for those who refused to accept the paper money at face value and continued the practice of trying to raise funds in this way.

From 1775 to 1779, the notes which Congress issued steadily depreciated in value as there was no reasonable prospect for their redemption. At the end of the latter year the paper currency had become practically worthless and Congress was obliged to stipulate that taxes could be paid in corn, flour, meat and other supplies needed for the army. But the storage and transportation of such a cumbersome medium of exchange increased the difficulties of carrying on the war. Meanwhile Washington desperately needed funds to move his army to Virginia, where he planned to strike his next blow against Cornwallis with the expectation of breaking the backbone of British resistance.

Such was the situation when Congress turned to Robert Morris as the one man whose financial skill and standing in the business world qualified him to bring order out of financial chaos. Morris was a partner in the great commercial house of Willing and Morris in Philadelphia, and was perhaps the leading merchant of the country. He had signed the Declaration of Independence and taken an active part in the prosecution and particularly in the financial operations of the war.

Congress abolished the Treasury Board which had managed the finances and on February 20, 1781, elected Morris to the newly-created office of Superintendent of Finance. In writing to him at this time, Hamilton said: "It is by producing order into our finances, by restoring public credit, not by winning battles, that we are finally to gain our object." General Washington himself wrote to a Congressman: "I have great expectations from the appointment of

Mr. Morris, but they are not unreasonable ones, for I do not suppose that by any magic art he can do more than recover us by degrees from the labyrinth into which our finances are plunged."

Morris accepted the appointment with extreme reluctance, knowing that he would be expected to make bricks without straw. But he had also a clear conception of his office and its possibilities. He determined to be not merely Superintendent of Finance of a loose alliance of independent States, but "Financier of the United States". He early perceived the importance of achieving a union of the States, because he knew that in no other way could adequate revenues be raised. Furthermore he realized, as did Hamilton, that financial reform could play an important part in bringing about such a union, as indeed it did several years later.

It is interesting to note the outlines of Morris' financial policy. They were, first, to institute retrenchment and substitute business methods in Government for the loose and wasteful administration by boards and committees; second, to give adequate financial support to General Washington in his military operations; third, to provide a constant and permanent revenue by establishing a tax system under which Congress could levy duties on imports; and fourth, to found a bank through which the Government funds could be utilized for the establishment of public credit.

He relied upon securing loans from abroad, and particularly from France, as the only means of obtaining funds until money could be realized from taxes. The usual method pursued by Congress was to draw bills of exchange on Franklin at Paris and on its other representatives abroad, who managed by the utmost exertions to borrow from governments or private individuals the funds needed to meet these drafts when they were presented for payment.

It was from this source that Morris obtained the funds for organizing the Bank of North America, which opened for business in Philadelphia early in 1782. Meanwhile, Cornwallis had surrendered; but it was deemed inexpedient to disband the American Army until the intentions of England could be known. The States had refused their consent to the imposition of import duties by Congress, and practically no funds were available from taxes with which to pay the army before it was disbanded.

Congress again turned to Morris in its dilemma. It requested him to devise some method to meet the situation, and suggested that further funds be borrowed from France. He refused to borrow more money abroad unless an adequate system of taxation and debt funding were adopted for the repayment of the loans; and, as no measure could be agreed upon in Congress, he resigned his office as a means of impressing the gravity of the situation upon Congress and the country. He was induced to continue in office for some time longer and to carry through an issue of notes to provide the payments due to the army. These notes were distributed to the soldiers, who were then disbanded and Morris set about the difficult task of raising funds to meet the notes when due. After the utmost exertion he succeeded in retiring most of the notes and on November 1, 1784, resigned from the office of Superintendent of Finance, having served his country well through the most difficult years of its history.

Morris' public service did not end here. He soon saw that the union of the States, which had been achieved at such cost during the war, was about to be destroyed in the inevitable clash of conflicting State interests. This was particularly true as regarded the police and tax regulations of the waterways common to two or more States. There was a collapse of credit and currency, so that at last conditions pointed to the calling of a convention which should form "a more perfect union".

In the autumn of 1786, representatives of the various States met at Annapolis to discuss questions of customs duties, navigation and currency; and out of this meeting grew the Constitutional Convention, which convened in Philadelphia in May of the next year. Morris was one of the delegates from Pennsylvania and Hamilton came from New York. It was agreed, before the Convention met, that Washington was to be its presiding officer. As Franklin, who was to nominate him, was ill, this pleasant duty fell to Robert Morris. Washington was unanimously elected, and was escorted to the President's chair by Morris and John Rutledge.

From this Convention emerged the Constitution of the United States - that great charter of our liberties and one of the greatest documents of all time. The way was cleared for the election of Washington as President of the United States and the enactment of those constructive measures during his administration, which gave life to the Constitution and firmly established the Federal Government along the lines on which it operates today.

In these matters, as in the critical days of the war, Washington always had the strong and loyal support of Robert Morris. In any estimate of his achievements, Morris must be ranked as one of the nation's builders; and, in erecting this memorial to him, we are giving a belated but grateful recognition of the debt which we owe to one of the country's really great men.

June 30, 1926.

Dear Mr. Chairman:

I have the request of your Committee of June 24, 1926, for my comments on S. 4506, "to provide for the refund to taxpayers of the surplus in the Treasury and to provide for the reduction of admission, automobile, and other taxes in the event of an anticipated surplus during the fiscal year 1927".

The purpose of this bill, as stated in its title, is to distribute "the surplus in the Treasury" by way of a refund to income taxpayers. It apparently contemplates the existence in the Treasury of a cash fund in excess of the requirements for the current operations of the Government. This view is a misconception of Treasury "surplus". The surplus of any fiscal year is the excess of governmental receipts over governmental expenditures chargeable against such receipts. If there was no national debt the surplus would pile up in cash and a fund would exist to distribute. The United States, however, owes to-day over  $19\frac{1}{2}$  billion dollars. During the present fiscal year there have been debt maturities in September, December, March and June. On each of these quarterly maturity dates, the Treasury taking into consideration (1) the amount of cash in the general fund (2) the government receipts which may be expected in the succeeding quarter, (3) the amount of cash necessary to pay maturing obligations, and (4) the probable expenses of the government through the next quarterly period, borrows only enough new money to meet the maturing

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obligations and to pay the expenses of government for three months. If receipts are exceeding expenditures, less of new securities are sold than the amount of old securities maturing and paid off. The effect is automatically to apply the surplus to debt reduction. For example, on the 15th of June of this year, the Treasury had some 333 million dollars of certificates maturing, but with the cash then in the general fund plus the expected income taxes and other receipts for June and the succeeding two months, the Treasury found that it could retire these certificates and pay the government expenses to the next borrowing date in September without a new flotation of securities, and therefore no new securities were sold in June to replace the 333 million dollars paid off.

By the close of this fiscal year on June 30th, the entire surplus will have gone into debt reduction and we will have in the general fund about 215 million dollars, which is substantially the same as we had in the general fund a year ago. This 215 million, with the receipts for the next two months, is only sufficient to pay regular government expenditures into September. If the proposed bill were passed and refunds made, the refunds would not come from surplus, since such surplus does not exist in cash, but the Treasury would be obligated to go into the market and borrow new money to pay the refunds.

Section 2 of the bill provides that the Joint Congresssional Committee shall investigate and determine "the amount of surplus that will be available on June 30, 1927," and "shall recommend to the Ways and Means Committee of the House an immediate consideration of legislation reducing or repealing" certain taxes to the extent that the anticipated surplus will warrant. The surplus to be examined is that for the fiscal year

1927. The taxes to be reduced are not only taxes to be collected in 1927 but presumably taxes to be collected in 1928 and subsequent years. In other words, it is proposed to make a permanent annual reduction in revenue based on an excess of receipts over expenditures in one fiscal year. If there should be an estimated surplus of \$100,000,000 in 1927 but none in 1928 or subsequent years, the Committee is required to recommend a reduction in taxes of \$100,000,000, which would leave 1927 accounts balanced but would mean a deficit in 1928 and every year thereafter. It would be fatal to an orderly handling of government revenue to base any permanent reduction on one year's figures. Before again reducing taxes, Congress should consider revenues and expenditures not for one year but for several years.

There are non-recurring items of government receipts which have increased our revenues in the past and will be less material in the future. Upon termination of government control, large loans were made to the railroads. This investment is being repaid. Last year we received 144 million dollars of revenue on this account. This year it was 37 million, and since most of the strong roads have paid we may expect less in the future. The War Finance Corporation is in process of liquidation. Last year it paid the Treasury some 43 million dollars in excess of expenditures. This year 20 million. In order to assist the Farm Loan Banks the Treasury invested 196 million in Farm Loan bonds. This year 28 million of bonds were repurchased from the Treasury, and early in the next fiscal year the Farm Loan Board expects to pay off

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another 43 million, leaving but 17 million to be realized on during the remainder of the fiscal year 1927 and thereafter. Back taxes, that is, taxes collected upon an audit of returns for past years, have brought in over 300 million of revenue, but as the Internal Revenue Bureau becomes current this item will be most materially reduced. Through these non-recurring receipts a surplus might be shown in 1927 which would not occur again.

If we take into account what may be considered the recurring government receipts from taxation, even then it cannot be safely assumed that because 1927 shows a surplus 1928 will show the same surplus. Income taxes peculiarly reflect general conditions. If the country is prosperous, the taxpayers make money and the government revenue therefrom is large. If a decline in the high level of business in this country should take place, government receipts from income tax must fall off. Customs also are affected by changes in trade conditions. So much for the receipt side of the government accounts. Any change in expenditures, of course, affects the surplus. Expenditures, therefore, must also be considered not only for the year 1927 but for subsequent years.

I am of the opinion that the proposed bill does not represent a sound approach to our taxation problems and I am therefore opposed to it.

Very truly yours,

(Signed)

A. W. MELLON

Secretary of the Treasury.

Hon. Reed Smoot,  
Chairman,  
Committee on Finance,  
United States Senate.



Treasury Department.  
June 30, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES OUTSTANDING MAY 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds.
States, counties, cities, etc.	13,914,000,000	2,087,000,000 <sup>(1)</sup>	11,827,000,000
Territories and insular possessions	151,000,000	22,000,000 <sup>(2)</sup>	129,000,000
United States Govern- ment	2,168,000,000	669,000,000 <sup>(3)</sup>	1,499,000,000
Federal land banks, intermediate credit banks, and joint-stock land banks	1,701,000,000	67,000,000 <sup>(4)</sup>	1,634,000,000
<b>Total May 31, 1926</b>	<b>17,934,000,000</b>	<b>2,845,000,000</b>	<b>15,089,000,000</b>
<b>Comparative totals:</b>			
April 30, 1926	\$17,816,000,000	\$2,833,000,000	\$14,983,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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.

July 8, 1926.

*not released*

Dear Mr. Witherow:

I have your letter of June 16th in connection with farm relief and the tariff. The subject is one which might be discussed at great length, but I think the essential elements are these:

Our tariff policy has been mainly responsible for the development of manufacturing in America. Our tariff policy and our immigration policy have brought to labor the highest real wages in history. The development of manufacturing has been accompanied by improved methods and quantity production, and we have been able to make and distribute at a relatively low price considering the high cost of labor. In many lines we more than meet foreign competition with its low labor costs. In turn, high wages have created a great consuming population which has been the principal factor in our reaching quantity production and thus low costs. A study of the industries in this country shows a very small margin of profit per unit and large profits in the aggregate possible only through large turnovers. So much for the reasons which, I think, account for the present exceedingly prosperous condition generally of the country.

Coming now to the effect of these conditions on the farmer, I believe it is true that (a) practically all of the farmer's purchases of materials are on the free list: for example, fertilizer, binder twine, and gasoline; (b) as to the manufactured articles he

buys, the farmer shares with the rest of the country in their relatively low price by reason of the efficiency of our industry and labor: for example, agricultural implements, tractors, and telephones; (c) the enormous consuming power of the American people and the high standard of living give him a large market for a great many of his products: for example, meat, butter, fruits, and vegetables; (d) for what the farmer himself produces he has all of the tariff protection he can ask.

Where the farmer may complain that the tariff is responsible for his present condition is in the cost of labor. I believe, however, that the farmer benefits more indirectly by the increased purchasing power of the country through high wages than he loses directly through having to pay these wages to his employees. Those who argue that the tariff must be eliminated in order to restore the farmer to what they say is his relative position in the country are in the final analysis not trying to raise the farmer to the standard of prosperity of other classes, but seek in reality to reach their desired equality by destroying the prosperity of these others so that all will occupy the lower level.

It may be urged that the McNary-Haugen bill in what it seeks to accomplish for the farmer does not differ from what the tariff has done for industry and labor. There are, however, these very practical distinctions: The McNary-Haugen plan is quite unworkable from an administrative standpoint. The tariff is extremely simple of administration. The McNary-Haugen plan contemplated a contribution from

the Treasury of \$250,000,000. The tariff brought into the Treasury in the fiscal year just closed \$580,000,000 of revenue. You may think this latter distinction unfair and that the taxpayers owe a duty to the farmers, but you cannot avoid the fact that none of the plans yet presented for farm relief is workable.

I do not believe that any permanent good can come to the farmer, or to anyone else, through legislation which won't work or which is economically unsound. I do not mean to be simply destructive. I have wished to find some way for a readjustment to meet the farmer's complaints. I don't think this way lies in legislation. A great part of the farmer's difficulties arose from the purchase of land at prices which showed a return during the inflation of the war period, but yield no adequate return at prices to-day. Certainly 90% of the banking difficulties in the West are directly and solely attributable to loans on lands at inflated prices. There may be a similar difficulty with banks in Florida, but if it does occur, we will not call it a farm question or blame it on the tariff. The deflation in farm lands will have to be worked out just as industry worked out its deflation in 1920 and 1921. With the prices of farm lands back to a reasonable basis and with the banks in the farming communities again liquid, I think a great part of the complaint we now hear will disappear.

Much can be done in improved marketing methods which will eliminate the present enormous waste between the producer and the ultimate consumer.

I agree with you that the time is perhaps not yet ripe for country-wide cooperative organizations and that legislation along that line might result in failure, but through education and the smaller cooperatives headway can be made.

I think, too, it would be well if there were more appreciation of the benefits which the farmer would receive from a stabilization of Europe. One cannot do much if one's best customer is insolvent, and countries with unstable currencies will not be purchasers of the surplus which we have to sell. This restoration of sound conditions abroad requires America's help, and a broader understanding in this country of its real importance to us would hasten its realization.

I have been much interested in your letters. They show an intelligent consideration of the questions discussed which differentiates them sharply from a great part of the mail which comes to a public official. You have thought over these questions. I should like you to tell me what is the fundamental difficulty with agriculture and in what practical way this difficulty can be removed.

Yours sincerely,

(SIGNED) A. W. MELLON

Secretary of the Treasury.

James M. Witherow, Esq.,  
Court Commissioner, Clay County,  
Moorhead, Minnesota.

July 15, 1926.

*Not released*

Dear Mr. Witherow:

I hope you will pardon my delay in answering your letter of June 16th, in which you comment on the recent primary elections in Pennsylvania. I deprecate, as do you, the excessive use of money in a campaign, but I should like to have you see the situation with which we were confronted at the last primary so that you may judge whether in all the circumstances there is occasion for criticism.

My home is in Pennsylvania and my interest in this election was more in the State than in the national ticket. Senator Pepper had made a fine record in Washington which entitled him to a renomination. He is a man of sterling character and we supported him to the best of our powers, but his defeat for nomination does not seriously affect the Administration in Washington. In the national government we have now a sound policy of economy. On the other hand, extravagance and waste in State and local governments are the most disturbing features which today threaten America and menace industry and agriculture alike. We need in Pennsylvania a sound State government and an efficient and economic administration. We cannot afford loose spending and the inevitable increase of local taxation. What State can?

The leaders of the regular Republican organization in Pennsylvania proposed for nomination a State ticket which in the opinion of many of us did not represent the best men which we believed Pennsylvania should have, and we wished, therefore, to put another State ticket into the field which could be relied upon for an economic administration. The work before us was to obtain the nomination of this ticket at the primaries against a

smooth-working machine, organized throughout the State, and with candidates running on a wet platform, towards which the voters in our large cities were most friendly.

Pennsylvania has a population of over nine million. It has about the combined populations of the States in your Northwest of Minnesota, North and South Dakota, Kansas, Idaho, Wyoming, Montana, Nebraska and Colorado. It had a total registered vote in 1925 of 3,245,000, of which Republicans constituted something more than two-thirds, or 2,238,000. Our first problem was to develop a new organization in each county throughout the State. We felt, as do most men who are seeking a change in existing political control, that we must increase the registration. Many decent citizens regard registration and voting as a bore, and this apathy must be overcome by persistent and personal appeal. Through our efforts and those of other Republican factions we increased the registration by 450,000 Republican votes, or more than Coolidge's vote in Minnesota in the last election. As the campaign progressed, one of the three factions ran full page newspaper advertisements, and, of course, the others had to meet this competition. Publicity, of which the greater part was newspaper advertising, represented \$1,298,000 of the total expenditures of \$2,800,000 reported by the Senate Investigating committee. At the primaries themselves watchers had to be employed to see that Republican ballots were given to Republican voters only. As you know, it is a common practice in a sharply contested primary for the other political party to participate in the fight, and this had to be guarded against, and these watchers, for this purpose, are specifically authorized by State law.

The whole situation was unusual from a political standpoint. It is not often, in Pennsylvania at least, that a ticket in opposition to a

large element of the leading, old-time political machine, strongly entrenched in the cities, has been able to fight its way successfully through the primaries. Faced with this situation at the beginning of the campaign, we had to decide between the alternative of accepting in advance the defeat of our ticket and of our idea for State government, or of entering energetically and effectively into the campaign, supporting our candidates and protecting the voting. If our form of government requires that the direct primary continue as an element of democracy, then we must either leave any political machine once entrenched in a State permanently in power, or those who wish to change must be permitted to expend funds legitimate in character and reasonable in amount considering the number of possible voters.

As to the expenditures themselves, I have naturally been informed only as to the ticket we were supporting, and I feel confident that the expenditures were entirely legitimate and not excessive. As a matter of fact, the total expenditures of the Pepper-Fisher campaign were \$1,800,000 which represents less than 50¢ for each registered voter in the State in a three-cornered fight and with extensive newspaper advertising. While the amount might be thought large, it is, as you see, only large in the aggregate and not as compared with the size of the State and the complexity of the problems of the campaign. The contributions to the Pepper-Fisher campaign came from no one class in the State, but were very generally distributed throughout the State, and a large part were made locally in the counties.

Very truly yours,

(Signed) A. W. MELLON

Secretary of the Treasury.

James M. Witherow, Esq.,  
Attorney at Law,  
Dorhead, Minnesota.



TREASURY DEPARTMENT  
August 10, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES

OUTSTANDING

June 30, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held out- side of Treasury and sinking funds
States, counties, cities, etc.	\$14,028,000,000	\$2,104,000,000 (1)	\$11,924,000,000
Territories and insular posses- sions	152,000,000	22,000,000 (2)	130,000,000
United States Government	2,168,000,000	670,000,000 (3)	1,498,000,000
Federal land banks, intermediate credit banks, and joint- stock land banks	1,712,000,000	65,000,000 (4)	1,647,000,000
<b>Total June 30, 1926</b>	<b>\$18,060,000,000</b>	<b>\$2,861,000,000</b>	<b>\$15,199,000,000</b>

Comparative totals:

May 31, 1926	\$17,934,000,000	\$2,845,000,000	\$15,089,000,000
Dec. 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States  
and also the amount owned by the United States Government.

TREASURY DEPARTMENT  
September 3, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
July 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$14,062,000,000	\$2,109,000,000 (1)	\$11,953,000,000
Territories and insular posses- sions	153,000,000	23,000,000 (2)	130,000,000
United States Government	2,164,000,000	670,000,000 (3)	1,494,000,000
Federal land banks intermediate credit banks and joint- stock land banks	1,738,000,000	64,000,000 (4)	1,674,000,000
Total July 31, 1926:	\$18,117,000,000	\$2,866,000,000	\$15,251,000,000

Comparative totals:

June 30, 1926	\$18,060,000,000	\$2,861,000,000	\$15,199,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States and  
also the amount owned by the United States Government.

TREASURY DEPARTMENT  
October 21, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
August 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$14,101,000,000	\$2,115,000,000 (1)	\$11,986,000,000
Territories and insular possess- ions	153,000,000	23,000,000 (2)	130,000,000
United States Government	2,164,000,000	670,000,000 (3)	1,494,000,000
Federal land banks, intermediate credit banks, and joint- stock land banks	1,754,000,000	13,000,000 (4)	1,741,000,000
Total August 31, 1926.	\$18,172,000,000	\$2,821,000,000	\$15,351,000,000

Comparative totals:

July 31, 1926	\$18,117,000,000	\$2,866,000,000	\$15,251,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States and  
also the amount owned by the United States Government.

Secretary of the Treasury Mellon today made the following statement on the tariff question:

There has recently appeared in the press of the world a "Plea for the Removal of Restrictions Upon European Trade", signed by many bankers of the European countries and some of the bankers of this country, stating that tariff barriers, special licenses, and prohibitions imposed in Europe since the war interfere with international trade and prevent it flowing in natural channels and should be removed. The fact which gave rise to this situation is the break-up of the old political units and the rearrangement of the Continent along ethnical and not commercial lines. For example, the Austro-Hungarian Empire was a commercial, manufacturing and agricultural whole. To-day Austria with its plants, banking facilities and railroads, is cut off from both its markets and its sources of raw material. We have a brain without a body. It is just as if we should make New York City with the southern portion of New York State and the States of Connecticut and Rhode Island a separate country. The city would be too large for the territory which it could reach and the rest of the United States would be deprived of that intensive manufacturing and financial center.

The situation in Europe since the war is different from the situation in America. The two would only become comparable if we should consider each of the 48 States a separate nation, each having its own tariff, its own railroads, its own currency, and its own language. Under such conditions the industrial power of the United States must and would end. What the plea of the bankers seeks to accomplish in its final analysis is not a change in the world but to bring about in Europe a condition similar to that in the United States. It is not criticism of us but emulation.

Nevertheless our public thought and some of our press argued that because artificial barriers hinder readjustment in Europe we must change our tariff policy; but one cannot take a policy, which is essential to the relief of Europe under conditions arising out of the war, and say that this policy is proper for the United States, unless it can be established that conditions are the same. Conditions are not the same. The purpose of the policy in Europe is to provide a territory large enough to contain raw materials, manufactures and a market so that industry may function where coal and iron and laborers are convenient and food may be produced where conditions for its production are favorable. No such limitation exists in the United States. We do not have to put a steel plant in Kansas or grow wheat around Gary, Indiana. We have one transportation system; we speak one language, and we have one kind of money among 120 million people in an area the size of most of Europe outside of Russia.

But there is a still greater distinction between Europe and the United States. It is true there are different nationalities and different languages on the Continent, but, generally speaking, the standard of living among the principal nations abroad is about on the same level, just as the standard of living of the people of the United States is about the same, whether residents of Texas, or Minnesota, Massachusetts, or California. But the standard of living of Europeans is quite different from the standard of living of the United States. Unless we are willing to bring our standard in America down to the level of that of Europe, we cannot consider a change in our tariff however desirable such a change may seem to Europe.

Our tariff policy has been mainly responsible for the development of manufacturing in America. Our tariff policy has brought to labor the highest real wages in history. The development of manufacturing has been accompanied by improved methods and quantity production,

and we have been able to make and distribute at a relatively low price considering the high cost of labor. In many lines we more than meet foreign competition with its low labor costs. In turn, high wages have created a great consuming population which has been the principal factor in our reaching quantity production and thus low costs. A study of the industries in this country shows a very small margin of profit per unit and large profits in the aggregate possible only through large turnovers. These reasons, I think, account for the present exceedingly prosperous condition generally of our country.

Again, as I have said, the statement appears to be directed to European and not American conditions. Still, the appearance of the statement has been the occasion for an attack on American policies upon the assumption that our tariff is harmful to the restoration of world prosperity. I should like, therefore, to state my views on American tariff policy.

When the present tariff measure was in process of enactment, it was freely predicted that its passage would seriously restrict foreign trade, particularly import trade. Some extremists contended that the proposed rates were prohibitive and would result in a virtual embargo on commerce. The tariff law has now been in operation for four years and its influence on commerce is no longer a guess. With disregard of the facts, statements are still being made that foreign countries at the present time are unable to sell in the American market. This is not a fact. During the fiscal year which ended June 30, 1926, merchandise with a total value of nearly  $4\frac{1}{2}$  billion dollars was imported into the United States. With due consideration to unit values, this represents a larger volume of imports by a very considerable margin than has ever been brought to the United States in any preceding twelve-month period.

The trend of trade during the past few years convincingly confirms the contention that the volume of imports is controlled by the purchasing power

of the nation, rather than the rate of import duties assessed. An unparalleled combination of high wages and industrial activity has raised the purchasing power of the people of the United States to new high levels, which has brought about increased consumption of commodities of practically every description. A study of the consumption of the more common commodities in the United States in comparison with the total world production shows what America means to the rest of the world.

During the calendar year 1925 the world production of coal amounted to 1,500,000,000 tons. The United States' consumption of coal amounted to 566,000,000 tons. In other words, with slightly over six per cent of the world's population, the United States has consumed 37 per cent of the total world's coal production. In pig iron the percentage of world production consumed in the United States was 48, in copper 46, in rubber 75, in coffee 51, in petroleum 75, in tin 52, in raw silk 77, and in nitrate 48. British India exported during the fiscal year ending March 31, 1925, 42,000,000 pounds of shellac. Of this total, 21,000,000 pounds entered the United States. Shellac is an almost exclusive product of British India, and 50 per cent of the total exports found their way to the United States.

That the six or seven per cent of the world's population who live in continental United States should supply a market for such large proportions of the world's total production of principal commodities is a consideration of greatest importance to the world's commerce, industry and the employment of labor. No economic survey of world conditions can reach correct conclusions unless this major factor -- the high purchasing power of the United States -- is taken into account and its effect intelligently understood.

Whether the economic policies of the United States, our industrial activity and prosperous conditions are of benefit to foreign countries can best be determined by analyzing the possible effect on other nations of a reduction of the per capita consumption of commodities in the United States

to the world average. If, for example, the consumption of rubber in the United States should be reduced to the world average, it would mean that there would be no market for more than 50 per cent of the world's present production. It would mean bankruptcy to certain dependencies whose livelihood is predicated almost exclusively on the rubber industry. A reduction in the consumption of coffee in the United States to the world level would wipe out the market for some 40 per cent the world now produces, and would cause great financial losses to Brazil. A reduction in the consumption of sugar in the United States to the world level would bring financial ruin to Cuba, and likewise a reduction in the consumption of wool would adversely affect Australia. As the United States' consumption is 77 per cent of the world's production of raw silk, a reduction in the consumption of raw silk to the world's per capita average would destroy the market for 70 per cent of the silk produced. A reduction in the consumption of nitrate in the United States would injure Chile, and a reduction in the United States in the use of shellac would cause financial reverses in British India. American money going to Japan for the purchase of silk, to Brazil for the purchase of coffee, to Cuba for the purchase of sugar, to Chile for the purchase of nitrate, and to British India for the purchase of shellac, enables these countries to increase their purchases from European countries, as well as the United States.

An individual out of employment, generally speaking, is without purchasing power and is a detriment, rather than an asset, to his community. Likewise, a nation out of employment is a detriment to the rest of the world. Conversely, a man well employed reflects prosperity and is a benefit to his community; and a nation well employed reflects prosperity on other countries. Pre-eminently the United States is prosperous and by furnishing a market for such amazing proportions of what the world produces is reflecting prosperity on other nations. A fair survey of facts cannot lead to a conclusion other than that the economic policies of the United States, and their resulting



industrial activity and prosperity, have played a leading role in aiding the world to recover from losses and damage wrought by the war.

The tariff law of October 3, 1913, materially reducing import duties, did not become effective as to all its schedules until January 1, 1914, and early in August the outbreak of the world war caused a disruption of commerce. Therefore, the Act of 1913, uninterrupted by war conditions, was in operation for a period of but seven months. A comparison of imports during the seven months ending July 31, 1914, with the seven months ending July 31, 1926, is as fair a comparison as can be made of the effect of the two laws. While imports in general have materially increased during the lapse of twelve years, the kinds of imports, rather than the quantities are of most interest in a study of foreign trade.

In 1914 there was much unemployment, and, compared with this year, the purchasing power of the nation was materially reduced. The value of imports of crude materials for use in manufacturing during the seven-month period in 1914 was less than \$400,000,000, while during the corresponding months of this year the value of this group of imports was \$1,120,000,000. In 1914, this group was 34% of the total, and although the total imports have more than doubled, this year the imports of this group constitute 42% of the total importations. The use of large quantities of crude materials is the necessary result of industrial activity and indicates healthy industrial conditions. In 1914, partly manufactured articles for further use in manufacturing amounted in value to \$180,000,000, or 15% of the total, while this year this group of imports were valued at \$480,813,000, or 18% of the total. This increase was an incidental also to increased industrial activity. Manufactured foodstuffs in 1914 made up 14% of the total imports, while this year the percentage is 9; and of other finished manufactures the percentage in 1914 was 22, and 18 this year. Finished manufactures, generally speaking, are competitive products, and the relatively large imports of 1914 without question

served to aggravate the unemployment situation then existing.

In the light of experience the contention cannot be sustained that reduced duties on competitive products would increase the aggregate quantities of all things consumed in the United States. On the other hand the evidence is most convincing that the converse would obtain. Assuming that temporarily the importation of competitive products would increase with reduced duties and that the consumption of such commodities in this country would not increase but would decline, it would mean but one thing and that is that American labor would be deprived of making these commodities to the extent of the increase in the imports plus the decrease in consumption. The decrease in consumption and the increase in imports would all be at the expense of American industry - it would be at the expense of the purchasing power of this nation and eventually would reduce this country's purchases of foreign products whether competitive or non-competitive, dutiable or free.

Under the present law, generally speaking, competitive articles are dutiable and non-competitive articles free of duty. While imports are steadily increasing, the increases are in the duty-free or non-competitive products. For instance, dutiable imports in 1926 were about one and one half billion, about the same as in 1924, but free imports increased in the three years from two billion to nearly three billion dollars. Under our present American policy, foreign countries are able to sell the United States increasing quantities of the class of things the United States does not produce. As a whole, these increased imports are of a kind that supply the needs of this nation's industries and not the kind that injure such industries by displacing what they produce. No doubt to those who have been misled into the belief that at present foreign countries cannot sell to the United States, the statement that during the fiscal year 1926 no less than 65.2% of the total imports were free of duty is a distinct surprise and the fact that in 1926 imports free of duty exceeded the total of imports both dutiable and free

of the year 1914 by more than 60 per cent is a revelation.

It is apparent that reduced tariff rates would materially change the kinds of imports and the percentages of the various great groups to the totals, but it is anything but apparent that the totals would be increased, and there is much to indicate that the totals would decline. It is fallacy to assume that reduced import duties will enable this country to increase its purchases abroad, for the measuring stick is the nation's purchasing power and not the amount of duty assessed. With business activity and high wages the United States will continue to be of great economic benefit to other nations; but any economic policy, that will occasion unemployment in the United States and reduce its purchasing power, will diminish this country's consumption of commodities and cause large surpluses of the world's principal products and result in serious financial losses to them. A cut in the tariff would materially reduce rather than increase our purchases abroad; it would not enable foreign countries to sell more in the American markets but would prevent them from selling as much; it would not help certain foreign nations to recover from the losses occasioned by the war, but would retard such recovery.

Consider again what our tariff policy has meant to American labor. I know personally of one manufacturing company which has plants in France, in Brazil and in the United States. The wages paid labor to-day at these three plants reduced to American currency are as follows: unskilled labor gets in France  $7\frac{1}{2}$  cents an hour, in Brazil  $12\frac{1}{2}$  cents, in this country 40 cents. Skilled labor  $10\frac{1}{2}$ , 21, and 65 cents, respectively. In other words, a laborer in this industry gets six times more per hour in America than he does in France for the same kind of work. Can it be to the interest of the United States that equality be established by the removal of the protection of the tariff?

As an example I might cite the case of the Aluminum Company of America. The raw product of aluminum is bauxite, deposits of which occur in the United

States, in British Guiana, and in many other countries of the world. The principal cost of the manufacture of aluminum is electric power and labor. The cheapest power in the world is hydro-electric; the cheapest labor is foreign. The Aluminum Company has many power properties in the United States, but others in foreign countries, and the largest power of all is now being developed in Canada. From its plants in the United States the American market is supplied; from its plants abroad the foreign market is supplied. If the present tariff on aluminum is maintained, developments for the expansion of domestic business will be made in the United States. If the tariff be removed, these <sup>developments</sup> will occur in foreign countries and part of the American market be supplied from abroad. The effect of removing the tariff on aluminum would not in the least be to hurt the Aluminum Company but to deprive the United States of the benefit of enlarged manufactory here. Less capital will be invested here and less labor employed.

The same condition holds true of a great many other large manufacturing industries in the United States. If the tariff is taken off, a larger share of manufacturing will be done abroad where the costs are less.

The United States is the largest customer in the world to-day. If we were not prosperous and able to buy, Europe also would suffer. It is inconceivable to me that American labor will ever consent to the abolition of protection which would bring the American standard of living down to the level of that in Europe, or that the American farmer could survive if the enormous consuming power of the people in this country was curtailed and his market at home destroyed.

FOR RELEASE AFTERNOON PAPERS  
Tuesday, October 26, 1926.

Address of

Hon. Garrard B. Winston,

The Undersecretary of the Treasury,

At the Twenty-first Annual Meeting of the

Institute of American Meat Packers,

Chicago, Illinois, Oct. 26, 1926.

As much perhaps as any other industry in the United States the members of the Institute of American Meat Packers are interested in the prosperity of the world and the extension of its markets. Here in America we have a territory great in extent, an unequalled transportation system for the prompt and cheap distribution of products, a population of 120 million with a high standard of living and great individual purchasing power, no artificial barriers, one currency and one language. This market furnishes a consumptive power for your products which permits you to do business on a narrow margin of profit for each transaction. You prosper with the prosperity of America, but you are dependent for the full enjoyment of this prosperity upon the world outside.

Last year there was exported from the United States \$236,000,000 of meat and lard, and an additional \$100,000,000 of hides, leathers and animal oils, a total of a third of a billion dollars. It has never been possible to compile complete figures showing all of the exports in which the packing-house industry participates directly and indirectly, but it is believed that it constitutes at least one-fifth of our total exports. It is, then, the disposition of this surplus which constitutes the real problem in which you as a whole are interested, and it is not the packers alone who are affected by the surplus, but also all producers of livestock throughout the country. If this export can be increased, the demand for livestock will be greater and so will the prices which can be paid to the farmer. So it has always seemed to me that the great agricultural regions of the United States have a very real stake in the restoration of the world to sound conditions.

The manifesto of the foreign bankers which received so much publicity last week applies to European trade barriers in the new states on the continent and

not to the United States. Secretary Mellon discussed this in a statement yesterday, so I shall not go into it here and I cannot, of course, touch on all of the other factors which today work for improvement, but I might sketch briefly some changes in economic conditions abroad since the war and in which we in America have had a share.

Uncertainty is the greatest handicap which any business can have. It puts a direct burden in dollars and cents on every transaction in trade, and its psychological effect is even more harmful. I mention first the currency uncertainty which arose principally from the inability of many countries after the war to bring their finances back to a sound basis.

Modern trade has gone beyond the stage of barter, the exchange of goods for goods, and must use a medium of exchange - currency. No interference with trade occurs even if this currency is of different kinds, provided it is tied to something itself fixed. To do international business easily there should be known within narrow limits just how many francs make a dollar, or how many marks make a pound, not today alone, but when the goods are to<sup>be</sup> paid for. It is like tying a skiff to a stake or anchoring it to the bottom; you know where to find it in the morning. The war over, these skiffs have been let loose and have drifted and continue to drift under the influence of varying currents in all directions. It is necessary to get them anchored again so we may know definitely where they are with reference to the landing. So tying these vagrant currencies back to gold, the standard of the past, is one of the major steps of restoration. This is currency stabilization.

You might well ask what interest it is of the American farmer raising hogs in Iowa that Europe have a stable currency. There is a connection, and it is close. When currency is being inflated, these effects on trade seem to follow: The purchasing power of the currency outside of the country declines more rapidly than its purchasing power at home; the internal value is greater than

the external value, and it pays to buy at home and not abroad. For example, it might take 50 francs to acquire \$1.50 of American money to buy a bushel of wheat in New York, but 40 francs might buy a bushel of wheat in France. The tendency of the country, then, is to decrease its imports and increase its exports. Wages do not increase contemporaneously with the decrease in the value of the currency, so the purchasing power of the nation as a whole drops off. The people can buy less, and the standard of living must fall. Manufacturers are loath to sell because they are not sure they can replace their raw materials with the money that they receive from the sale of their finished products. Every international transaction must bear directly an additional burden to insure against the exchange risk. I hardly need to tell you who have an appreciable time between manufacture and sale in your own business, what it means to manufacture on a falling market. Yet without stable currencies, this is what a large part of the world has been doing. To stabilize is to take the unnecessary burdens off international trade.

Adjustments of instability of currency are primarily in the hands alone of the country involved. It must balance its budget and otherwise put its finances in order. But America has been and can be most helpful in assisting the progress of stabilization and the removal of uncertainty. Let me mention several matters in which we have taken our part: The Dawes Plan is known to all of you, and America's share in its presentation and present management. In its essence it removed from Germany an obligation uncertain in amount and substituted therefor a definite payment for a period of years by Germany within its capacity and in its own currency. The transfer of these payments rests not on Germany, but on the creditors. Germany, therefore, knowing in advance what it has to do, has reestablished the mark on a gold basis, and its progress is most encouraging. Germany began to have again stable currency in the latter part of 1923. In that year its imports from the United States amounted to



\$316,000,000. With a sound financial system, it increased its imports to \$440,000,000 in 1924, and to \$470,000,000 last year. This is proof of the stake we all have in Europe.

After the war the United States held the demand obligations in large amounts of many nations in Europe. These notes of hand could not be paid according to their terms, and it became necessary for America to make adjustments so that definite settlements could be had. The World War Foreign Debt Commission was established by Congress and undertook the negotiation of funding agreements. These are now practically completed. The policy pursued was to treat each debtor nation on the basis of its particular capacity to pay the debt.

The first element was time. We should, of course, have preferred to have the matter out of the way within a generation, but to insist upon a period, brief as nations go, would have been beyond the capacity of any. This very extension of time has been criticized as not an indulgence but a hardship to the debtor nation. No one likes to pay a creditor over a 62-year period. But if the whole debt cannot be paid on demand, what course is open except to extend the period of repayment? This is what we have done in our first settlement, that with England, and similar extensions have been granted to all other nations.

The second problem was the amount to be paid in the earlier years. It is these years that are the most difficult, because post-war readjustments are still incomplete, and it is just here that America has been most lenient. I know of no debtor nation which will not admit that the payments provided for these earlier years are well within its capacity.

Finally, for the later years, it is true that no one can insure the future, but given normal conditions, I believe a true balance has been held between the duty of the Debt Commission to the American taxpayer and fairness towards those nations to which we extended aid during and after the war. We have not cancelled the debt, but we have not insisted upon the impossible. Since these

settlements, England's excepted, have but recently been completed, the American debt has been no burden to Europe in the eight years since the Armistice, and it cannot become too heavy a load in the next few years. Thereafter, much depends upon the progress of the world. With peace and the development of trade internally and externally, these settlements are quite workable. The principal fact, however, is that settlements have been made and a fair trial can be had, not on theory, but in practice. The nations know what should be provided in their budgets. Uncertainty is eliminated.

England was the first to settle its debt and the first of the great nations to tie its currency to gold. For a time after the war America was practically the only great country with a stable currency, and became the recipient of a large part of the world's supply of monetary gold. It was a dangerous situation. A respectable body of opinion in England urged the abandonment of gold as a standard and the substitution of managed currency, but England, wise in finance, recognized that the continuation of its essential position in international trade required a return to the recognized medium of exchange, and boldly re-established the pound upon a gold basis at its old value. This was a momentous decision. It meant that the old standard for financial transactions was to continue and that America was not to be left holding the world's supply of a metal for which the world was seeking a substitute. The Treasuries of the two countries supported this action, but great credit is due to the courage and initiative of two private individuals, Montagu Norman, head of the Bank of England, and Benjamin Strong, head of the Federal Reserve Bank of New York. Without the support of the Federal Reserve Banks, I do not believe that stabilization would have occurred at that time, but participation of the American bankers was also most necessary. As you know, the Federal Reserve Banks extended a credit to the Bank of England of \$100,000,000, and the British Treasury arranged for credits with private American bankers for an additional \$300,000,000. Although England

has now been on a gold basis for a year and a half and has gone through a general strike, it has yet to call on a single dollar of these credits.

Other countries of Europe are approaching stabilization. When plans are announced, we should expect this significant differentiation: in England's return to a gold basis America alone was able to give aid. The next program, however, should have the participation not only of the Federal Reserve Banks here and of private American Bankers, but of other banks of issue and of other private bankers in countries now with stable currencies. So one by one the sticks are being bound together into an unbreakable whole.

You have seen the work of the Federal Reserve Banks which is vital to the stabilization plans of England and of other countries. But these banks deal only with like banks of issue and are only a part of any program. Private American bankers have mobilized the savings of the American people and have, through the tens of thousands seeking investment, given to foreign governments the means to establish and maintain sound fiscal policies. A loan for stabilization is one of the most productive of all borrowings, because it starts the country as a whole moving and lets it go forward. But this, too, must be supplemented. Private loans in large aggregate amount have been floated in the last few years in the United States to reestablish industry abroad and to develop the resources of other countries. In its broad aspect, we are not just building up competition for ourselves, but we are increasing the consuming capacity of our customers. So long as these loans are productive, that is, earn their own interest and principal, they too are an essential and proper step in increasing international trade.

We see, then, that the Administration in its policy of war debt settlement, the Federal Reserve Banks with the banks of issue in other countries, and the American bankers and the American investors are doing their part in removing uncertainties left over from the war and are putting the world again in a

position to buy and sell freely.

America is said to be prosperous. We are prosperous, but the world too must share in that prosperity. Just as America, in the final analysis, is dependent upon a world able to buy, so the world is dependent upon a prosperous America to whom it can sell. If the consuming power of the United States should be cut down, not only would we suffer here in America, but all other nations would feel the loss. We buy from one country, and in turn it may buy machinery from England and wines from France. Our purchases abroad mean that the selling country is provided with funds to buy the products not of America alone, but of every nation. What America needs, and what the world needs, is not disturbed conditions, but sound conditions both at home and abroad; not bad times, but good times. This is only common sense. No business man wants all other businesses in the hands of a receiver.

True progress lies in increasing international trade as a whole. This means raising the standard of living not only of the peoples in Europe, but of all peoples throughout the world. It does not mean destroying the policies under which our own prosperity has been built up. The high wage scale and great consuming capacity of the American worker is of vital importance not only to this country, but to foreign producers. But it is also important that the consumption of other peoples be increased. If we can raise the demand for goods and the means to satisfy that demand, trade must grow. So far, the first field has been the restoration of Europe so that with ordered finances the countries racked by the war may again walk alone and do their proper share in the buying and selling of commodities. We have learned here in America that increased wages mean higher buying power, greater consumption, and more manufactures, so an increase in the standard of living elsewhere means larger demands, more capacity for their fulfillment and more trade for all.

We see constantly encouraging new steps. Headed by a Princeton professor, an American body of experts has just reported on the fiscal affairs of Poland and its chief is off again to some South American country needing advice. A Royal Indian Commission, before whom American witnesses appeared, has just recommended a plan for stable currency in India with the least possible disturbance to the value of silver.

The world seems intent upon economic improvement. Here is an instance. There has been an interesting feature suggested in connection with the workings of the Dawes Plan which may materially help the backward sections of the globe. The most difficult part of the Dawes Plan is transferring payments made to the Transfer Agent in marks by Germany to the reparation creditors in their own currency or its equivalent. To date there are two principal ways in which transfers are made. First, in cash, which necessarily has quite narrow limits; and, second, by delivery in kind, that is, by the delivery of German goods to creditor nations in return for payment to the German seller of marks out of the account which the creditor has with the Transfer Agent. This latter method has taken care of the bulk of the transfers for these first two years of the Plan, but it is open to the objection that the German goods received compete with goods manufactured by the citizens of the creditor and injure the internal trade of that country. A limit may thus be reached as to the amount of goods a country can economically afford to accept. For example, every one thousand tons of coal that Belgium receives as a delivery in kind for reparations due from Germany means just a thousand tons less coal sold from its own mines.

There is now suggested a third method, what has been called "Assisted Schemes". It sounds formidable, but it is really not hard to understand. Instead of making deliveries of merchandise in kind to be sold in the creditor country in competition with goods made there, it is proposed to make such deliveries in capital improvements either in the creditor country or in its

colonies. Belgium needs a railroad in the Congo. It cannot afford the capital and but for the scheme no railroad would be built. Germany furnishes the rails, bridges and equipment and is paid in marks out of Belgian reparation credits. Local labor does the work, and this employment increases the local purchasing power. With the equity of the goods received from Germany most of the cost to Belgium can be covered by borrowing. We have, then, a new country opened up by a capital improvement which would not have been made at all or anyway not in this decade had Belgium had to rely on its own resources. Belgian industries cannot complain, because this will be new business which they never could have had alone. Docks on the Moroccan coast, a hydro-electric plant on the Rhone, "Assisted Schemes" open up ways for the development of natural resources which may well increase the markets of the world.

What has been going on in the world since the war has appeared of such size that it may seem to some of us that the problems are insoluble. We are told that the Dawes Plan can never work, yet in practice, and not in theory, we have actually found under competent management it somehow does work. We are told that it won't work next year or the year after. I prefer to wait and see what can be done through the patience and intelligence of the present Agent General. We are told that great international payments can never be made. They have been made in the past, and they may be going on now without our appreciating it. A weight may be too heavy for some child to move, but when he grows up he can carry it with ease. Suppose twenty years ago you were told the debt of the City of Chicago would increase from 66 million to 176 million in two decades, the debt of New York City from a half to one and a quarter billions, the debt of the railroads from seven to fourteen billions, you would have said that no such debts could be borne and that such a thing was impossible. Yet is not the financial strength of these cities and of our railroads much greater to-day than twenty years ago?

So it has been and will be with nations basicly sound. If the wealth of a country doubles, the real weight of its obligations is halved. The burdens which to-day some say are too great to be carried, may, with the increase of trade and the increase of national wealth, become relatively unimportant. I am not unmindful of the great difficulties of those nations which fought throughout the whole war and have suffered as we have not. But time is not merely a healer of wounds; it is also a solvent of difficulties. Let us remove the uncertainties and see what can be done. We should expect improvement, not fixation, in the world; and I, for one, have faith to believe that we shall meet and solve the problems of the future as we have solved those of the past.

THE PUBLIC DEBT OF THE UNITED STATES.

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An Address Delivered  
by  
Honorable Charles S. Dewey, Assistant  
Secretary of the Treasury,

before the  
Philadelphia Association of Credit Men,  
Philadelphia, Pa.,

at  
the Bellevue-Stratford Hotel,  
Philadelphia, Pa.,  
on Tuesday evening,  
October 26, 1926.

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In opening the address which I shall have the pleasure of delivering to your association this evening, there is one point that I should like to stress, as upon it will hang all of my arguments; to wit, the Government of the United States is a great business conducted under the laws enacted by Congress. We, its officials, trust that with due allowance for the legal restraint placed upon our operations and for the vast army of men and women employed, the results of our efforts demonstrate that efficient methods and good business judgment command the same respect with us as in general commerce and industry.

As you are well aware, the task of financing all of the operations of Government devolves upon the Treasury Department. It is our duty to keep the books and to see that there is always sufficient cash on hand to meet all authorized demands. A few weeks prior to the 15th of each March, June, September and December, we endeavor to determine what our tax receipts will be and what bills we shall have to meet, the latter consisting of maturing security issues and ordinary expenses. The difference between the two we make up by the sale of a new issue of securities, usually of short term, to take the place of the securities maturing. As an indication of the close margin upon which we operate, our average cash working balance is about thirty-five millions of dollars, or about 1% of the three billion five hundred million annual expenditure. With money costing us 4% we cannot afford to have much of it lying idle.

As an example of the increase in Federal expenditures, - for the year 1913 government expenses amounted to \$724,000,000; for the fiscal year 1926, they were \$3,585,000,000. If these two items of expenses are compared and analyzed two striking points will be noted. In 1913 the public debt of the United States amounted to \$1,193,000,000 and the annual interest thereon, which is included

In the 1913 expense item, amounted to only \$22,900,000. The public debt of the United States on June 30, 1926, amounted to \$19,643,000,000, and the service on the debt during the fiscal year was \$1,149,000,000. Of this latter amount, \$832,000,000 went for interest and \$317,000,000 for amortization of the debt under the sinking fund provisions. If we exclude the service on the debt, and take into consideration the increased cost of living and the greater cost of government as a result of expenditures arising out of the war, we find that the budget for the year 1926 compares very favorably with the ordinary expenditures for 1913.

We see then, that so far as economy in government can be achieved, President Coolidge has succeeded in his policy of eliminating all unnecessary expenses. For further reductions in expenditures we must turn to the retirement of the public debt and the eventual elimination of the vast carrying charges which now form so large a part of our annual budget. What is the prospect for doing this?

In the seven years elapsing since the close of the fiscal year 1919 the public debt has been reduced by nearly \$6,000,000,000. Of this amount, \$1,000,000,000 represents a reduction in the cash balance of the Treasury; over \$2,000,000,000 represents a surplus of receipts over expenditures; and the remainder can be accounted for by payments from back taxes, by sinking fund payments and repayments received from the foreign debtor nations. But for the future, we must count largely on the sinking fund and on foreign repayments for the reduction of the debt.

There seems to be some confusion in the public mind as regards the exact operation of the sinking fund. A fund is appropriated each year in an amount equal to  $2\frac{1}{2}\%$  of the aggregate amount of bonds and notes issued under the various Liberty Loan Acts and outstanding July 1, 1920, less the par amount of any obligations of foreign governments held by the United States on that

date. In other words, on July 1, 1920, the amount of Liberty Bonds and Victory notes outstanding was \$19,581,000,000. If we deduct from this sum the par amount of obligations of foreign governments purchased under the several Liberty Loan Acts and held on July 1, 1920, amounting to \$9,445,000,000, it will leave \$10,136,000,000 which represents the larger part, but not all, of moneys spent by our government in the prosecution of the war. The primary credit which will represent the sinking fund is  $2\frac{1}{2}\%$  of this amount or the sum of \$253,000,000. To this primary credit there is added each year the interest which, during the fiscal year for which the appropriation is made, would have been payable on the bonds and notes purchased and redeemed or paid out of the sinking fund each year or previous years. We have, therefore, a sinking fund which is gradually increased each year by the amount of the interest that would have been paid on the securities which we have retired, and it was contemplated that under these sinking fund retirements our domestic debt would be retired by 1944.

It was also expected, when the sinking fund was established, that the foreign loans of some \$10,000,000,000 would be repaid in full; and Congress directed that foreign repayments should go to the retirement of the public debt. In this way, with receipts on account of the sinking fund and from foreign repayments, it was anticipated at the time the sinking fund was established that the entire debt, both domestic and foreign, would be repaid by 1944, or within 24 years from the time that the sinking fund began to operate. The foreign debt, of course, will not be repaid within the period originally estimated. The sinking fund, however, is not restricted to the domestic debt, and will continue to operate until the entire debt is paid. Furthermore, appropriations for the sinking fund have become, both by law and by established policy, part of our annual budget; and the budget can not balance until the sinking fund requirements are provided for. Any other procedure, of course, would make a farce of the sinking fund. Various propositions have been advanced in an attempt either to defeat the operation of the sinking fund or to alter completely the plan of debt retirement originally adopted.

There have been some suggestions made recently that it would be advisable to continue the discharge of our public debt by applying to it merely the cumulative sinking fund payments and using for the reduction of taxes such repayments as are received from foreign nations on account of their indebtedness to the United States. There are many reasons, both legal and moral, why such a course should not be followed. But first I would like to consider this idea on purely common sense grounds and compare this type of financing in its application to a commercial business. For sake of an example, let us suppose that some company is in a period of great prosperity and is having extraordinary earnings, but at the same time is indebted to the bank and has some long-time funded indebtedness which is callable. At a meeting of its directors the question is argued as to whether it would be advisable on the one hand to increase dividends or to leave them at the present rate, which is admittedly quite satisfactory, and to apply the surplus earnings to the payment of the bank indebtedness, the calling of a certain percentage of the funded indebtedness, and the setting up of a reserve against the lean years which may follow the years of plenty.

Would you gentlemen consider the management of this concern an able one and the company in sound hands if it was decided to cut a large melon out of the present profits and leave the future to take care of itself? What would you, who are accustomed to gauge credits, think of a company which, in a period of liberal earnings and great prosperity, did not pay off its bank loans and reduce its maturing indebtedness? I know, of course, what your answer to these questions would be.

The Government of the United States is in exactly the same position today as the industrial company I have described. The people of the United States are its stockholders and at the same time are its customers. The Government's commodity is protection and service, and they are paid for in taxes. In war times the protection and service are greatest and their cost is more; also the government makes for its customers, the citizens, many capital investments in the

form of ships and other munitions of war. These, of course, can not all be paid for out of current taxes and must be partly met out of loans. Such loans must ultimately be repaid by the stockholders or the citizens in the form of taxes, which they give in recompense for the protection they have received.

It is obvious, therefore, that an internal debt is really a continuous circle and can be paid only by the citizens who owe the debt to the citizens who own it. But there is this distinction to be noted; not all the citizens who pay taxes own Liberty Bonds, hence it is an advantage to the government to discharge the debt as rapidly as possible, so that the bondholders will no longer be supported by the payment of interest and principal collected as taxes from the nation at large.

Furthermore, the longer the debt remains unpaid, the more it will cost, as interest will enter as an additional charge. Tables prepared last year showed that, as regards the domestic debt, interest to be paid thereon by 1944 will amount to \$4,042,000,000, which with the principal of \$8,712,700,000, will make a total payment of \$12,754,700,000 during a period of 18½ years. Suppose for the sake of argument we follow the suggestions of some of our advisors and spread the retirement of our debt over a period of 62 years, which is the length of time granted for the repayment of the foreign indebtedness of our recent allies to the United States. In that event, instead of only paying \$4,042,000,000 in interest, we would pay a total of \$16,126,500,000, which added to the principal would make a total of \$24,839,200,000 that would be paid out by the taxpayers over this longer period. It is very clear, therefore, that no real saving would accrue to the American people by extending the time of the debt payment and, moreover, it would be entirely contrary to our traditional policy, which has always been to retire our public debt at the earliest date possible compatible with not placing too great a burden on the taxpayers.

The history of our country shows that, in retiring the debt which grew out of the Revolutionary War, our forefathers undertook a problem of far greater magnitude in proportion to the wealth of the country at that time than we are faced with today in this era of great wealth and prosperity. Yet our forbears carried through to a successful conclusion the retirement of that debt which, as Hamilton said, was contracted as "the price of liberty". The policy of debt payment thus established so early in our history has become traditional with us. One fortunate result was that at the time of our entry into the World War, while we were in no way prepared from a military point of view, we were far better prepared than any other nation so far as our finances were concerned. It was our good fortune, as events proved, that we had at least financial preparedness. If one looks back over our history, the fact is clearly proven that in each generation a great emergency has come to our country, which has made demands not only on our man power but on our wealth. So any attempt to unload the indebtedness of this generation on to the next generation will prove extremely unwisely, for there is little doubt that the next generation will have its own emergencies and financial burdens to meet. As Secretary Mellon said: "The time to pay one's debts is when one can". The opportunity to do this is with us at the present time and no one can foretell what the future may have in store.

There remains the question of reducing the debt out of surplus. Reduction of the debt out of surplus is not accomplished, as is usually supposed, by the purchase and retirement of the debt only at the end of the fiscal year but at various times throughout the year, usually on quarterly tax payment dates. At the end of each quarterly period it is necessary to determine the government's fiscal needs for the succeeding quarter; and new securities are then issued in an amount sufficient to cover the difference between maturing issues and the amount received from taxes. A surplus of receipts over expenditures for any

three months' period results merely in a smaller borrowing for the ensuing quarter and does not accumulate cash in the Treasury.

So long, therefore, as there is an existing public debt, the surplus for any given year is not carried over in cash but goes to the reduction of the debt. For this reason it is impossible to add last year's surplus to whatever surplus we may have at the end of the present fiscal year and use the whole amount, as has been proposed, for reducing taxes.

It must also be remembered that a surplus may accrue in one year due to unusual prosperity or to some particular circumstance, whereas a reduction in taxes effects a loss in revenue for every succeeding year; and on this account we must be careful that taxes are not cut below the revenue requirements of the government.

We should certainly go very slow in making further tax reduction until full experience may be had under the 1926 tax law when operating under normal business conditions. I would not wish to go so far as to say that the present business conditions are abnormal. But I think it is safe to say that at least they are extremely prosperous. At the outset of this present fiscal year it was estimated that the Treasury would have an annual surplus of about \$185,000,000. On the assumption that this amount will be exceeded, an agitation has arisen in some quarters for further tax reduction in the coming session of Congress.

This, I believe, would be ill advised for the reason that if the make-up of this surplus is analyzed it will be found to contain a number of large items of non-recurring revenue. During the present fiscal year there has been a strenuous drive on the part of the Bureau of Internal Revenue to clear up a number of its back tax cases and, as a result of this effort, it is expected that the surplus will contain an item of \$100,000,000 net collected on this account which, of course, once collected would not be available in another year. Of course, there are other back taxes yet to be collected but as the

Cases under consideration fall in those years of reduced surtax rates, the amounts collected will be reduced until finally the refunds on account of taxes illegally collected and collection on account of back taxes will about balance. In this year's surplus there is also an item of \$60,000,000 due to the repurchase by the banks of the Federal Farm Loan System of bonds purchased from them from a fund appropriated by Congress to assist the banks during the period when the tax-exempt feature of the Farm Loan Bonds was being considered by the Supreme Court. Those two items alone, which amount to about \$160,000,000, are non-recurring and should not be counted on to form a part of the surplus of any year after the present fiscal year is ended. I am sure you will agree that a surplus margin of \$100,000,000 should be regarded as a minimum requirement in an operation of the magnitude of that carried on by the Government of the United States amounting to receipts and expenditures of three and a-half billion dollars a year.

It is well to stop here and consider what would be the effect of even a slight recession of business on tax receipts and ultimately on the Government's surplus. The chief sources of our revenue are corporation income taxes, individual income taxes, customs and duties on tobacco. A decline in business activity during the calendar year 1927 would not show in the Government's revenues from individual and corporation income taxes until the latter part of the fiscal year 1928. The effect on miscellaneous taxes and on revenues from customs duties would be more immediate; and, while it is difficult to forecast with accuracy just what the total drop in revenues would be, it has been estimated that a decline of even 10% in manufacturing activity would show a drop of not less than \$165,000,000 in the revenue derived from the four sources of taxation enumerated above.

We can see then how quickly and seriously a slowing-up of prosperity would affect our revenues and would wipe out our surplus. If the tax rates



on corporations and personal incomes should be cut too far, and particularly if too large a percentage of the smaller and more dependable brackets are entirely eliminated from the tax roll, we would be faced with a serious situation in order to make up the deficit resulting from a business depression.

Under such circumstances, an increase in rates would give a further impetus to declining prosperity; and the business of the country would be subjected to the uncertainty and burden of increasing taxes at a time when such burden would weigh most heavily. Business has been complaining for years of the unsettling effect of constant jockeying with tax rates. It is easy enough to adjust one's business to a downward trend in taxes. But we must be careful, in our enthusiasm for lower taxes, that we do not reduce them so far that some day we must raise them again with all the confusion and readjustment of business that such a procedure would entail.

I think sometimes it would be well if we took stock, not only of the extent of our prosperity, but of the underlying causes for it and the possible dangers which may threaten its continuance. Never before in the history of this country, and one might safely say in the history of the world, has there been such universal prosperity or such a high standard of living as exists today in the United States. Competition may be extremely keen, but that is healthful. There may be one or two industries that have not followed the general trend and are undergoing a readjustment, but that is usual and denotes a transformation in their general line more than anything else. Our great domestic market, with its varied wants and vast buying power, is growing in extent each year; and, as business men, you know that this market is the real explanation of our prosperity. That market has been built up as a result of the high wages and high standard of living which obtain in this country. Anything which threatens to lower wages and break down the standard of living also threatens our home market; and for this reason I feel very strongly the necessity for maintaining our present

tariff behind whose protection that home market and our consequent prosperity have been built up. Along with our present protective tariff, we must maintain a sound tax system, under which we shall continue to pay our public debt and to keep the government's credit unimpaired.

These are principles which have guided the present Administration at Washington. They are sound and I am sure will appeal to you as business men. As I mentioned to you in my opening paragraph the government is a business, and in trying to apply business methods to government and to give the country an efficient administration, I know we can count upon your support. We must solve the problems that confront us in such a way that it will not only increase prosperity now but will lay the foundations for a prosperity that will be lasting.

TREASURY DEPARTMENT  
October 29, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
September 30, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$14,208,000,000	\$2,131,000,000 (1)	\$12,077,000,000
Territories and insular posses- sions	153,000,000	23,000,000 (2)	130,000,000
United States Government	2,164,000,000	670,000,000 (3)	1,494,000,000
Federal land banks, intermediate credit banks, and joint- stock land banks	1,757,000,000	13,000,000 (4)	1,744,000,000
Total Sept. 30, 1926	\$ 18,282,000,000	\$2,837,000,000	\$15,445,000,000

Comparative totals:			
August 31, 1926	\$ 18,172,000,000	\$2,821,000,000	\$15,351,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States and  
also the amount owned by the United States Government.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,  
Saturday, October 30, 1926.

Address by

HON. LINCOLN C. ANDREWS,

Assistant Secretary of the Treasury,

Before

AMERICAN ACADEMY OF  
POLITICAL & SOCIAL SCIENCE,

Philadelphia, Pa.

October 29, 1926.

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"PROHIBITION ENFORCEMENT AS A PHASE OF FEDERAL  
VERSUS STATE JURISDICTION IN AMERICAN LIFE".

Looking into our Federal Constitution, adopted to make our Government "a more perfect union", we find three pertinent facts of immediate interest to my subject: First, that Congress was given the power "to regulate commerce with foreign nations and among the several states"; second, that the police power - the power to legislate for the promotion of the safety, health, morals and general welfare of the people - was reserved to the several states; and third, that property rights were safeguarded by the "due process" provision. The exercise of these two sovereign powers, and the appeal to this constitutional safeguard, had an early and continuing influence on the fortunes of the liquor question - marking the various historical steps, legislative and judicial, in the evolution of National Prohibition.

Congress had laid imposts on liquors imported from a foreign country, and in 1827 the United States Supreme Court decided that the state could not interfere with such liquors until they had lost their "foreign commerce" character. Thus the commerce power of the Federal Government first appeared as a serious check on the exercise of the police power by the states.

In 1847 the question arose as to liquors in interstate commerce, and the Supreme Court held that in a matter of general interest a state could legislate in regard to interstate commerce until Congress stepped in to exercise its power in the same field. Thus the courts, in 1827, checked state control of international liquor, and in 1847 allowed state control great power in interstate liquor.

In 1887 the see-saw started back again, when the Supreme Court laid down the doctrine that while a state might, under its police power, prohibit the manufacture and sale of intoxicants within its borders, nevertheless intoxicating liquor was a legitimate subject of interstate commerce, and that the state could not interfere with such commerce by prohibitive legislation; nor

since sale is an essential part of commerce, could it prohibit its sale in the original package.

Close on this decision, in 1890, the Supreme Court renounced the previous doctrine that the states could legislate where Congress had failed to act. So we find the state denied the power to prohibit the introduction of liquor from other states, and to prevent its sale in the package in which introduced. Under these decisions, both foreign and interstate liquor marched joyfully where it would, immune from state police power while in original packages, and the most stringent state regulations were powerless to thwart it.

In addition to these disabilities, the "due process" clause of the Constitution was proving a serious check on the State's power to regulate intra state liquors. The view prevailed that, although a state could prohibit, under its police power, that which adversely affected the public health, morals, safety or general welfare, the mere possession of liquors did not fall in this class, and consequently the police power could not be invoked to prohibit possession.

Of course these constitutional barriers later fell one by one as the cohorts of prohibition advanced, until the Supreme Court in 1918 held it constitutional for a state, under its police power, to make the possession of whiskey for personal use a criminal offense. Later it went so far as to say that the fact that such a statute destroyed property rights lawfully acquired in the liquor before the law became effective, did not constitute a violation of the constitutional mandate against taking property without due process of law. But this came later, and it may be said in general that in 1890 the states could constitutionally prohibit only the manufacture and sale of intoxicating liquors. It is interesting to note that during these years the Federal Government took no steps looking to direct Federal control of liquors through the exercise of its interstate commerce power, as it <sup>ultimately</sup> did in the matters of oleomargarine, white slavery, Louisiana Lottery, etc.

Thus we find the states, because of Federal inhibitions, unable to cope

effectively with liquor, either domestic or imported; and we find Congress unwilling to deal with it independently from the states. But we also find an insistent and ever-growing sentiment throughout the country against the traffic in intoxicating liquors. Consequently the Federal legislative development was along the lines of Federal cooperation in assistance of the states that wished to be dry.

Owing to the immunity afforded the original packages of liquor brought into the dry states from outside, these states found themselves overrun with "original package shops", and had to seek Federal aid in order to combat them. Congress felt that its sovereign commerce power should not remain a means of defeating the dry policy of a state, and passed the Wilson Act in 1890, which removed from imported liquors their character of "interstate" or "foreign" goods, upon their "arrival" within the state. This was intended to allow the state to prevent the sale of the imported "original packages". But the Supreme Court largely destroyed the value of this act, by construing arrival to mean "commercial" arrival - delivery to the consignee, not physical arrival within the borders. Delivery to the package shops for sale could be prevented, but delivery to a consignee for use could not. The shops were thus cleaned up, but any citizen could still receive all the liquor he chose to order. The State remained powerless to repress importation for personal consumption, and was deluged by liquors thus obtained.

Congress spent twenty odd years suggesting remedies for the shortcomings of the Wilson Act. There seemed to be constitutional objections to all of them, and nothing was done until 1913. Meanwhile the states in desperation strengthened their laws as they could, and began to limit the amount of liquor that a man could possess.

In 1913 Congress passed the Webb-Kenyon Act, which removed the protection of the commerce clause from any liquor intended to be received, sold or used in violation of the laws of the state to which it was sent; and subjected such

liquors entirely to the control of the offended state. Both the Wilson Act and the Webb-Kenyon Act were attacked in the courts as unconstitutional, as attempts to delegate to the states a control of interstate commerce. President Taft, in his veto message, expressed doubt as to the constitutionality of the Webb-Kenyon Act. The Supreme Court sustained both acts. It declared that Congress was dealing with a commodity, the transportation of which it might prohibit entirely, and which the states on the other hand were powerless to prevent being brought within their borders. Instead of prohibiting the liquor traffic entirely, Congress chose to take from it the protection of the commerce clause; and to leave it to be dealt with wholly by the communities whose problem it was. Thus in 1913 we find the Federal Government, judicial and legislative, positively in cooperation with the states - stepping out of the way and allowing the states to control both domestic and interstate liquors within their own borders.

From 1913 to '18 events moved fast. In the end Congress abandoned its policy of assisting the states, and turned to that direct Federal control which it had theretofore eschewed. The desire for nation-wide prohibition had grown from an idealistic sigh to a positive demand. In 1913 the Anti-Saloon League launched its organized campaign for national prohibition. Between the years of 1914 and 1918, 23 states sounded out the sentiment of their people by the referendum. At the time prohibition became effective 33 states were dry. A resolution calling for a prohibition amendment to the Constitution was introduced into both Houses in 1913 and failed to pass in 1914. Similar resolutions were introduced in 1915, but were not brought to a vote in either House.

But before this same Congress Senator Jones propounded his view that the states needed still further Federal assistance. Believing that the states were still powerless to combat "solicitations of orders for liquors" coming through the U. S. Mails, he proposed an amendment to a postoffice measure



penalizing the mailing of solicitations into a state which had prohibited them. He was still working on the theory of Congressional cooperation with the states.

In discussing the Jones Amendment, Senator Reed pointed out the inconsistency of fixing penalties for the mailing of solicitations into a state which forbade solicitations, while tolerating the shipping of the liquor itself into a state which forbade liquor. So the Senate in 1917 passed the Jones Amendment, and at the same time passed Senator Reed's Amendment - the Reed Bone-Dry Law -- making it a Federal offense "to order, purchase or cause intoxicating liquor to be transported into any state that prohibited the manufacture and sale thereof". Thus we see a complete about face on the part of Congress; and we see in Senator Reed of Missouri the father of the first National prohibition liquor law. It is also interesting to note that this law was passed by a Congress which had chosen not to bring to a vote a proposition for National Prohibition.

The Reed Law made the dry state bone-dry whether the state liked it or not. In fact it was suggested in debate on the Reed Law that it was proposed in order so to vex a dry state with its dry law that other states would hesitate to go dry. It did in fact make one state dryer than it intended to be. West Virginia prohibited the manufacture and sale of liquor, but permitted a parched citizen to bring into the state a quart of liquor every 30 days for his personal use. One fellow was caught while doing this, and tried in the Federal court under the Reed Law. The Supreme Court held in 1919 that he was guilty of a Federal offense, that the Reed Law was constitutional, and that any oasis in a state law that conflicted with it was invalid. West Virginia was suddenly bone-dry by Federal command. The only way she could allow her citizens to bring in their quart was to repeal her prohibition against the manufacture and sale of liquor - and it has been hinted that the liquor interests liked the Reed Law for just this reason.

The 64th Congress had declined National Prohibition and passed the Reed Amendment. The 65th Congress passed the National Prohibition resolution. It was adopted by the Senate on August 1, 1917, without the provision for a concurrent power of enforcement in both the Congress and the states. Congress alone was given the power to enforce the proposed amendment by appropriate legislation. Dropping all consideration of state police power, the Senate went to the extreme of absolute Federal responsibility and control through the exercise of a thus ~~newly~~ <sup>to be</sup> acquired Federal police power, to be exercised throughout the states and communities of the land. This easily accepted conception of employing a highly centralized governmental police power, and this seeming disregard for our long cherished doctrine of states rights, would appear to be marked evidence of a wartime state of mind on the part of the Senate, when acting upon this resolution.

The debate on the resolution is interesting. The opponents of the resolution were against taking from the states their control of their local affairs and giving it to Congress. They felt that Federal cooperation had made it possible for any state to be as dry as it wanted to be, and that the minority of the states should not be forced to go dry because of the social views of the majority. The proponents of the resolution maintained that Federal cooperation had proved ineffective in aiding the dry states to become dry. Wet neighbors were too damaging an influence, even with full state and Federal cooperation. They maintained that since a dry state could not establish complete prohibition as a state, it had a right to urge National Prohibition; not primarily

to stuff its views down the throat of a not state, but for its own protection. They pointed out that while it might be a questionable policy for 36 states to impose their social standard upon 12 states, it was true that otherwise the 36 states could not protect themselves against the 12 states.

The House amended the resolution to read as the Amendment now does - Congress and the several states being given concurrent power to enforce the Amendment by appropriate legislation. It was stated by members of the judiciary committee instrumental in inserting this concurrent phrase - notably Mr. Webb and Mr. Volstead - that this phrase had been put in to make it plain that there was reserved to the states their power to enforce their prohibition laws; and that the granting of a like power to Congress should not have the effect of granting all such power exclusively to Congress. There was surprisingly little debate in the House as to the meaning of "concurrent" in the resolution. Both Houses seemed more interested in the giving of a new power to Congress than in the reserving of its old power to the states. They argued the question chiefly on principle, and did not pay much attention to the problem of how Federal and state control of liquors would work out in practice under the concurrent clause.

Reading the record, it is my opinion that Congress as a whole had little conception of the practical difficulties of the enforcement of the Amendment. The concurrent clause was inserted more as a concession to the psychology of the states than with the purpose of requiring the states to function in those fields of enforcement where the state police power rather than the Federal mandate would be not only more effective, but more consonant with our form of government.

The language of section 2 of the 18th Amendment is: "The Congress and the several states shall have concurrent power to enforce this article by appropriate legislation." What does it mean? The Supreme Court says that it does not mean "joint" power. The view that concurrent means that the power to enact appropriate enforcing legislation is in each - the state and the Federal - but that the legislation of Congress as the supreme law of the land supercedes any inconsistent state legislation has received some support from the courts. Support has also been given the view that the power is equally in each - the state and the Federal - neither having any overriding force as to the other because each is effective in its own jurisdiction, and the validity of each is to be tested only by the touchstone of appropriateness to the enforcement of the 18th Amendment. On one point, however, courts are uniform with one or two exceptions - the 18th Amendment is not the source of the state's power to legislate with regard to intoxicating liquors, but the source of such power is still its police power, which inheres in it as a sovereignty. The 18th Amendment reserved to the state its police power over this question; it did not give it such power.

The effect of the 18th Amendment was to reserve to the states this police power in its entirety, with the one limitation that the states were put under a legal disability to permit what the 18th Amendment prohibited. It even enlarges the states power, beyond the limits of its other police powers, since on other questions state laws are subject to constitutional inhibitions as regards "due process", interstate commerce, etc. In addition, the 18th Amendment by its terms gave to the states an authority concurrent with Congress over the importation and exportation of

intoxicating liquors; and over liquors in interstate commerce, by the rule of constitutional construction which renders paramount an amendment subsequent in time to a prior constitutional provision which conflicts with it. The state gained much, and lost only the privilege and power to permit the manufacture, sale and transportation of intoxicating beverages. Congress acquired the police power, the several states retained theirs. The former policy of assisting the states by removing constitutional barriers to the operation of their police powers, was superseded by a plan for active cooperation in which each party has equal responsibility and power. This was a novel scheme in our government, ready to meet the test of experience.

Let us see how the Congressional plan worked, and is working. All the States except Maryland fell in line, and where necessary enacted appropriate legislation. The stage was auspiciously set for splendid action. But an unexpected psychology resulted in the withdrawal of most of the old skilled actors of this great drama, and left the stage largely to amateurs and a few monologists. We find cooperation on the statute books, but not carried out into the life of the community. A very curious picture. Here we ~~have~~<sup>had</sup> 47 of our 48 states with state prohibition laws and the machinery to make them sting. We ~~have~~<sup>had</sup> the Federal Government with a prohibition law. Now the Federal Government is a new actor on this stage - a new prima donna. The states are old troupers in enforcing all police power regulations, including this one, and they know the twists and turns. They get a hand from their audience - a helping as well as an applauding hand. They are the local stock company - so to speak - known to the folks. The new prima donna has not appeared on this stage before, having been only a supernumerary. When the curtain goes up, the company stays in the dressing rooms, make-up on, roles perfected, and

expects the new prima donna to play all roles, including that of the villain. A very curious reaction, this attitude of the people, after they got National Prohibition.

The great forces of social reform that had worked so successfully for temperance along educational lines, instead of grasping this opportunity for a steady forceful advance to overwhelming success, apparently felt that their battle was already won, and ceased their organized efforts. The forces that had been so efficiently organized and led to accomplish these ends through political activities, now centered their energies upon the enforcement of the National Law through Federal agencies. State, county and municipal law officers tended to overlook their own civic responsibilities under their community laws, and to pass the responsibility for Prohibition Law enforcement to the Federal Law and its agents. The citizens of the country generally, thoughtlessly, and thus inconsistently with their inherent conceptions of the functions of Government, tacitly and perhaps unconsciously relieved their own civic officers from their responsibilities, and looked to the National Law in Federal hands for the enforcement of Prohibition. Everybody looked to Washington, and placed the responsibility for law enforcement upon the Federal Government - and unfortunately for the law's success, the Federal Government was accepting this responsibility.

When I took office last year I found the Prohibition Unit organized and functioning on this basis. Highly centralized in control and responsibility, its field forces organized without due regard to their essential correlation with the field forces of the Department of Justice, prohibition agents throughout the United States were being called upon everywhere to exercise the Federal police power in local police affairs. And these agents were accepting the responsibility and arresting these petty law violators. In many jurisdictions this resulted in overwhelming the offices of the District Attorneys and clogging the Federal judicial

machinery with thousands of petty police cases, not infrequently to the disgust of the Federal Bench and the discouragement of the District Attorney. More important even than this moral effect was the consequent demoralization of all the business of the Court. Already crowded with business resulting from the ever increasing number of federal laws to be enforced, that promptness and certainty of trial and punishment so essential to successful law enforcement became an impossibility, and this was being reflected in a growing disrespect for law on the part of all law violators.

Perhaps the most interesting phase of this development, and the most potent in its unfortunate effect-upon the success of the National Prohibition Law, was the fact that while the citizens generally accepted the idea that the Federal Government should be responsible for the enforcement of the law, many of them nevertheless inherently resented this exercise of police power on the part of the Federal agents within their own communities as affecting their own individual privileges. This can be explained as thoughtlessness. Or perhaps it was the working of guilty consciences for neglecting their own responsibilities as citizens of self-governing communities who must necessarily make and enforce their own regulations for community welfare. Be it, however, thoughtlessness, guilty conscience, or outraged conception of democratic government, the reaction was personal resentment, manifested far too often by law abiding citizens, both men and women, in wilful violations of the Prohibition Law. And this manifestation, peculiar as it may seem, evidenced itself even in previously dry states, as well as in those that had never previously accepted State prohibition.

The demand for beverage liquor was insistent and apparently quite indifferent to cost. Money and brains were quickly forthcoming to organize an illicit traffic in liquor to supply this demand wherever it prevailed, and, keeping step with modern economics, this supply then created further

demand to keep it moving, and thus a new form of liquor business grew and thrived. Definitely an outlaw business, its success was necessarily conditioned to a great extent upon the bribery of officials charged with keeping law and order - so wherever its activities reached, it left a slimy trail of crime and corruption in its wake.

In the large cities the criminal classes turned from their precarious livelihood of safe cracking, loft robberies, etc., to this much more lucrative and far less dangerous profession of bootlegging. Innumerable citizens, under the present prevailing urge for easy money, turned from lawful pursuits to engage in this lucrative business. It is even reported that farmers in certain localities are now measuring their corn crops in gallons, rather than in bushels. Meantime the criminal's traditional fear of offending the Federal authorities was rapidly turned by experience in the slowness and uncertainty of punishment, to a contempt for this same Federal authority. It is this condition that we have been and are now trying to correct in our effort to "Restore Respect for Federal Law".

Faced with this problem of law enforcement, and with these conditions, we had to answer these questions: "What have we got to do?" "What have we got to do it with?" "How shall we do it?" In determining upon our policy, organization, and procedure, two fundamental considerations were governing. First, a realization of the fact that any law to be effective must be in reality an expression of a standard of living generally accepted by the members of the community affected, which means that this standard is already observed by the great majority of the community, and written into a law only that it may be enforced upon the recalcitrant few by the police and court officers of the community. Applying this consideration to our problem, it required that the agencies of social reform be induced to take up again the task of education, so that the numbers who observe the Prohibition laws may be materially increased, and the numbers who must be prosecuted as violators may be materially decreased. Expressed differently, this consideration meant that the Prohibition laws must be popularized - both the laws and their administration must meet with more popular approval.



The second consideration was that the responsibility for the enforcement of the Prohibition laws must be shared by Federal and local authorities. And this responsibility must be shared on clearly defined lines, so that each may have a definite objective, upon which it may concentrate its energies with a fair hope of success. Looking back into the years of struggle toward the accomplishment of Prohibition; realizing how until the Reed Amendment in 1917 the whole conduct of National Government, both legislative and judicial, had been to show a marked sympathy with the efforts of the states to regulate the use of liquor, and to cooperate with them in a helpful way; and looking at the present anomalous and directly contrary situation in which the states now lay almost supine while the whole nation looked to the Federal Government for the success of Prohibition; and realizing the inherent wrongness and unquestionable thoughtlessness of this latter attitude, it seemed the only and the natural solution that the Federal Government should undertake as its share to suppress the commercialized traffic in liquor, and thus prevent its introduction into the various communities of the country in commercial quantities, and that the states and communities should undertake as their share to suppress local violations, with Federal assistance where necessary. This policy was adopted and approved by the Administration. The Federal forces are more and more concentrating their efforts upon this main objective, as the civic consciousness of the communities is again aroused to their responsibilities for self-government and Federal agents thus relieved from demands upon them for the exercise of local police power.

To me this division of responsibility seems so natural and so absolutely essential as not to require argument. It is in keeping with the growing appreciation on the part of thoughtful citizens that modern tendencies toward highly centralized authority and responsibility in Washington may lead to dangerous extremes. Consider for a moment the alternative - the Federal

Government accepting the full responsibility for enforcing the National Law in all the communities of the land. No one knows how many policemen would be necessary, and how many Federal police courts would be required; but the numbers certainly would be tremendous, and the political and social effects of their daily contact with the intimate affairs of the citizens of the communities might easily be most disastrous to democratic institutions. In fact such a superimposed Federal police power is to my mind absolutely unthinkable in America, and bad enough in Russia. Such a solution is predicated upon so false a conception of our Government as to offend the very fundamentals of our institutions, and I believe it could never be accepted by a thoughtful public. When his consciousness is stirred, the American citizen is still proud of his claim to the rights of self-government. This was happily illustrated last winter in the nation-wide protest against the Executive Order permitting the appointment of county police officers as Federal agents. It was considered an invasion of the citizens' sacred right to manage his own affairs through his own civil officials. It appears that this sense of civic responsibility and pride in its employment still exists, and has only to be aroused, when the communities of the land will again accept their responsibilities for law enforcement and see that they are faithfully carried out.

We have therefore steadily gone ahead in the execution of this policy. The organized forces for reform have again taken up their burden, and are on campaign throughout the country in an effort to arouse the states and communities to a realization of the part they have to play, and the necessity of their playing it vigorously and promptly.

Meantime the Federal agencies have been reorganized on a plan of decentralization, the Federal Judicial District having been used as the unit in order that an intimate and active teamwork may be established throughout all the field forces of the Department of Justice and of the Treasury Department. Our

representatives have been instructed to share with the District Attorneys the making of such cases against law violators as can be promptly and effectively prosecuted with the greatest effect for the common cause of law enforcement. The main objective of our energies is clearly defined to be the commercialized liquor traffic in all its manifestations. Our field forces are organized and our regulations made with the definite object of wiping out this traffic. The instructions to our field forces are to concentrate their efforts along specified lines looking to this end. Much energy, however, is dissipated by the continuing necessity of doing more or less local police work, until the communities relieve us of this task. And I foresee that there will always be the need of rendering more or less assistance to state, county and municipal officers where local conditions are so unsatisfactory as to demand it.

It has taken time to effect the necessary organization and lay the necessary legal groundwork for the accomplishment of this Federal function, but real progress is now being made. In practical language, we have undertaken the elimination of the sources of supply for the organized liquor traffic, and the prosecution of the men who have organized and are conducting this traffic. These sources of supply are: Smuggling, the diversion of industrial alcohol, the illegal manufacture of real beer in old-time breweries, the diversion of medicinal spirits, the diversion of sacramental wines, and illicit manufacture in wild-cat distilleries and breweries.

Thanks to our executive agreement with the British Government, and to the negotiation of treaties with our immediate neighbors, marked progress has already been made against smuggling, and we are now confidently looking forward to the day when the smuggling of liquor in quantity will be completely done away.

Thanks to the special appropriation of funds by Congress in June of this year, we have been able to organize special forces which are engaged in cleaning up the industrial alcohol field, steadily eliminating, one by one, the permittees

who have engaged in illegitimately diverting alcohol to beverage uses. Great progress has been made already, and it is but a matter of time when all these permits will have been revoked, and this source of supply of alcohol eliminated.

Similarly for the supply of real beer, the same appropriation made possible the organization of a special force for this work, and with the aid of additional legislation requiring permits for manufacture of cereal beverages, we believe that this source of supply will be gone next season.

While much has been done by regulation to reduce the diversion of medicinal spirits, the existing law which authorizes the owners of spirits to sell in an open competitive market to wholesale and retail druggists, and to other permittees, has proven an insurmountable obstacle to complete control, and Congress will be asked at this session to pass remedial legislation which will make the control of medicinal spirits absolute.

Great difficulty was found in the issuance of sacramental wine, particularly to the Jewish Faith, where lack of church organization and discipline made control almost impossible. This was a prolific source of supply. But a solution was finally arrived at, and the amounts of wine now issued for sacramental purposes are reduced to such an extent that diversion to illicit traffic has become negligible.

There remains as a source of supply illicit manufacture in wild-cat distilleries and breweries. As the other sources have been more and more controlled, the liquor traffic has turned more and more to this final source. Illicit distilling, whose product is known as "moonshine", has always been practiced in a small way; but this practice has developed under the Prohibition Law, and become more or less nation-wide. When used as a source of supply in quantities sufficient to justify an organized traffic, this must remain the objective of the Federal forces, and will require special organization and close attention for its elimination. But where quantities are small, and

for local use and distribution only, these violators must be definitely the objective of local law enforcement agencies. We are approaching here the phase of law violation where the individual citizen manufactures intoxicating beverages within his home for his own use. It is clear that this should never be the object of Federal control. Under our present conception of the functioning of democratic government, this is clearly for the communities themselves as a matter affecting most intimately their community standards of living and ideals of social government and welfare.

I must call your attention to one other phase of the Government's function under the National Prohibition Act. We have to administer this law through our permit system wherever it touches business and professions which use alcohol or spirits in their legitimate undertakings. Alcohol plays a vital part in many important industries, and it is Government's function to encourage legitimate industry. We have literally thousands of permittees more or less dependent upon the functioning of our Federal officers for the success of their business. Going back to the first of our two fundamental considerations determining policy and procedure, and regarding the consideration that the law must have popular approval in order that it may be successful, it is a definite part of our policy that we shall administer the law in a liberal, prompt and courteous manner, thus commending it to popular approval. Determined efforts are being made to bring our personnel to a high standard of character and personal conduct in office. All are enjoined to a scrupulous observance of law in both personal and official conduct. They are to be an object lesson in law observance and in respect for law. Wherever our functions touch legitimate business, our officers are enjoined by promptness of action and fairness of judgment to make legitimate business feel that Government is working with them for their success. In determining questions of general policy at headquarters, we are trying to impress the general public with the fairness and liberality of our judgments, to the end that existing resentments may be softened, and a better appreciation may be had of the law and its social and economic effects.

To sum up, the Federal Administration is assuming that the peoples of these United States intend to carry on faithfully under their present form of government, and will willingly reassume their duties and responsibilities as citizens under self-government; and the Administration is therefore actively working toward the day when the Federal Prohibition Unit will be a dignified efficient organization, engaged in the Administration of the permissive features of the law to the satisfaction of the business public concerned, and in the execution of the enforcement features of the law by such close surveillance of the possible sources of supply and avenues of traffic as will prevent the movement of liquor in commercial quantities into any local jurisdiction; and engaged through cooperation in helping State, county, and municipal authorities, to make possible the success of their own expressed determination to live as social communities free from the presence of that traffic in liquor which they have denounced as a crime in their social existence. We can and will do our part. The people can do theirs.

October 29, 1926.

FEDERAL COOPERATION TO PREVENT FRAUD

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An Address Delivered  
by  
Honorable Charles S. Dewey, Assistant  
Secretary of the Treasury

at the  
First Annual Convention  
of the  
Associated Stock Exchanges  
at  
St. Louis, Missouri,  
on  
Monday evening,  
November 8, 1926.

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Two outstanding characteristics of the American people are their superabundance of curiosity and their venturesome spirit. These two qualities have had no small part in the great development that has taken place in our country during its short history; but on the other hand, they have influenced thousands of our citizens to venture haphazardly into undertakings which ultimately resulted in financial loss and misfortune.

I do not believe that the American people are more greedy than is humanity in general, but it is their curiosity and spirit of adventure, when exercised in a land of great opportunity, which cause the inexperienced and unwise to attempt, by rash speculation, to attain the same proportionate wealth that has been gained by others through the medium of hard work and careful investment of savings.

It would be easy for us to shrug our shoulders and quote some such platitude as "a fool and his money are soon parted", were it true that the unfortunate victims of fraudulent investment schemes are in fact fools. This, however, is not true. The persons preyed upon usually are wage-earners and the small salaried men who make their investment out of savings amassed through years of sacrifice and set aside to provide for a time when their earning capacity shall have been diminished. Furthermore, these people are the very backbone of our nation, and it is upon their purchasing power that the industries of this country in great measure rely. It follows that if they are defrauded of their savings, their purchasing power will be reduced, with an unfavorable reaction directly upon our entire economy.

During the war a great effort was made to educate the citizens of the United States to invest in Government securities. Banks, investment



houses, and stock exchanges loyally gave their support to make the Liberty Loan campaigns a success. A community had to be very small indeed not to have its Liberty Loan campaign committee; and everyone, man, woman, and child, was urged to purchase Liberty bonds, and at the same time they were educated, as I have said, into the merits of a sound security as a good investment for their surplus funds. With the termination of the war the country went back to its ordinary business pursuits and all of these new investors were left without guidance. It was as if they had been taught to walk and had been led out by some careful chaperon into the congested traffic of a large city and there left to get home as best they might.

In our public debt statement there is an item "matured interest obligations outstanding" amounting at a minimum to about \$35,000,000. This represents interest due government security holders who are slow in presenting their matured coupons for payment. But there is also a substantial percentage that will not be paid until the security itself matures or is sold. This was evidenced at the maturity of the Victory notes when many were presented with all coupons attached. It seems incredible that such ignorance exists, but there are more than a few stories around the Treasury Department of Liberty bond holders who wished to be advised as to when and how to pay the interest on their bonds. These people were educated sufficiently to buy Government bonds, but their education stopped with the war, and as a result they are frequently swindled out of their holdings.

During the post-war days the Treasury was advised of their plight. We have in the Treasury a large file of letters received from widows, school teachers, and other individual purchasers of our government securities. All of these letters tell the same story. The writers had been subscribers to Government bonds; they had been approached by some plausible gentleman who had expressed both a keen interest in their welfare and a fear that since the war

was over and their patriotic obligations fulfilled, they were not obtaining as large a return upon their investment as they should and that by exchanging their Government security for a "sound" investment in some distant gold mine, they would stand an excellent opportunity of reaping large profits. Some of the circulars left with prospective purchasers were so bald in their statements as to make them actually amusing were it not for the fact that the matter is of such a serious nature. As a typical sample I wish to quote from one which offered an unequalled opportunity to become rich. It reads as follows:

"We propose to make some real money in a fair and square way by getting the cooperation of a sufficient number of live wires to produce oil. We have the land all paid for. And everyone knows that if oil is struck at all it is big money. If we strike a gusher we all share in a fortune. If it is more than one gusher we are millionaires over night. A host of men are rich to-day because they bought on the same basis that we now offer stock in this company."

I regret to say that the little lady who received this circular is to-day a sadder but much wiser woman, and that she is still waiting for the first oil to be struck.

Some interesting data was developed at the hearings during 1919 before the Committee on the Judiciary of the House of Representatives on a proposed Federal Blue-Sky law. It was developed that during the oil boom in Oklahoma an investigation of the stock-selling oil companies of that state was made by the "Oklahoma News", and it was revealed that of all the oil produced in Oklahoma during 1917, the stock-promoting companies owned less than two tenths of one per cent. In other words, for every \$555 of these companies' capitalization only \$1 worth of oil was produced.

I do not contend that fraudulent stock selling schemes were not common prior to the war. But the very loyal and unrelenting efforts of you gentlemen and of the members of the banking fraternity to aid the Government in the sale of its vast issues of Liberty bonds, has created an appetite for the security

form of investment among our people, which appetite did not exist in any such measure prior to the Liberty Loan campaigns. Because of this appetite, these new investors furnish all the more easy prey for the fraudulent stock promoter; and this would seem to be an additional reason why the State and Federal Governments should give to these investors adequate legal protection.

The most usual forms employed have been the Fraud Act which permits any type of security to be sold but empowers the Attorney General or other authority to prosecute promoters who seem to be perpetrating a fraud upon the public. The other form of law is the Blue Sky Act. In 1911 the State of Kansas, exasperated by the operations of fraudulent promoters, enacted Blue Sky legislation. The term "Blue Sky" seems to have originally referred to fraudulent real estate operations where salesmen were accused of selling corner lots in the blue sky. The original act of the State of Kansas, however, covered not only real estate transactions but the sale of securities, and was the type of legislation which gave authority to a Commissioner to prohibit the sale of any security in the state until he had satisfied himself as to its character and soundness.

The Blue Sky law of Kansas was so widely advertised that it very shortly had the effect of making this state an undersirable field for fraudulent operations, and as a result many fraudulent salesmen sought new fields in other states for their undertakings. The action of the State of Kansas was adopted by other states until at the present time Blue Sky legislation in some form has been enacted by all save five or six of the states of the Union.

The Kansas law has been used to a great extent by most of the States as the basis for this type of legislation. As experience was gained a number of additions and changes were made to the original Act, chief among which may be mentioned the licensing in some states of all persons engaged in the sale of securities. In other states the license was not imposed upon the brokers

but upon the securities themselves. Licensing of securities, however, has been severely questioned, inasmuch as such license has frequently been improperly used by salesmen claiming that it represented some form of endorsement and approval on the part of the state.

Before passing from the Blue Sky law, it might be well to discuss for a moment some of its advantages and disadvantages. The chief disadvantage urged against it is that it interferes with the freedom of legitimate business and that the time needed to furnish the State Commissioner with all the information he may require, delays the offering so much that a market for a certain security may be missed and a great additional burden of expense be placed upon the issuing company or underwriter. The proponents of Blue Sky legislation, however, claim that most legislation is subject to the same objection in one form or another, and that their activities in the end save the general public much money and prevent the wastage of a great amount of capital. In other words, it becomes a question of the greatest good to the greatest number. The objection is also raised that it is an invasion of private business by the state and that the state is under no obligation to exercise any control over the sale of securities. The answer to this appears to be that the enactment of legislation of this character falls in the same category as the Pure Food Laws and similar regulatory measures, and it is as much the duty of the state to protect its citizens against fraudulent stocks as it is to protect them against tubercular milk or other impure food products.

In 1921, the right of the state to interfere by legislation in the sale of securities was the subject of a report of a special commission appointed by the Governor of Massachusetts, which report reads as follows:

"Since the State authorizes the issuance of fictitious or watered stock, it must follow that it is the duty of the State to prevent the sale of such securities until the State itself determines that they are not fraudulent. The State creates the securities and places them in the hands of fraudulent promoters, who in turn distribute them to the public.

Any additional legislation to check the sale of fraudulent securities is nothing more or less than an effort by the State to limit the use by fraudulent promoters of the false tokens which the State itself creates."

In several of the states, fraud acts have been enacted to safeguard the public against the operations of fraudulent promoters. In each of these states the acts provide that if it shall appear to the Attorney General that any persons are employing a device to defraud, and he believes it to be in the public interest that an investigation be made, he may require such persons to file with him a statement as to all the facts, and in some instances the Attorney General may issue an order requiring a guilty party to desist from his fraudulent practices.

While this type of law does not interfere with legitimate business, as it is claimed Blue Sky legislation has the effect of doing, certain opponents maintain that a fraud act is inadequate to accomplish substantial results for the reason that complaints are seldom made to the Attorney General concerning any security until it has been sold and the purchaser has grown suspicious of his holdings. In most instances it is then too late to protect the public, because the sale has generally been completed and it usually follows that the promoters or salesmen have either left the State or ceased to offer the security in question. It is a case of locking the stable after the horse has been stolen.

District Attorneys frequently complain that they have great difficulty in indicting and convicting people of promoting sales of fraudulent stock because they usually hide behind the agents who have made the false representations, the agents themselves often being irresponsible people working for commissions and willing to make all sorts of representations to prospective buyers. It is true that the agents are frequently an itinerant lot with a habit of leaving their field of operation after a successful campaign, the

net result being that it is very difficult to pin anything on the parties promoting the proposition.

The Federal Government is deeply interested in the development of legislation which will protect the investing public against fraudulent promotions and which, to the greatest degree possible, will stop the wastage of capital directly resulting from these improper practices. It is said that the amount of capital lost in this way reaches the huge sum of \$500,000,000 a year. Federal Blue Sky legislation has been pending in the House of Representatives for several years. Last winter the Committee on Interstate and Foreign Commerce reported to the House a bill (H.R. 52), known as the Denison Blue Sky Bill, which undertakes to prohibit the use of the United States mails or any agency of interstate or foreign commerce for the transmission of securities for sale to any persons in any other state in which it is at that time unlawful to sell or solicit subscriptions for such securities. It also seeks to prevent the use of the mails or any agency of interstate or foreign commerce for the transmission of letters or circulars offering for sale or advertising such securities in such states, and provides penalties for any violation of the provisions of the act. The Bill exempts from its operation several important classes of securities and business transactions and provides for the exemption of certain bonds and notes secured by mortgages on agricultural lands and other real estate.

This bill was submitted to the Treasury Department for an expression of opinion, and I will quote from a letter written by Secretary Mellon to Hon. James S. Parker, Chairman of Committee on Interstate and Foreign Commerce of the House of Representatives, expressing his criticism:

"The present bill exempts from its operation several important classes of securities and business transactions involving the sale or disposition of securities; and it also provides exemption of certain bonds and notes, secured by mortgages on agricultural lands and other real estate.

Notwithstanding the exemptions proposed, I am of the opinion that the bill would unreasonably restrict transactions in securities and that the objections stated in my former letter to the bill then under consideration would apply with equal force to the present bill. The bill, as drawn, would involve innumerable difficulties of interpretation and administration.

It would, in effect, subject all transactions (conducted through the agencies of interstate commerce) in stocks and other securities to the laws of the various states and territories, and place upon the Federal Government almost insuperable difficulties in enforcing these diverse laws, many of which create purely technical offenses. Their enforcement would not only cause frequent embarrassment to legitimate transactions, but would result in hardship and injustice, if a uniform penalty is imposed without regard to the gravity of the offense prohibited by any particular state law.

The number and variety of exemptions that must be made, in order not to place too great a burden on legitimate transactions, illustrate the difficulty of regulating issues of securities by rigid requirements which apply to all cases alike. In addition to the difficulties of administering such a law, the numerous exemptions are necessarily so complicated that to master their application would impose a heavy task upon all those who deal in securities. The proposed law has the further disadvantage both of tacitly approving all dealings in securities in the exempt list, regardless of how undesirable such dealings may be, and also of unduly restricting many legitimate financial operations, which may fall outside the exempt classification. Furthermore, such a law, imposing upon the Federal Government the duty of enforcing state laws, might not only establish an undesirable precedent but would subject the National Government to very great expense in organizing and maintaining the machinery necessary for the enforcement of the many laws on this subject passed by the states."

Secretary Mellon's letter must be construed as an opposition only to the character of the proposed legislation and not to the purposes which the bill seeks to accomplish. The Treasury is heartily in favor of the latter.

Suggestions have been made to the Treasury advocating a licensing system under which the Federal Government would have supervisory authority over the issuance of all securities, a control somewhat similar to that vested in the Interstate Commerce Commission over railroad issues. The Treasury is also opposed to this plan, believing that should any branch of the Federal government be empowered to grant licenses for the issuance of securities, such licensing might be construed by the public to mean governmental sanction and

approval. Moreover, delay would be inevitable if administration by the Federal Government were to be effective, and this would be harmful to the operations of legitimate business. The tendency should be to simplify, rather than complicate and increase, the Government control to which business is subjected.

The Secretary of the Treasury believes that there is an urgent need for a Federal statute which will repress the flow of fraudulent and worthless securities through both the mails and the channels of interstate and foreign commerce, but which at the same time will not place an undue burden upon legitimate business. The state laws are quite diverse in character, ranging from "Blue Sky" laws to "Fraud Acts", and have proved somewhat inadequate, and certainly not as comprehensive as would be a Federal statute. In considering the nature of such a statute it has been suggested that legislation might take the form of a law under which securities which appear to be fraudulent could be brought to the attention of the Department of Justice through proceedings in the nature of an information. The Attorney General could then be authorized to investigate such securities and, if he found evidences of fraud, to issue a summary order forbidding their further sale, under heavy penalties. Such a law would be similar to the Martin Act, which has recently been held constitutional by the Supreme Court of the State of New York. A law of this kind, if it were enacted by Congress, would be far from perfect, of course, and would be subject to the same criticism that has been directed at many laws now on the statute books of some of the States. It might not always prevent the issue of fraudulent securities; but at least it would place with the United States Department of Justice a powerful weapon which might be developed into great usefulness through the cooperation of agencies and organizations, such as your own. It would provide a central authority to which reports could be sent from any State upon evidence of fraud



appearing in the proposed issue of a new security. Its presence on the Statute Books would have the same effect upon fraudulent stock promoters as does the presence of a policeman upon the ordinary criminal. The usefulness of such a law, as I said, would depend largely on your cooperation. In any event, a law of this kind would not tie up business or bring about the difficulties of enforcement which would be inherent in an act such as, for instance, the proposed Denison Blue Sky Law.

In reviewing the effects of the so-called Blue Sky legislation and fraud acts, it is very obvious that they have done a great good in repressing the flow of fraudulent securities. But no law, by itself, can completely protect the unwary and uninformed investor. All fraudulent schemes seek to operate in the dark, and as soon as the full light of investigation and a demand for information is turned upon them, they generally run to cover or cease to exist. No other class of business, perhaps, is as interested in maintaining the operations in the security field upon a high plane, as are the investment banker and the governors of our stock exchanges, and no class of business is in a better position to be forewarned and informed of fraudulent promotions. The investment bankers, through their national association, have been doing constructive work not only to educate people, but to improve the character of the laws passed by the various states, and it is understood that considerable progress is being made toward a better understanding as to the problems confronting respectively the investment banker and the State Commissioners.

The Better Business Bureau has carried on a most comprehensive, nation-wide campaign to educate the small investors away from the spurious and toward the sound and income-producing security. The slogan of this campaign of education is "Before You Invest - Investigate". But one must place himself in the position of the ordinary uninformed investor who has

been approached by the usual type of smooth tongued salesman of spurious stock. For example, let us take a school teacher in some small town of a class of people whom, I understand, are largely preyed upon. This person will undoubtedly turn to the financial adviser of his locality, probably a country banker. The banker will be only too glad to be of assistance to his friend, the school teacher, providing the banker himself is in a position really to advise. He cannot be expected to make a very comprehensive study of the situation; but, on the other hand, unless he does this or is in a position to obtain information through some agency that has made a thorough check-up, his suggestions can possess little merit. He turns, first of all, to the stocks listed on the various exchanges of the country, and particularly the exchange nearest to him. He assumes, as do many of the State Blue Sky Commissioners, that the stock exchanges have made a careful investigation of every security listed, and that at least no spurious promotions, so far as careful investigation will show, are on the lists sponsored by the exchanges. It is here that great responsibility attaches to your organization, as indeed is recognized under your constitution. I understand that the preamble to the constitution of the Associated Stock Exchanges reads as follows:

"In order to promote the general welfare and influence of stock exchanges; to broaden the scope of their activities; standardize the method of handling securities; to co-ordinate efforts in the protection of the public against loss by crime and through wilful and irresponsible dealers in securities, and to surround trading by its members with greater safeguards, we submit the following Constitution:"

In carrying out the principles of the preamble to your Constitution, I believe that a uniform requirement for the listing of securities and a constant flow between stock exchanges of information relating to fraudulent and improperly designated securities seeking listing, would be of the greatest assistance in forwarding the campaigns being waged by the states of the Union

and by business in general against fraudulent securities. To educate our public will necessarily be a slow process; but, in the final analysis, education is the soundest foundation upon which to build. The rapidity with which the desired results can be attained, however, will depend in great measure upon the availability of information and a constant drive by legitimate business to expose and frustrate the efforts of fraudulent enterprises.

TREASURY DEPARTMENT

FOR RELEASE MORNING PAPERS  
Friday, December 3, 1926.

Speech  
of  
Honorable G. B. Winston,  
Undersecretary of the Treasury,  
- at the  
Annual Dinner  
of the  
American Acceptance Council,  
New York City, Dec. 2, 1926.

Great wars must be fought upon credit. The immediate taxing capacity of the Government is not equal to the war demands and the Government must resort to the past savings of the people by borrowing and it must also resort, in some degree, to inflation. When this country found that, to preserve its existence, it was obliged to spend three dollars for every dollar it could raise in taxes and when its expenses became as high as a billion dollars every two weeks, our security flotations were controlled not by an ideal, but by the practical necessity of getting money. It was not what securities the Treasury wished to float but what it could float. We have found at the close of every great war period, and the last was no exception in spite of the remarkably fine handling of our finances, a debt structure which was overweighted on the side of the floating debt, and with bond issues which appeared inconvenient. The first problem which the Treasury had to face after the last war was a reconstruction of this war-built structure to one suitable for comfortable, permanent quarters.

A beginning had been made in the restoration of our finances to peacetime conditions during the previous Administration. Our budget had been balanced. But I think it is fair to say that the reconstruction of the debt structure was undertaken and has been carried through by Mr. Mellon as Secretary of the Treasury. The present Administration came into office in March, 1921. On February 28 the national debt was over 24 billion dollars, and of this  $7\frac{1}{2}$  billion dollars matured within about two years. I shall not give you the details of Treasury operations since March, 1921, but in less than six years since that date we can see results. The national debt has been reduced over  $4\frac{1}{2}$  billion dollars, and the floating debt, exclusive of the Third Liberty Loan, which now has a maturity of just

short of two years, is about \$1,750,000,000. You are not interested so much in hearing of those difficulties in reconstruction which have been met and passed, as in knowing what kind of a structure we now have in which for the future we are to live. In describing this structure I shall discuss certain features: - the floating debt, the Third Liberty Loan maturity, refunding opportunities, the bonus, and debt retirement possibilities.

Income taxes represent about 60 per cent of Government tax receipts, and while a small part of these come in throughout the year, the great bulk are paid on the quarterly tax payment dates of March, June, September, and December. The Federal Reserve Banks are the fiscal agents of the Treasury, and its checking accounts generally are kept with them. Treasury balances in the Federal Reserve Banks represent money withdrawn from the market. Unless a proper system is maintained our cash balances with the Federal Reserve Banks would rise to a peak on the quarterly dates, then drop to a minimum just before the next quarterly date, - a variation of, say, \$300,000,000 between the high and the low points. So once every three months great sums of money would be taken from the commercial banks by the taxpayer, out of reach of the money market, and paid into the Federal Reserve Banks to the Treasury's account, thereby influencing interest rates generally. The only remedy for such a situation would be later to redistribute these deposits among the commercial banks upon some arbitrary basis which would inevitably subject the Treasury to political pressure from time to time in favor of particular banks or particular territories. It is desirable to handle Treasury operations without periodic embarrassment to current business and to accomplish this purpose we need to have some automatic means of returning this money to the commercial banks. If on any tax payment period the Treasury has a maturing

obligation to meet about equal in amount to the taxes it is to receive, the tax checks drawn upon the commercial banks come into the Federal Reserve Banks to the Treasury's account and there is paid in the same period by the Treasury to the commercial banks a like amount in payment of interest and maturing Government securities. The transactions wash and do not affect the money market. Since there is no immediate change likely in the system of collection of internal revenue, the Treasury should have maturities of principal and interest on every quarterly tax payment date about equal to the expected tax payment. The present floating debt, therefore, of \$1,750,000,000 represents about the amount which should be continually maintained so as to carry on the tax collections without disturbance to business. We want no further reduction in the floating debt.

The Third Liberty Loan represents somewhat of a problem. Of all of the Government war bonds it is the only one which has a fixed maturity date without prior call date, so it is difficult to anticipate its payment. By purchases for the sinking fund and out of surplus moneys and by exchanges for long-time bonds the original issue of \$4,175,000,000 has been reduced to \$2,300,000,000 to-day; and by its maturity on September 15, 1928, we should have this figure down to \$2,000,000,000. Meeting a maturity of this size on a single date is a major operation. We have, however, kept free from maturities the five years succeeding that date, should they be needed, and barring disastrous financial conditions, the Treasury should be able to solve the problem without embarrassment. This is particularly true since the operation does not mean the finding of new money, but simply the refunding of a maturing obligation. The Treasury would be returning \$2,000,000,000 to the public and borrowing the same amount.

Passing by the Third Libertys, the remainder of the war debt is in

good shape. The earliest maturity date is in 1938, and the latest in 1956. All of the war issues have call dates varying from 5 to 15 years prior to maturity. Commencing with the Second Libertys in November of next year, within six years there are over \$11,000,000,000 of Libertys subject to call. If financing should become difficult in the future, maturities are spread out over a long period and, on the other hand, if financial conditions continue easy, the Treasury has these two advantages by reason of the call privilege. With the exception of about \$1,400,000,000 of  $3\frac{1}{2}\%$  tax-exempt First Libertys, the Libertys becoming subject to call carry  $4\frac{1}{2}\%$  interest. If the interest rates at which flotations can be made are low, the Treasury, in such amounts as are convenient, can call at par and refund at lower interest. Secondly, surplus, that is, an excess of Government revenue over Government expenditures, has been an embarrassment to this country when, as in the 30's, we had no debt, and when, as in the 80's, we had a debt but it was not callable. So long as the Treasury owes money which it can pay off at par surplus can be no embarrassment. With the Third Libertys out of the way, the other Libertys can be handled to advantage under almost any conditions which may arise.

It has been our historic policy to retire our national debt promptly so that we may be ready for the next emergency. We must have, therefore, a debt structure which permits this policy to continue. This brings us to the consideration of when the debt may be retired. In this another factor enters. This is the Soldiers' Bonus, or, as it is legally called, the Adjusted Service Compensation Act. This, in effect, is an insurance plan with the insurance payable at the end of 20 years or upon the prior death of the insured. There will, of course, be a certain number of deaths before the expiration of the twenty years but it is now estimated that the Government's liability at maturity should be \$3,100,000,000. Congress has



set up a plan to take care of this future liability. Each year there is appropriated a premium calculated to pay the current death claims and, if invested at interest of 4 per cent per annum, to meet the maturity value of the policies at the end of the term. Were we an insurance company operating normally, the plan would be subject to no objection; but in two features it is not normal. With a going insurance company the maturities of its policies by death or otherwise are strung over a long series of years and its liabilities can be met currently out of its receipts. On the other hand, the principal liability on the soldiers' bonus comes practically in a single year. This is one distinction from straight insurance. Again, there is no better investment than Government bonds and under the Act our power of investment of the premiums is limited. The Treasury has had to invest in its own securities to meet its own liabilities. This is a defect inherent in any plan and cannot well be avoided. Even though our right of investment were enlarged, we could not invest in commercial securities all maturing in the year our liability accrued, nor could we throw such a block of commercial securities on the market at one time to realize cash. As a practical matter, then, 20 years hence the Treasury will be holding some \$3,000,000,000 of its own securities and will have a cash liability to meet of a like amount. This will necessitate raising the money by a sale of new securities on the market. In other words, we must consider the bonus liability as a debt maturity which will have to be refunded about twenty years from now.

During the present Administration we have refunded old obligations into Treasury  $4\frac{1}{2}$ 's, 4's, and  $3\frac{3}{4}$ 's to the extent of some \$2,300,000,000, the earliest call date of which is 1944, about the time when the bonus refunding must come. Roughly, then, over \$5,000,000,000 of Government obligations cannot be paid until after 1944. This brings us to a consid-

eration of the whole debt structure, not from the standpoint of when we have to pay but from the standpoint of when we may want to pay.

Obviously we should not wish to postpone the opportunity of retiring debt beyond the period within which, under ordinary circumstances, its retirement might be accomplished. We do not wish again to go through the earlier experiences of having an unusable surplus. Let us consider, then, whether the present Treasury bonds represent a reasonable amount of the debt which should be callable after 1944, bearing in mind that other issues of the debt, while callable earlier, need not be paid until later.

The debt is to-day \$19,400,000,000. Of this perhaps a little over \$300,000,000 might be considered perpetual or very long-term, the greater part of which is represented by our green-backs of Civil War days. We have then about \$19,000,000,000 which can be paid off in the next thirty years. There are three principal factors which are now material in the program of debt reduction. These are the sinking fund and the application of foreign repayments, which should not vary greatly and can be estimated fairly accurately, and the surplus which is, of course, exceedingly variable. It might be safe to assume in a business as great as the Government's with an income and outgo of 7 or 8 billion dollars a year, that \$100,000,000, or  $1\frac{1}{2}\%$  of the gross turnover, represents a surplus which on the average future sound finance will require. Taking these factors into account, I think we should expect to retire about 12 of the 19 billions by 1944, leaving about 7 billions to be taken care of after that year. We already have payable or callable after that date the \$3,100,000,000 of bonus obligations and the \$2,300,000,000 of Treasury bonds. If it should be inexpedient to refund the \$1,400,000,000 of First Liberty  $3\frac{1}{2}$ 's, the period would be filled. So if there is no fundamental change in Government

finance, there need not be any material increase in our securities callable after 1944.

Looking at our debt structure as a whole, therefore, I think it is safe to make these points. A continuation of our floating debt at about its present amount is desirable. The Third Liberty Loan maturity presents a large financial operation but not a dangerous one. The remaining 11 billions of Libertys have convenient call and maturity dates and the Treasury should be able to take advantage of conditions as they may arise. The soldiers' bonus has introduced a factor which may be disturbing at its maturity but which cannot be avoided. The existing refunding into Treasury bonds has served to complete the structure.

The ability of America to get back to sound finance immediately after the war, the intelligence and energy of its people, our prosperity, the increased revenues of the Government permitting a reduction of the tax burden, all have contributed to this achievement. The materials furnished are strong but the strength of a structure depends not so much upon its materials as upon its design, and so it has seemed to me that we owe to the architect of that structure, Secretary Mellon, the credit for making America to-day the strongest financial power in the world.

TREASURY DEPARTMENT  
December 4, 1926.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
October 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$ 14,278,000,000	\$ 2,142,000,000 (1)	\$ 12,136,000,000
Territories and insular posses- sions	156,000,000	23,000,000 (2)	133,000,000
United States Government	2,164,000,000	669,000,000 (3)	1,495,000,000
Federal land banks, intermediate credit banks, and joint- stock land banks	1,770,000,000	10,000,000 (4)	1,760,000,000
<b>Total Oct. 31, 1926</b>	<b>\$ 18,368,000,000</b>	<b>\$ 2,844,000,000</b>	<b>\$ 15,524,000,000</b>

Comparative totals:

September 30, 1926	\$ 18,282,000,000	\$ 2,837,000,000	\$ 15,445,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States and also the amount owned by the United States Government.

TREASURY CERTIFICATES OF INDEBTEDNESS AND TREASURY  
 NOTES OUTSTANDING DECEMBER ~~15~~<sub>16</sub>, 1926.

<u>SERIES</u>	<u>INTEREST RATE</u>	<u>DATED AND BEARING INTEREST FROM</u>	<u>DUE</u>
<u>Tax Certificates</u>			
TJ-1927	3½%	September 15, 1926	June 15, 1927
TS-1927	3¼%	December 15, 1926	September 15, 1927
<u>Treasury Notes</u>			
B-1927	4¾%	May 15, 1923	March 15, 1927
A-1927	4½%	January 15, 1923	December 15, 1927

Medicinal Spirits Bill.

Dec 22/26

At the time the 18th Amendment became effective in 1920 the stock of whiskey in 310 bonded warehouses scattered over the United States was 60,000,000 gallons. About four years ago, under authority of law, the Commissioner of Internal Revenue concentrated the existing stocks of whiskey into 37 concentration warehouses. The stock of whiskey now in bonded warehouses in the United States is about 14,000,000 gallons, and the consumption for medicinal purposes is about 2,000,000 gallons a year. If left in the wood 4,000,000 gallons would be lost by evaporation, which would leave but a few years' supply on hand. Since whiskey requires 5 years' ageing after manufacture before it is fit for medicinal purposes it is apparent that manufacture of spirits for medicinal purposes must begin soon.

Concentration of the existing stock into one ownership, the elimination of 31 out of the 37 bonded warehouses, and the manufacture of medicinal spirits in but two distilleries under one ownership as contemplated by the bill will greatly simplify the supervision of the sale and manufacture of medicinal spirits and assist in the enforcement of the Volstead Act. In order to accomplish these results, Representative Green, Chairman of the Ways and Means Committee, has introduced a bill creating a Federal corporation to take over by purchase or condemnation the entire existing stock of medicinal spirits, and to be the sole manufacturer and seller of medicinal liquors, subject to supervision and regulation by the Treasury. After the preliminary organization and a repayment of its borrowed capital the corporation will be entirely in private ownership. The Government will not be in business.

Under the plan of the proposed bill the capital requirements of the company are figured at between 110 and 120 million dollars. It is proposed to obtain this capital by the sale to the public of a maximum of \$35,000,000 of gold notes of the corporation with authority on the part of the Treasury to invest

in these notes should it become necessary. It is expected, however, that this necessity will not arise. The balance of the capital requirements will come from the marketing of 7 per cent cumulative preferred stock of the corporation and common stock of the corporation without par value in units of one share of preferred and one share of common. In purchasing from the present owners the existing stock of medicinal liquors at a fair price the corporation may pay 50 per cent in cash and 50 per cent in stock at its market value, but not less than \$100 for each unit; or the corporation may sell the units on the market at the best price obtainable and pay a larger proportion of the purchase price of the spirits in cash. Working capital and the money to buy the necessary warehouses will be obtained from the sale of 100,000 units of stock. After the payment of the gold notes and the retirement of the preferred stock the common stock may receive a maximum of not to exceed \$10 per share per annum in dividends and any further profits of the corporation must be used to reduce the price to the public of the medicinal liquors.

Until the corporation shall have issued 400,000 units of stock the Directors of the corporation shall be nominated by the Secretary of the Treasury. Thereafter a majority of the directors shall be nominated by him and the remainder elected by the stockholders until the gold notes of the corporation have been paid off, and thereafter the stockholders shall control the corporation. The Government retains the right to regulate the manufacture and sale of the medicinal spirits, exactly as heretofore exercised, and with the additional rights to see that the price charged to the public is fair and that the books of the corporation are properly kept, and the faithful performance by the corporation is insured through powers of mandamus vested in the Government. The corporation must also comply with the prohibition laws of the various States and will not be permitted to manufacture or sell in any State in violation of the State law. The spirits manufactured shall be of standard strength, quality and purity.

It is estimated that the plan of a single Federal corporation will save the Government a million dollars a year in the cost of administration and supervision and will conserve in five years \$4,500,000 of taxes, to become due the Government, which otherwise might be lost through the evaporation of the spirits.

The corporation may sell distilled spirits for medicinal and non-beverage uses only to persons legally entitled thereto, and must comply with all laws of the United States and the regulations promulgated thereunder. The corporation shall not manufacture, sell, or otherwise dispose of medicinal liquors, except as a permittee under the National Prohibition Act, or Acts supplementary thereto or amendatory thereof, and under regulations promulgated thereunder. When the corporation is prepared to do business with the public permits to sell medicinal spirits will be restricted to the corporation.



Reply of Senator Reed Smoot in the United States Senate on Wednesday, December 22, 1926, to statement issued on December 20, 1926, by members of the Faculty of Political Science at Columbia University, regarding the war debt settlements.

The publicity efforts of the Professors of Economics at Columbia in connection with the settlement of the war debts contains assumptions which should have corrections.

1. It is assumed by the Columbia professors that capacity to pay, as employed by the Debt Commission, meant the highest amount which could be collected from the debtor nation by complete exhaustion of the debtor's resources. As a matter of fact, capacity to pay in the conception of the Commission represented the ability of the debtor nation to pay, taking into consideration all its external and internal obligations and the continued full development of its national life. France's debt agreements with America and England represent only half of what it expects to receive from Germany. Italy has set up a fund into which are paid German reparations and out of which can be paid the British and American debts. The pre-Armistice Belgium payments are fixed at less than the receipts from Germany on this same account. The debt settlements, particularly in the earlier years, do not interfere with the economic life of the continental nations. It is claimed too heavy a burden was imposed upon England. The settlement of the American debt was a material factor in the stabilization of the British currency. It is significant that by bringing sterling exchange to parity England in paying its adverse international trade balance saves each year much more than the annuity on the American debt. It has also been stated that England has lost more through the coal strike than the entire American debt. These examples simply illustrate the relative financial importance of the settlements, but for some reason every attack on the Debt Commission finds it necessary to exaggerate the actual financial burden imposed on the debtors.

2. It is assumed that the Debt Commission was bound by limitations set by Congress. The Debt Commission was given the power, without returning to Congress, to make settlements on a  $4\frac{1}{4}$  per cent, 25-year basis. No settlements were made on that basis, but in each case the Commission negotiated an agreement which it and the representatives of the debtor thought fair, and that particular agreement was approved by Congress. In no case were the limitations in the statute a restriction on negotiations. There was the utmost flexibility.

3. It is assumed that generosity did not enter into the negotiations of the Commission. It certainly was very lenient to Italy and it cannot be condemned as harsh to France when there is imposed no greater burden on that nation than the collection of the post-Armistice indebtedness at 5 per cent interest. The figures show that in the treatment of our half dozen or so relief debtors England imposed a much heavier relative burden than did America in settling for loans made by England at the same time to the same debtors and for the same purposes. French papers admit the Franco-British settlement, all things considered, is much more burdensome than the Franco-American settlement. No test of generosity is set up by the Columbia professors but it is just assumed America was ungenerous.

4. The Columbia professors complain because all debtors are not treated on an equality. They speak of a settlement of 60 per cent present value with Great Britain and 26 per cent present value with Italy. Do they propose to correct this want of equality by raising the Italian settlement to that of the British, which, of course, would impose a burden impossible of performance by Italy, or do they propose that the British be reduced to 50 per cent and the Italian raised to 50 per cent, which would make an easy settlement for Great Britain and still an impossible settlement for Italy, or do they propose that the British settlement shall be brought down to the Italian 26 per cent, thus imposing no real burden on England at all? If the last is their

proposition, then why cannot Italy say its 26 per cent should be reduced to zero because we are collecting nothing from another debtor, as, for instance, Armenia? The whole proposition is an absurdity. If it means anything it means complete cancellation. It seems disingenuous to state the professors are against cancellation and still urge a method of settlement of the question which inevitably means cancellation.

5. As their suggestion is understood, it is proposed that the United States go into a joint conference to fix the amount of these debts upon the standard of "equality" and "generosity". They do not state at whose expense generosity is to take place. Of course not of Columbia University, which enjoys the privilege of exemption from taxation and therefore would feel not all any cancellation of debts. The whole proposition of the Columbia professors amounts to a proposed conference between ourselves, a minority of one, and our debtors, all the rest of the proposed conferees. The debtors are to fix how much, if any, of their debts they wish to pay. The standards of "equality" and "generosity" will be applied by the debtors.

6. Like so many good intentioned people, the Columbia professors, instead of accomplishing the benefits which they seek to confer, are actually doing harm to those they say they would help. What Europe needs is certainty. The French can without question pay the earlier years of the debt settlement and, with a return of economic stability, the later years surely also can be met. What they need is some certainty in their fiscal affairs, which they can only obtain if they make definite the obligations which they have to meet. The pronouncement of the Columbia professors is, as was to be expected, now being used to strengthen the opposition in France to a ratification of the Mellon-Berenger agreement and therefore has become an active factor in the maintenance of this very uncertainty from which all Europe is trying desperately

to rid itself. The Columbia professors permit their idealism to seek publicity just at this time to the embarrassment of Poincare in the difficult work which lies before him.

TREASURY DEPARTMENT  
January 10, 1927.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
November 30, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$14,318,000,000	\$ 2,148,000,000 (1)	\$ 12,170,000,000
Trust corporations and other financial institu- tions	156,000,000	23,000,000 (2)	133,000,000
United States Government	2,164,000,000	670,000,000 (3)	1,494,000,000
Land banks, State credit and joint- stock banks	1,784,000,000	10,000,000 (4)	1,774,000,000
November 30, 1926	\$18,422,000,000	\$ 2,851,000,000	\$ 15,571,000,000
Totals:			
Nov. 1, 1926	\$18,368,000,000	\$ 2,844,000,000	\$ 15,524,000,000
Nov. 1, 1925	17,392,000,000	2,793,000,000	14,599,000,000
Nov. 1, 1924	16,268,000,000	2,716,000,000	13,552,000,000
Nov. 1, 1923	14,936,000,000	2,571,000,000	12,365,000,000
Nov. 1, 1922	13,652,000,000	2,331,000,000	11,321,000,000
Nov. 1, 1918	9,506,000,000	1,799,000,000	7,707,000,000
Nov. 1, 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 by the Treasurer of the United States and also the amount owned by the United States Government.

February 11, 1927.

My dear Mr. Chindblom:

I have your letter of February 9th, requesting my views on the administrative features of H. R. 15474, more particularly with reference to the cost of administration of the provisions of the bill. In compliance with your request I have asked the Bureau of Internal Revenue to prepare a memorandum as to the administrative costs of collecting the equalization fee which, in many respects as to administration, is similar to our excise taxes. I enclose herewith a copy of the estimate prepared by the Bureau of Internal Revenue.

Sincerely yours,

A. W. MELLON

Secretary of the Treasury.

Hon. Carl R. Chindblom  
Committee on Ways and Means,  
House of Representatives,  
Washington, D. C.

1 enclosure.

February 11, 1927.

MEMORANDUM on the cost of administration of H. R. 15474:

You have asked for comment as to the administrative features involved in complying with the provisions of HR 15474, a bill proposed "to establish a Federal Farm Board to aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities". You also asked for an estimate of the cost of administration.

The two major factors involved in the administration of the proposed legislation are:

- A. Administrative organization and expense thereof.
- B. Collection of equalization fee.

ADMINISTRATIVE ORGANIZATION AND EXPENSE THEREOF.

The following statement indicates the organization and the estimated annual cost of maintenance thereof:

FEDERAL FARM BOARD

Personnel:

Board members, salaries \$10,000 each.....	\$120,000
1 Secretary (average salary Grade CAF-12).....	5,800
1 Chief Clerk (average salary Grade CAF-11).....	4,400
Experts, 5 at average salary of \$5800, (one for each basic commodity).....	29,000
12 Secretaries to members, \$2100 each.....	25,200
1 Chief Statistician.....	5,800
1 Assistant Statistician.....	4,400
5 Grade 10 employees, \$3600 each, average.....	18,000
10 Stenographers, CAF-2, average salary \$1500.....	15,000
10 Typists, average \$1320 each, Grade I.....	13,200
5 File Clerks, average \$1500, Grade II.....	7,500
10 Clerks, average \$1680, Grade III.....	16,800
5 Clerks, average \$1500 each, Grade II.....	7,500
5 Messengers at \$1140 each.....	5,700
100 Field Investigators, at \$2100 average salary, to be assigned to auditing and investigating accounts covering equalization fees.....	210,000

Travel and Subsistence:

Board members, \$300 per member.....	\$ 7,200
Experts, 5 at \$1000 each.....	5,000
Secretaries, 12 at \$600 each.....	7,200
Field Investigators, average \$1800 each.....	180,000

Miscellaneous Expenses:

Rent, 20,000 square feet, at \$2.00 per square foot.....	40,000
Mechanical equipment.....	3,600
Furniture.....	11,800
Stationery and periodicals.....	3,000
Total.....	\$746,100

NOMINATING COMMITTEE

Salaries, 60 members at \$20 a day for 5 days.....	\$ 6,000
Travel and subsistence (average subsistence \$10 per day for 11 days, transportation average \$100 per member).....	12,600
Total.....	\$ 13,600

ADVISORY COUNCIL

Salaries, 35 members, \$20 per day for 20 days per year.....	\$ 14,000
Secretary to each of 5 Councils, \$16.11 a day, for 25 days!.	2,013
Travel and Subsistence (25 days at \$7 a day for each of the 35 members). Transportation \$100 a man for 2 trips each year).....	9,625
Total.....	\$ 25,638

GRAND TOTAL.....\$790,338

COLLECTION OF EQUALIZATION FEE

The first important factor to be considered in this connection is the method to insure the filing of correct returns and the collection from various designated agencies of the equalization fee for each unit of basic commodity on which such fee is levied.

The bill provides that the equalization fee may be collected under such regulations as the Board may prescribe during operations in a basic agricultural commodity and that the fee shall be paid upon any of the following: the transportation, processing, or sale of such unit. It also provides that no more than one equalization fee shall be collected in respect to any unit. The Board shall determine in the case of any class of transactions in the commodity whether the equalization fee shall be upon transportation, processing or sale. The Board may require any person engaged in the transportation, processing, or acquisition by sale of a basic commodity:



(1) To file returns under oath and to report, in respect of his transportation, processing, or acquisition of such commodity, the amount of equalization fees payable thereon and such other facts as may be necessary for their payment or collection.

(2) To collect the equalization fee as directed by the Board, and to account therefor.

(3) In the case of cotton, to issue to the producer a serial receipt for the commodity which shall be evidence of the participating interest of the producer in the equalization fund for the commodity. The Board may in such case prepare and issue such receipts and prescribe the terms and conditions thereof. The Secretary of the Treasury, upon the request of the Board, shall have such receipts prepared at the Bureau of Engraving and Printing.

Discussing the general terms of the bill it is understood that its purpose is to provide methods to dispose of the surplus of any one of the five basic agricultural commodities and that the method of disposing of such surplus will be either by sale to foreign markets at the best price possible, or by withholding such surplus pending more advantageous conditions. The loss incurred as a result of such action will be apportioned and assessed upon each unit of the particular commodity as the commodity moves in commerce. As set forth above, the Board may require either the person engaged in the transportation thereof, the processing, or acquisition by sale to file the return and pay the assessment.

Regardless of which of the three mediums of collection is adopted, a force of investigating agents must be organized for the purpose of ascertaining whether the designated collection medium has filed correct returns and paid the full amount of the fee. The investigating body might be compared with the present force of revenue agents employed under the supervision of the Internal Revenue Bureau. The impossibility of collecting every cent of the equalization fee is apparent. In addition to the fact that the equalization fee is a sum authorized by law which must be collected for the rehabilitation of the revolving fund it can be seen that the collecting agency that does not make proper report is in effect withholding Government funds. The collection of the equalization fee will be difficult. So much will depend upon the honesty and alertness of the collection agency that it can be seen that many units of the proper commodity as it passes through commerce will fail to pay the equalization fee provided by law. An unscrupulous processor or purchaser or carrier will find that ability to evade the return of the equalization fee to the Board will result in his profit. It must be realized that the ingenuity of the Government representatives must be vigorously applied to adequately meet in so far as possible the requirements of the proposed legislation.

It has been pointed out above that a corps of investigators will of necessity be employed to protect the interests of the Government. It will only be by the most intensive training, experience and study on the part of these men that this important duty can be efficiently performed. They should be specialists in their particular line of endeavor.

The collection of the equalization fee from any one of the three mediums provided has so many disadvantages that it is not possible to say which would be the least difficult. Of course, the Board would determine which of the three mediums would be selected at any given time or for any given commodity.

In the case of collection from the carrier there are 1614 steam and electric railways, two express companies, and 1730 steamship lines doing an interstate and intrastate business. It would be difficult to estimate or to ascertain the number of motor freight companies or freight vehicles making short hauls. The possibility of shipping a commodity by unregistered vehicles and the resultant difficulty in collecting a fee is apparent.

The impossibility of definitely ascertaining the various sources of acquisition by sale prompts the suggestion that the medium of collection at this source must be dismissed as impracticable unless we are to depend entirely upon the honesty and integrity of the acquirer in the collection of the fee.

From the latest figures available, it is estimated that there are in the United States the following number of processors who operate in the basic commodities involved:

Cotton ginner	--	531
Packers	--	1252
Millers	--	3829

There is also to be taken into consideration the number of factories throughout the United States engaged in the business of canning corn. If collection is to be made by the processor the above number would be involved. As a further evidence of the magnitude of the task, attention is called to the fact that in 1925 the wheat crop of the United States was estimated by the Department of Agriculture at 676,429,000 bushels, the corn crop at 2,916,961,000 bushels, the rice crop at 33,309,000 bushels, the cotton crop at 16,103,679 bales, and it was also estimated that a total of 55,568,000 head of swine, weighing 12,391,664,000 lbs. was produced in 1925. If all these commodities were under operation of the Federal Farm Board at the same time, collection would be required from an aggregate of 16,034,466,679 units. This is true regardless of which medium of collection is adopted.

Provision must also be made for the proper and most available place where the returns may be filed and where there may be turned over to the Government the amount collected. Unless it should be determined to fix this place of filing returns and making payment at some collection agency of the Government already established, collectors of equalization fees must be created in each of the twelve Federal Land Banks during the periods of operation, adequate accounting methods must be created to provide for crediting the amount paid, and proper means instituted to see that the payments made are promptly deposited to the credit of the revolving fund. It is reasonable to assume that regardless of the desires of the framers of the proposed legislation it will not be possible to return to the revolving fund the entire amount withdrawn therefrom for the reason that experience in collecting taxes has established the fact that taxes are never collected one hundred per cent.

The estimate does not take into consideration the actual filing of the returns or the collection of the fees. Nor does this memorandum cover those features of the bill covering contracts to be made with processors, cooperative associations or other persons guaranteeing them against losses. To carry out these provisions and to protect the integrity of the stabilization fund the Board will necessarily have to employ a large force of accountants and technical experts. In addition our experience in the collection of internal revenue taxes has indicated that it is necessary to maintain a large legal staff to deal with the many complicated questions that necessarily arise in the collection of large sums of money and in the auditing of vast business enterprises.

The time available has been too short to furnish even an estimate as to these administrative costs.

TREASURY DEPARTMENT  
February 15, 1927.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
OUTSTANDING  
December 31, 1926.

Issued by	Gross Amount	Amount held in Treasury or in sinking funds	Amount held outside of Treasury and sinking funds
States, counties, cities, etc.	\$14,477,000,000	\$ 2,172,000,000 (1)	\$ 12,305,000,000
Territories and insular posses- sions	156,000,000	23,000,000 (2)	133,000,000
United States Government	2,164,000,000	670,000,000 (3)	1,494,000,000
Federal land banks, intermediate credit banks, and joint- stock land banks	1,791,000,000	9,000,000 (4)	1,782,000,000
<b>Total Dec. 31, 1926</b>	<b>\$18,588,000,000</b>	<b>\$ 2,874,000,000</b>	<b>\$ 15,714,000,000</b>

Comparative totals:

November 30, 1926	\$13,422,000,000	\$ 2,851,000,000	\$ 15,571,000,000
December 31, 1925	17,392,000,000	2,793,000,000	14,599,000,000
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 by the Treasurer of the United States and also the amount owned by the United States Government.

MESSAGE  
OF THE  
PRESIDENT OF THE  
UNITED STATES  
TO THE SENATE

RETURNING WITHOUT APPROVAL SENATE BILL 4808  
ENTITLED "AN ACT TO ESTABLISH A FEDERAL FARM  
BOARD TO AID IN THE ORDERLY MARKETING  
AND IN THE CONTROL AND DISPOSITION  
OF THE SURPLUS OF AGRICULTURAL  
COMMODITIES"

FEBRUARY 25, 1927



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON  
1927

RESOLUTION OF THE  
UNITED STATES



To the Senate:

The condition  
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## MESSAGE

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### *To the Senate:*

The conditions which Senate bill 4808 is designed to remedy have been, and still are, unsatisfactory in many cases. No one can deny that the prices of many farm products have been out of line with the general price level for several years. No one could fail to want every proper step taken to assure to agriculture a just and secure place in our economic scheme. Reasonable and constructive legislation to that end would be thoroughly justified and would have the hearty support of all who have the interests of the Nation at heart. The difficulty with this particular measure is that it is not framed to aid farmers as a whole, and it is, furthermore, calculated to injure rather than promote the general public welfare.

It is axiomatic that progress is made through building on the good foundations that already exist. For many years—indeed, from before the day of modern agricultural science—balanced and diversified farming has been regarded by thoughtful farmers and scientists as the safeguard of our agriculture. The bill under consideration throws this aside as of no consequence. It says in effect that all the agricultural scientists and all the thinking farmers of the last 50 years are wrong, that what we ought to do is not to encourage diversified agriculture but instead put a premium on one-crop farming.

The measure discriminates definitely against products which make up what has been universally considered a program of safe farming. The bill upholds as ideals of American farming the men who grow cotton, corn, rice, swine, tobacco, or wheat, and nothing else. These are to be given special favors at the expense of the farmer who has toiled for years to build up a constructive farming enterprise to include a variety of crops and livestock that shall, so far as possible, be safe, and keep the soil, the farmer's chief asset, fertile and productive.

The bill singles out a few products, chiefly sectional, and proposes to raise the prices of those regardless of the fact that thousands of other farmers would be directly penalized. If this is a true farm-relief measure, why does it leave out the producers of beef cattle, sheep, dairy products, poultry products, potatoes, hay, fruit, vegetables, oats, barley, rye, flax and the other important agricultural

lines? So far as the farmers as a whole are concerned, this measure is not for them. It is for certain groups of farmers in certain sections of the country. Can it be thought that such legislation could have the sanction of the rank and file of the Nation's farmers?

This measure provides specifically for the payment by the Federal board of all losses, costs, and charges of packers, millers, cotton spinners, or other processors who are operating under contract with the board. It contemplates that the packers may be commissioned by the Government to buy hogs enough to create a near scarcity in this country, slaughter the hogs, sell the pork products abroad at a loss, and have their losses, costs, and charges made good out of the pockets of farm taxpayers. The millers would be similarly commissioned to operate in wheat or corn and have their losses, costs, and charges paid by farm taxpayers.

It is roughly estimated that in this country there are 4,000 millers, over 1,000 meat-packing plants, and about 1,000 actual spinners. No one can say definitely after reading this bill whether each of these concerns would be entitled to receive a contract with the Government. Certainly no independent concern could continue in business without one. Each of the agencies holding a contract—the efficient and inefficient alike—would be reimbursed for all their losses, costs, and charges.

It seems almost incredible that the producers of hogs, corn, wheat, rice, tobacco, and cotton should be offered a scheme of legislative relief in which the only persons who are guaranteed a profit are the exporters, packers, millers, cotton spinners, and other processors.

Clearly this legislation involves governmental fixing of prices. It gives the proposed Federal board almost unlimited authority to fix prices on the designated commodities. This is price fixing, furthermore, on some of the Nation's basic foods and materials. Nothing is more certain than that such price fixing would upset the normal exchange relationships existing in the open market and that it would finally have to be extended to cover a multitude of other goods and services. Government price fixing, once started, has alike no justice and no end. It is an economic folly from which this country has every right to be spared.

This legislation proposes, in effect, that Congress shall delegate to a Federal Farm Board, nominated by farmers, the power to fix and collect a tax, called an equalization fee, on certain products produced by those farmers. That certainly contemplates a remarkable delegation of the taxing power. The purpose of that tax, it may be repeated, is to pay the losses incurred in the disposition of the surplus products in order to raise the price on that portion of the products consumed by our own people.



This so-called equalization fee is not a tax for purposes of revenue in the accepted sense. It is a tax for the special benefit of particular groups. As a direct tax on certain of the vital necessities of life it represents the most vicious form of taxation. Its real effect is an employment of the coercive powers of Government to the end that certain special groups of farmers and processors may profit temporarily at the expense of other farmers and of the community at large.

The chief objection to the bill is that it would not benefit the farmer. Whatever may be the temporary influence of arbitrary interference, no one can deny that in the long run prices will be governed by the law of supply and demand. To expect to increase prices and then to maintain them on a higher level by means of a plan which must of necessity increase production while decreasing consumption, is to fly in the face of an economic law as well established as any law of nature. Experience shows that high prices in any given year mean greater acreage the next year. This does not necessarily mean a larger crop the following year, because adverse weather conditions may produce a smaller crop on a larger acreage, but in the long run a constantly increasing acreage must of necessity mean a larger average crop.

Under the stimulus of high prices, the cotton acreage increased by 17,000,000 acres in the last five years. Under the proposed plan, as prices are driven up irresistibly by the artificial demand created by the purchases of the board, the millions of farmers, each acting independently, with no assurance that self-restraint on his part in the common interest will be accompanied by a like restraint on the part of millions of other individuals scattered over this immense country, will do just what anyone else would do under the circumstances, plant and grow all they can in order to take full advantage of a situation which they fear is only temporary. This was, of course, recognized by the authors of the measure; and they proposed originally to offset this tendency by means of the equalization fee to be paid by each producer. But in the present bill the equalization fee is to be paid by only part of the producers.

On the other hand, higher prices will make a decreased consumption. From 1917 to 1925 the per capita consumption of pork increased from 55 pounds to 86.3 pounds, but in the following year, when the price of pork rose by \$3.60 a hundred and the price of beef rose only 40 cents a hundred, the per capita consumption of pork fell off almost 9 pounds. It is not inconceivable that the consumers would rebel at an arbitrarily high price and deliberately reduce their consumption of that particular product, especially as uncontrolled substitutes would always be available. The truth is that there is no such thing as effective partial control. To have

effective control, we would have to have control of not only one food product but of all substitutes.

Increased production on the one hand, coupled with decreased domestic consumption on the other, would mean an increased exportable surplus to be dumped on the world market. This in turn would mean a constantly decreasing world price until the point was reached where the world price was sufficiently low so that, even though increased by our tariff duties, commodities would flow into this country in large quantities.

A board of 12 men are granted almost unlimited control of the agricultural industry and can not only fix the price which the producers of five commodities shall receive for their goods, but can also fix the price which the consumers of the country shall pay for these commodities. The board is expected to obtain higher prices for the American farmer by removing the surplus from the home market and dumping it abroad at a below-cost price. To do this, the board is given the authority by implication to fix the domestic price level, either by means of contracts which it may make with processors or cooperatives, or by providing for the purchase of the commodities in such quantities as will bring the prices up to the point which the board may fix.

Except as it may be restrained by fear of foreign importations, the farm board, composed of representatives of producers, is given the power to fix the prices of these necessities of life at any point it sees fit. The law fixes no standards, imposes no restrictions, and requires no regulation of any kind. There could be no appeal from the arbitrary decision of these men, who would be under constant pressure from their constituents to push prices as high as possible. To expect moderation under these circumstances is to disregard experience and credit human nature with qualities it does not possess. It is not so long since the Government was spending vast sums and through the Department of Justice exerting every effort to break up combinations that were raising the cost of living to a point conceived to be excessive. This bill, if it accomplishes its purpose, will raise the price of the specified agricultural commodities to the highest possible point and in doing so the board will operate without any restraints imposed by the antitrust laws. The granting of any such arbitrary power to a Government board is to run counter to our traditions, the philosophy of our Government, the spirit of our institutions, and all principles of equity.

The administrative difficulties involved are sufficient to wreck the plan. No matter how simple an economic conception may be, its application on a large scale in the modern world is attended by infinite complexities and difficulties. The principle underlying this bill, whether fallacious or not, is simple and easy to state; but no

one has outlined in definite and detailed terms how the principle is to be carried out in practice. How can the board be expected to carry out after the enactment of the law what can not even be described prior to its passage? In the meanwhile, existing channels and methods of distribution and marketing must be seriously dislocated.

This is even more apparent when we take into consideration the problem of administering the collection of the equalization fee. The bureau states that the fee will have to be collected either from the processors or the transportation companies, and dismisses as impracticable collections at the point of sale. In the case of transportation companies it points out the enormous difficulties of collecting the fee in view of the possibility of shipping commodities by unregistered vehicles. In so far as processors are concerned, it estimates the number at 6,632, without considering the number of factories engaged in the business of canning corn or manufacturing food products other than millers. Some conception of the magnitude of the task may be had when we consider that if the wheat, the corn, and the cotton crops had been under operation in the year 1925, collection would have been required from an aggregate of 16,034,466,679 units. The bureau states that it will be impossible to collect the equalization fee in full.

The bill will not succeed in providing a practical method of controlling the agricultural surplus, which lies at the heart of the whole problem. In the matter of controlling output, the farmer is at a disadvantage as compared with the manufacturer. The latter is better able to gauge his market, and in the face of falling prices can reduce production. The farmer, on the other hand, must operate over a longer period of time in producing his crops and is subject to weather conditions and disturbances in world markets which can never be known in advance. In trying to find a solution for this fundamental problem of the surplus, the present bill offers no constructive suggestion. It seeks merely to increase the prices paid by the consumer, with the inevitable result of stimulating production on the part of the farmer and decreasing consumption on the part of the public. It ignores the fact that production is curbed only by decreased, not increased, prices. In the end the equalization fee and the entire machinery provided by the bill under consideration will merely aggravate conditions which are the cause of the farmer's present distress.

We must be careful in trying to help the farmer not to jeopardize the whole agricultural industry by subjecting it to the tyranny of bureaucratic regulation and control. That is what the present bill will do. But, aside from all this, no man can foresee what the effect on our economic life will be of disrupting the long-established and

delicately adjusted channels of commerce. That it will be far-reaching is undeniable, nor is it beyond the range of possibility that the present bill, if enacted into law, will threaten the very basis of our national prosperity, through dislocation, the slowing up of industry, and the disruption of the farmer's home market, which absorbs 90 per cent of his products.

With the limited number of farm cooperatives with whom contracts may be made for surplus disposal and the fact that farm cooperatives are not likely to be engaged in meat packing, flour milling, or cotton spinning, it appears certain that the largest part of these contracts must be made between the board and the processors and other agencies. It means that the whole contract in swine, for instance, must be carried out with the meat packers; that a large part of wheat operations must be carried out with flour millers, wheat exporters, and others. It means that any establishment which has such a contract can charge what it likes to our American consumers because it can place the loss from any product unsalable at home on the farmer or the Government by dumping it abroad. In actual working this is a complete guaranty of the profits of these concerns without restraint or limitation on profiteering against American consumers, of which the farmer himself is a very large element. It is not a guaranty to the farmer. The implications of this were pointed out in significant remarks in the minority report of the House Committee on Agriculture, which merits fuller attention than it has been given.

"The silence of the majority report on this phase of the subject, in view of its wide circulation in the farming communities of the country, can be only because the proponents of the bill are unwilling that the farmers of the Nation shall learn that it is proposed that the equalization fee principle shall be utilized to assure to the packers what they have not been able to gain for themselves—a certain profit from every year's operation.

"The proponents of the bill at the hearings conceded that it could not operate as to animals except under a contract with the packers. It incidentally follows that no packer without a contract could operate with the board. The bill nowhere protects the independent packer. It does provide that there shall be no discrimination between cooperative associations. It contains no like provisions as to processors."

The bill would impose the burden of its support to a large degree upon farmers who would not benefit by it. The products embraced in the plan are only about one-third of the total American farm production. The farmers who grow these commodities are themselves large consumers of them, and every farmer consumes some

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of them. There are several million farmers who do not produce any of the designated products, or very little of them, and they must pay the premiums upon the products designated in the bill. In some commodities such as corn and mill feed the farmers are practically the sole consumers. It is proposed to increase the price of corn and mill feed to American farmers, and therefore the costs to the dairy and cattle feeding industries whose products are omitted from the bill. Beyond this, it means that by dumping of American feeds abroad at lower prices than those charged under this plan to the American swine, cattle, and dairy farmer, we should be directly subsidizing foreign production of pork, dairy, beef, and other animal products in competition with our own farmers in the markets of the world. We shall send cheap cotton abroad and sell high cotton at home.

The effect of this plan will be continuously to stimulate American production and to pile up increasing surpluses beyond the world demand. We are already overproducing. It has been claimed that the plan would only be used in the emergency of occasional surplus which unduly depresses the price. No such limitations are placed in the bill. But on the other hand the definition of surplus is the "surplus over domestic requirements" and as we have had such a surplus in most of the commodities covered in the bill for 50 years and will have for years to come it means continuous action. It is said that by the automatic increase of the equalization fee to meet the increasing losses on enlarged dumping of increasing surplus that there would be restraint on production. This can prove effective only after so great an increase in production as will greatly enlarge our exports on all the commodities except cotton. With such increased surpluses dumped from the United States on to foreign markets the world prices will be broken down and with them American prices upon which the premium is based will likewise be lowered to the point of complete disaster to American farmers. It is impossible to see how this bill can work.

Several of our foreign markets have agriculture of their own to protect and they have laws in force which may be applied to dumping and we may expect reprisals from them against dumping agricultural products which will even more diminish our foreign markets.

The bill is essentially a price-fixing bill, because in practical working the board must arrive in some way at the premium price which will be demanded from the American consumer, and it must fix these prices in the contracts at which it will authorize purchases by flour millers, packers, other manufacturers, and such cooperatives as may be used, for the board must formulate a basis upon which the board will pay losses on the export of their surplus.

The present volume of exports of the commodities designated in the bill is one and one-half billion dollars per annum. A multitude of contracts involving scores of different grades and qualities and varieties of products with thousands of individuals, both for raw and manufactured materials, must be entered into—practically cost-plus contracts. The monetary volume of these contracts will be further expanded beyond even this sum because in hogs, for instance, the exports are in the main lard and bacon, while other parts of the animal are consumed at home, and thus contracting must apparently need cover all hogs, not the export surplus alone. Therefore the bill means an enormous building up of Government bureaucracy to let and inspect these billions of dollars of contracts with all their infinite variety of terms covering different goods and their different grades and qualities. In turn, all of the contracts of resales by these institutions must be examined and checked to determine the losses made.

Parallel with it another bureaucracy must be built up to collect and distribute the equalization fee. It all calls for an aggregation of bureaucracy dominating the fortunes of American farmers, intruding into their affairs and offering infinite opportunities to fraud and incapacity. It does not replace any middle men or manufacturers, it means that thousands of officials are set to watch them and the farmers to see that they do not evade the requirements. One of our difficulties to-day is the great spread between the farmer and the consumer. All these increased processors profits and this cost of bureaucracy must simply add to this spread without bringing to the farmer any return on such items. In fact, as he is a large consumer he also pays this.

While the Government is not directly buying or selling these commodities, it must under this bill let contracts for others to do so and name therein the terms upon which they shall buy and sell. No matter how disguised, this in plain terms is Government buying and selling of commodities through agents.

It is proposed that the administration of this plan shall be in the control of a board whose members are nominated to the President by agricultural organizations for his transmission to the Senate for confirmation. That appears to be an unconstitutional limitation on the authority of the President, but, far more important than this, I do not believe that upon serious consideration the farmers of America would tolerate the precedent of a body of men chosen solely by one industry who, acting in the name of the Government, shall arrange for contracts which determine prices, secure the buying and selling of commodities, the levying of taxes on that industry, and pay losses on foreign dumping of any surplus. There is no reason why other industries—copper, coal, lumber, textiles, and others—in

every occasional difficulty should not receive the same treatment by the Government. Such action would establish bureaucracy on such a scale as to dominate not only the economic life but the moral, social, and political future of our people.

• The amount of the equalization fees, the method of collection and disposition of these great sums of money are to be determined by the board without any effective check or review from the Executive or Congress—a delegation of powers under which our form of Government can not continue.

No time limit is placed upon the contracts which the board may make. Such contracts might easily be for a term of years and in some commodities, as, for example, cotton at the present time, must necessarily be for a considerable period since the surplus can not be disposed of in a single year. During the continuance of any such contract, the equalization fee must continue to be levied unless the whole burden of a continuing operation is to be borne by the producers of the first crop. Consequently the suggestion often made that the scheme should be tried, and if it fails be repealed, loses all force. This suggestion is faulty in another respect, namely, that failure would be demonstrated only by the accumulation of a huge surplus in storage. The discontinuance of operations, while a vast supply remained in storage, would result in a prolonged depression of price through the surplus being fed into the markets or through fear of its sale.

While the bill authorizes an appropriation of \$250,000,000, it fails to restrict the contracts of the board within that sum and nowhere denies the liability of the United States for additional sums of money. If the board had begun operating in the 1925 cotton crop when prices were around 20 cents a pound and had then attempted to hold up the price on the 1926 crop at a level which induced the picking of the whole crop, the whole \$250,000,000 would have been spent and great commitments beyond that figure have been entered into. The allocation of \$100,000,000 to cotton in last year's bill, plus the suggested fee of \$5 a bale, would have been completely exhausted long before the 1926 crop came into the market. And, if the equalization fee should prove unconstitutional or otherwise uncollectible, the Treasury would have been committed by contracts to a liability to the extent of the whole revolving fund.

Apart from the necessity of contracting with the packers, the bill confers upon the board unlimited power as to the nature, extent, and duration of contracts with other processors. It does not even enjoin an absence of "unreasonable" discrimination between them, although it does prohibit "unreasonable" discrimination between cooperatives. The board would therefore possess an absolute power of life and death over many legitimate business organizations, since

none could compete against a processor enjoying a contract with the board protecting it against loss. The board could go unlimitedly into processing for its own account, if it so desired. No such unrestricted powers have ever been conferred upon any board.

The insurance proposal amounts to a straight Government agreement to pay to the cooperative associations any loss which they may incur in withholding commodities from the market—no matter how high the price may go in the meantime. For example, a wheat cooperative may, in a year of shortage, take wheat from a member on a day when it is selling at \$2.50 a bushel. Under this bill it may decide to hold it for \$3 but be insured that if the market breaks the Government will pay it the difference between \$2.50 and the price at which the cooperative actually disposes of the wheat. Nothing more destructive of all orderly processes of trade could be imagined, and nothing more unfair to the nonmember of the cooperative, since his equalization fee would be used to pay the losses.

Let us see how the bill is to be put into operation. This act provides that before operations as to any one of these commodities shall begin it shall be necessary to obtain an expression from the producers of the commodity through a State convention of such producers. This applies in any State where not so many as 50 per cent of the producers of the particular commodity are members of cooperative associations or other organizations. The best estimate that can be made is that this would apply to every State in the Union. I quote from the Record with reference to this provision to show that this construction was given to it. The Congressional Record of February 11, page 3602, reads as follows:

\* \* \* \* \*

“Mr. McKELLAR. Immediately following that amendment I offer another amendment on behalf of the senior Senator from North Carolina (Mr. Simmons), \* \* \*.

“The VICE PRESIDENT. The amendment will be stated.

“The CHIEF CLERK. On page 8, line 16, after the word ‘commodity,’ insert the following proviso:

“*Provided*, That in any State where not as many as 50 per cent of the producers of the commodity are members of such cooperative associations or other organizations, an expression from the producers of the commodity shall be obtained through a State convention of such producers, to be called by the head of the department of agriculture of such State, under rules and regulations prescribed by him.

“Mr. REED of Missouri. Mr. President, will the rules permit an inquiry of the Senator from Tennessee at this point? Does the last amendment read fix it so that if less than a majority are in favor of the scheme it may be adopted? Is it planned to



call a State convention, a minority of which may be able to accomplish the result desired?

"Mr. MCKELLAR. No.

"Mr. REED of Missouri. Then what does it mean?

"Mr. MCKELLAR. It means exactly what it says, that such a convention shall pass on it before it is put into operation."

Page 3605:

"Mr. MCKELLAR. I offer an amendment on behalf of the senior Senator from North Carolina (Mr. Simmons).

"The VICE PRESIDENT. The clerk will state the amendment. [Amendment repeated.]

"Mr. REED of Missouri. Mr. President, I do not desire to delay the Senate, but I ask for a record vote on these important amendments. I call for the yeas and nays.

"The yeas and nays were ordered, and the Chief Clerk proceeded to call the roll."

\* \* \* \* \*

"So Mr. McKellar's amendment was agreed to."

You will note that this is a State convention of the producers and that the proponent of the amendment said that a minority could not accomplish the result. Usually when there is a convention it is composed of delegates selected by producers. This provision is for a convention of the producers themselves, and before operation as to any commodity can be put into effect there must be such convention called and held in every State where the majority of the producers of the particular commodity are not members of cooperative associations or organizations. The extent of this provision is not limited as to the amount of the commodity produced in any State. For instance, some swine is produced in almost every State; some wheat is produced in the majority of all States; some corn is produced in the majority of all States, and, regardless of the amount produced, each such State would have to hold a State convention of all the producers.

If all the producers attended the convention the expense which must be borne by them individually would be a tremendous addition to the operating cost, and if the majority of them did not attend the convention the deliberations would not represent the voice of the producers. If such relief as that contemplated by the general plan of this bill were desirable, it would be extremely unwise to hamper it with this most cumbersome and awkward provision, the compliance with which is made mandatory as a condition precedent to the operation of the law. It is impossible to see how such conventions of producers could ever be held. The bill does not say "delegates," it says "producers," the farmers themselves, and if a

majority of them must meet in State convention it is entirely unworkable.

Corn is a crop that varies between 2,500,000,000 and 3,000,000,000 bushels per year, and the normal export is very small. The reason then for operating this bill on corn would not grow out of the exportable surplus, but according to the definition in section 6(c) (2) would grow out of a surplus above the requirements for orderly marketing. The marketing of corn would include marketing to a purchaser to feed to cattle and hogs, so that a situation might arise where there would be a surplus above the requirements for orderly marketing. The act then could be put into operation as to corn under all the different kinds of agreements. But the vast expense of financing the operations of these agencies in the corn market would be charged not against the entire commodity but against that part of the commodity which is used for milling or processing or that is transported by a common carrier. This, according to statistics, amounts only to some 15 to 20 per cent of the corn produced.

That the equalization fee is not laid on the entire commodity is not apparent from a casual reading of the act. But a close study shows that section 10 provides that there shall be paid "an equalization fee upon one of the following: The transportation, processing, or sale of such unit." There is no other way to collect the fee. If that stood alone, then all the corn would be subject to the fee unless it were used by the raiser, but section 15 (1) says:

"In the case of \* \* \* corn, the term 'processing' means milling for market of \* \* \* corn or the first processing in any manner for market \* \* \* of corn not so milled, and the term 'sale' means the sale or other disposition in the United States of \* \* \* corn for milling or other processing for market, for resale, or for delivery by a common carrier \* \* \*."

So, unless the corn is processed or sold for milling or other processing for market or is transported by common carrier, it is not subject to the equalization fee. But the great bulk of it which is neither processed nor transported by common carrier is free from the equalization fee.

The only figures in the debates with reference to corn are some estimates based solely upon exportable surplus, which really form no basis for the present proposed plan based on desire for orderly marketing and not for controlling the small exportable surplus. While it is difficult to estimate the burden of this equalization fee, which must be borne for the entire crop by this small proportion, the simplest calculation will show that the amount per bushel necessarily would be tremendous so that the market of corn for milling and other processing and for transportation would be entirely dislocated. The

provisions of the present measure with reference to an equalization fee on corn must not be confused with the other measures which have been proposed for the reason that former measures put the burden upon the entire crop, but this measure in undertaking to place the duty of collecting payments on the processor has reached this disastrous result. It is no answer to say that the corn producers would induce their advisory council and the members of the board from their land-bank districts to exclude corn from the operation of this bill because the people who do not pay an equalization fee and on whom the burden does not fall are 80 or 85 per cent of the producers of the corn.

It may be contended that since there is to be an equalization fee on swine that the feeders would be taxed, but the swine and corn are separate units and have a separate stabilization fund and under the law the fees on swine can not be turned in to the stabilization fund for corn.

In figuring the percentage of the corn crop upon which the fee would fall, while it is possible that the fee might fall on corn carried by a common carrier, it is doubtful whether any board would lay a tax on transportation where the corn was being transported to be sold to feeders. If they did, of course, the result would be that to avoid the fee in most cases the seller would not transport by a common carrier.

It is not enough to say that the right to put the equalization fee on swine would adjust the inequalities between those bearing the burden and those not bearing the burden, first, because the board might commence operating as to corn and not desire to operate or be permitted to operate as to swine. However, much of the corn would be fed to cattle and livestock other than swine, and there is no right to bring the products of livestock other than swine under the provisions of the law. With a requirement for a fee on part of the corn crop and no fee on the balance, the free movement and dealing in that commodity would be hampered to an almost unbearable extent. It would take a horde of inspectors to assure the payment of the fee on the particular corn required to bear it. A feeder of cattle who had the necessary machinery to grind or crush his corn bought from other farmers for feeding purposes would be able to market his cattle free from the cost of the equalization fee, while another feeder who purchased such ground feed would be compelled to market his cattle with the added cost of the equalization fee on the corn. This, of course, would be true as to swine; moreover, the feeder who had been compelled to purchase the ground feed would pay the fee on that, and when he sells his swine he pays an additional fee on that transaction. He pays twice.

It is provided in the law "the board shall determine in the case of any class of transactions in the commodity whether the equalization fee shall be paid upon transportation, processing, or sale." While this language is not very clear, a plan is set out by Representative Haugen, one of the coauthors of the bill, in the following language (Congressional Record, February 10, p. 3528):

"For wheat on hand at the beginning of the operation period the board would undoubtedly have to collect on the processing. In the case of transaction during the operating period the board would pick either the sale or the transportation."

The act itself provides in section 10 (b) the board may, by regulation, require any person engaged in the transportation, processing, or acquisition by sale of a basic agricultural commodity: "(1) \* \* \* (2) to collect an equalization fee as directed by the board and to account therefor." Thus the common carrier if on transportation, or the processor if on processing, or those who secure by sale, if on sale, collect the fee which must fall on the producer. Transportation under the act means the acceptance of a commodity by a common carrier for delivery (section 15 (5)). Regardless of just how it is collected it is the intent that it shall fall upon the producer. The farmer pays it when his product moves.

Thus the Senate report, page 23, says:

"The fees are imposed at the point of transportation, processing, or sale, as the board may determine. Their amount will, of course, be reflected in the price to the producer. \* \* \* The committee bill, however, requires agricultural producers to meet their own losses with their own moneys." \* \* \*

On page 25 it adds:

"Neither of the above effects of the fee constitutes price fixing. The producer or other person may sell for such price as he chooses. The buyer may pay such price as he wills. There is no limitation upon the price to be fixed by the contracting parties save that the equalization fee, just as a broker's fee, will be taken into account in arriving at the price to be paid."

It is important to bear in mind that the equalization fee can only be levied upon a unit of the basic agricultural commodity. This means the actual commodity itself as defined in section 6, to wit, cotton, wheat, corn, rice, tobacco, and swine. The reference in subdivision (h) of section 6 to food products of the commodity specifically limits the application thereof to sections (d), (e), and (f) of section 6, which do not in any way relate to the equalization fee. All of the sections dealing with the equalization fee and all of the references to it clearly limit its application to the basic agricultural commodity itself, and they can not lay a fee upon flour

or other products of wheat, meal, or other products of corn, meats, or other products of swine.

While there may be some conceivable way of reaching an import of any of these agricultural commodities as such there is no possible way of reaching any of the products of these commodities after they are processed. The result would be to throw all of our processors and millers who would have to buy the commodity with the cost of the equalization fee added into competition with imports from Canada or other countries who sent in any product of any of the basic agricultural commodities. Of course, the millers or other processors who happen to get desirable contracts from the board might be able to recoup that loss to a certain extent, but the milling capacity of the small mills and large mills is great enough to take care of twice the amount of milling and other processing to be done; and the mills which were not fortunate enough to get such contracts would be ruined.

It is a fundamental principle in writing a tariff law that when a duty is placed upon a raw product that a compensatory duty must be placed on the manufactured or processed product in which the raw product is used. Here is a fee placed upon the raw product without an opportunity to place a like fee upon the processed product which might be imported. Raw products dumped abroad can there be processed and reshipped here to the disaster and destruction of this whole bill.

In fixing the amount of the equalization fee the board must necessarily estimate the crop, because it is their duty to estimate the probable "advances, losses, costs, and charges to be paid" and to determine the amount for each unit. Of course, they are compelled to estimate the crop in order to estimate the number of units. One of the coauthors of the bill suggests that if the law had been in operation from 1925 the equalization fee on wheat should yield \$131,750,000. I mention this to show the large sums involved. If either the estimate of the crop or the size of the fund needed should be inaccurate, so that there is collected many millions more than needed, there is no way to return it to the producer. Suppose there should be estimated an exportable surplus of 200,000,000 bushels of wheat and there is a surplus of but 100,000,000, the fund would be almost twice as large as it should be, and if the amount involved should be anything like that stated by Representative Haugen the board would have fifty-five or sixty millions more than needed of the farmers' money. There is no way to return it. Now, in the case of cotton there is provision that any excess that is accumulated for the stabilization fund shall be paid back to the producer. This is con-

tained in section 10, subdivision (3), and section 11, subdivision (e), as follows:

"10 (3) *In the case of cotton*, to issue to the producer a serial receipt for the commodity which shall be evidence of the participating interest of the producer in the equalization fund for the commodity. The board may in such case prepare and issue such receipts and prescribe the terms and conditions thereof. The Secretary of the Treasury, upon the request of the board, shall have such receipts prepared at the Bureau of Engraving and Printing."

\* \* \* \* \*

"11 (e) When the amount in the equalization fund *for cotton* is, in the opinion of the board, in excess of the amount adequate to carry out the requirements of this act in respect of such commodity, and the collection of further equalization fees thereon is likely to maintain an excess, the board may retire in their serial order as many as practicable of the outstanding receipts evidencing a participating interest in such fund. Such retirement shall be had by the payment to the holders of such receipts of their distributive share of such excess as determined by the board. The amount of the distributive share payable in respect of any such receipt shall be an amount bearing the same ratio to the face value of such receipt as the value of the assets of the board in or attributable to the fund bear to the aggregate face value of the outstanding receipts evidencing a participating interest in such fund, as determined by the board."

But there is no place in the law which provides for a return to the producer of other products where the assessment of the fee levies an amount in excess of that necessary for the stabilization fund. There is quite a large variance from year to year of the amount of production of these different basic agricultural commodities, and it is manifestly unfair to provide that as to cotton the producer shall share in any excess collected, while as to corn, wheat, swine, rice, and tobacco no such provision exists. In all the similar bills heretofore considered by Congress it has been thought necessary to provide for the return to all producers of any amount they should pay in excess of that required, and it is illogical and indefensible to deem it necessary to still make that provision for the cotton producer and deprive the other producers of that benefit. This appears to be the rankest kind of discrimination in favor of one crop and against all the other crops in the bill.

Another difficulty will be in making proper estimates of the amount of products and the amount of the equalization fee.

It is improbable that this board could do any better in this respect than has been done by the Department of Agriculture. In spring wheat the estimates of the department have been 78,000,000 bushels too small and 90,000,000 bushels too large; in winter wheat, 126,000,000 bushels too small and 140,000,000 bushels too large; in corn, 430,000,000 bushels too small and 657,000,000 bushels too large. In cotton the range has been 2,983,000 bales too small for 1926 and 3,286,000 bales too large for 1918. These are all recent estimates and show conclusively the impossibility of arriving at accurate conclusions. No rebates are allowed except on cotton. Any year therefore that a large corn or wheat crop is estimated which turns out to be too high too much money would be collected, and as it is not returnable it would result in so much loss to the farmer. If the crop were underestimated, the fee might not furnish a large enough sum to sustain the market on that particular commodity.

The main policy of this bill is an entire reversal of what has been heretofore thought to be sound. Instead of undertaking to secure a method of orderly marketing which will dispose of products at a profit, it proposes to dispose of them at a loss. It runs counter to the principle of conservation, which would require us to produce only what can be done at a profit, not to waste our soil and resources producing what is to be sold at a loss to us for the benefit of the foreign consumer. It runs counter to the well-considered principle that a healthy economic condition is best maintained through a free play of competition by undertaking to permit a legalized restraint of trade in these commodities and establish a species of monopoly under Government protection, supported by the unlimited power of the farm board to levy fees and enter into contracts. For many generations such practices have been denounced by law as repugnant to the public welfare. It can not be that they would now be found to be beneficial to agriculture.

This measure is so long and involved that it is impossible to discuss it without going into many tiresome details. Many other reasons exist why it ought not to be approved, but it is impossible to state them all without writing a book. The most decisive one is that it is not constitutional. This feature is discussed in an opinion of the Attorney General, herewith attached and made a part hereof, so that I shall not consider the details of that phase of my objections. Of course it includes some good features. Some of its provisions, intended to aid and strengthen cooperative marketing, have been borrowed from proposals that do represent the general trend of constructive thought on the agricultural problem. In this measure, however, these provisions are all completely subordinated to the main objective, which is to have the Government dispose of exportable surpluses at a loss and make some farmer taxpayers foot the

bill. This is not a measure to help cooperative marketing. Its effect, on the contrary, is to eliminate the very conditions of advantage that now induce farmers to join together to regulate and improve their own business.

That there is a real and vital agricultural problem is keenly appreciated by all informed men. The evidence is all too convincing that agriculture has not been receiving its fair share of the national income since the war. Farmers and business men directly dependent upon agriculture have suffered and in many cases still suffer from conditions beyond their control. They are entitled to and will have every consideration at the hands of the Government.

Surely, a real farm relief measure must be just and impartial and open the way to aid for all farmers. Surely, it must not contemplate, as this measure inescapably does, that farmers in some regions should be penalized for the benefit of those in other regions. Surely, it must be aimed to promote the welfare of the community at large. There is no thoughtful man who does not fully appreciate how vital a prosperous agriculture is to this Nation. It must be helped and strengthened. To saddle it with unjust, unworkable schemes of governmental control is to invite disaster worse than any that has yet befallen our farmers.

It has been represented that this bill has been unanimously approved by our farmers. Several of our largest farm organizations have refused to support it, and important minorities in the members and leadership among the most important organization who are recorded as giving it indorsement have protested to me against it.

It is not to be thought that the farmers of the United States want our agricultural policy founded upon legislation as is proposed in this measure. The final judgment of American farmers always has been and will be on the constructive rather than the destructive side. What the farmers want, and what the American people as a whole will approve, is legislation which will not substitute governmental bureaucracy for individual and cooperative initiative, but will facilitate the constructive efforts of the farmers themselves in their own self-governed organizations.

Although these arguments and others have been advanced in Congress and outside, I find little attempt has been made to answer them. The pressure for this bill arises primarily from the natural and proper sympathy with the farm distress from the after-war inflation speculation and collapse. Many sincere and thoughtful people have expended a great deal of time and energy in working out this measure and are entirely honest and honorable in their advocacy of it. It is a great regret to me that I am unable to come to the conclusion that the bill would help agriculture, be of benefit to the country, and be in accord with the Constitution.

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Other plans have been proposed in Congress for advancement in this recovery, which plans offer promise of sound assistance to the farmers without these unconstitutionality, invasions of Executive authority, this contracting with packers and flour millers and other manufacturers, this overproduction with its inflation and inevitable crash, without this indirect price fixing, buying and selling, this creation of huge bureaucracies. They are, on the contrary, devoted entirely to the principle of building up farmer-controlled marketing concerns to handle their problems, including occasional surplus production, and applicable to all agriculture and not to a minor fraction. I have frequently urged such legislation. I wish again to renew my recommendation that some such plan be adopted.

I am therefore obliged to return Senate bill 4808, entitled "An act to establish a Federal farm board to aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities," without my approval.

CALVIN COOLIDGE.

THE WHITE HOUSE,  
*February 25, 1927.*



## OPINION OF ATTORNEY GENERAL

SIR: In response to your request for an opinion as to whether the act entitled "An act to establish a Federal Farm Board to aid in the orderly marketing and in the control and disposition of the surplus of agricultural commodities," called the "Surplus control act," if approved, would contravene the provisions of the Constitution of the United States, I submit herewith my conclusions.

Without going into a minute analysis of the provisions of the act, it is necessary, in order to bring out the constitutional questions presented, to state in a general way its purpose, effect, and operation, as disclosed by the terms of the act itself and the reports of congressional committees dealing with it.

The act provides for a Federal Farm Board of 12 members, to take charge of the control and disposition of surplus, over domestic requirements, of certain agricultural commodities. In section 3, the act prescribes the qualifications and terms of office of the members of this board; but it is further provided in section 2 that the appointment of the members of the board by the President shall be made from lists of eligibles submitted by nominating committees for each of the Federal land bank districts. One member is to be selected by the President from a list of three so submitted by the nominating committee of each district. Of the members of each nominating committee, four are to be chosen by farm organizations and cooperative associations at conventions, two are to be selected by the agricultural departments of the States in the district, and one is to be appointed by the Secretary of Agriculture.

The provisions of the act come into operation with respect to the control of surplus agricultural commodities, and the board is to commence operations only when such action is recommended by an advisory council, who are appointed by the board from lists submitted by State agricultural departments and by cooperative marketing associations and farm organizations, and, when that recommendation is concurred in, by a substantial number of cooperative associations and other organizations representing producers of the commodity to be dealt with. When the machinery of the act is thus set in motion, control and disposition of the surplus are to be effected by contracts made by the board with cooperative associations or their creature corporations, or, if the board is of the opinion that such associations or organizations are not capable of carrying out

such agreements, then by contracts with other agencies. The contracts so made shall provide that the contracting agencies shall purchase, remove, hoard, and withhold from the market, or otherwise dispose of, the surplus of the commodities. The primary object of these operations is to stabilize; that is, to fix and then maintain the prices at which the commodities may be bought and sold in the market.

At the disposition of the board is placed a stabilization fund for each commodity, to be created by the imposition of what is called an equalization fee on certain sales, transportation, or processing of the commodity in question. A revolving fund is provided from public funds, from which advances may be made to the stabilization fund, and which advances, it is contemplated, would be repaid if the stabilization fund is sufficient therefor.

The act contemplates that contracts made by the board shall provide that losses and expenses incurred by the selected agencies in their operations in dealing in a commodity shall be made good to the agencies out of the stabilization fund, and that profits resulting from the operations in the commodity shall be paid into the stabilization fund.

The purpose and effect of the statute is to fix the prices at which certain agricultural commodities may be bought and sold in the domestic market and to prevent the depression of prices of such commodities in the United States to the level of prices in the world markets which results from the existence of a surplus in excess of domestic requirements. This is the purpose declared in the reports of congressional committees, and it is derived from the plain terms of the act itself. The control, purchase, hoarding, withholding, sale, or other disposition of the surplus commodities are only means to an end, which is, first, to determine upon a price for the commodity to be established in the domestic markets and then to maintain that price. All operations by or under the direction of the board would be aimless unless the board first establishes its objective, viz, the price which it believes should prevail in the domestic markets. Having made the decision as to price, the board would then conduct its operations to bring the market price to the level so determined upon and there maintain it. This is to be done by acquisition of sufficient of the commodity and withdrawal of it from the ordinary channels of trade to establish a partial corner.

When that result is brought about by manipulating a market through its control of the surplus, and the purchase or sale of the commodity controlled, the price determined upon would be maintained. The contracts to be made by the board of agencies would undoubtedly give the board full control over such matters. In

other words, in legal effect, by necessary implication this act directs the board so established to determine what the market price shall be for the purchase and sale in domestic markets of the agricultural commodity dealt with, and then, having made that determination, to make it effective and operative by using the financial resources at the board's disposal. The legal effect of the act, aside from the delegation of legislative authority hereafter mentioned, is the same as if Congress itself had named the price and then established agencies to conduct operations in the commodity to carry out its determination.

This analysis of the act does not impute to Congress a motive or purpose not disclosed on the face of the statute. On the contrary, both from the committee reports and the terms of the act, it is obvious that the statute was intended to so operate, and that unless it does so operate it will fail of its purpose.

1. One provision of the act which is plainly in violation of the Constitution is that which limits the President in his appointments of members of the board to select in each district one man from a list of three submitted by a nominating committee.

Among the executive powers conferred and duties imposed upon the President by the Constitution is the one that the President shall nominate and by and with the advice of the Senate appoint all officers. This provision of the Constitution not only confers upon the President a power, but imposes upon him a duty to exercise his judgment in the selection of appointments of higher officers. It contemplates that his appointments shall be made by and with the advice and consent of the Senate, and not by and with the advice and consent of any other person or official. It is one thing to prescribe qualifications for appointment to an office and an entirely different thing to provide that some agency other than the President shall participate in the executive act of selection of the individual appointee.

To provide that certain committees or individuals who are not even officers of the United States shall designate a limited list from which the President is required to select the appointees is not in any proper sense prescribing qualifications, but is authorizing these outside agencies to participate with the President in the executive act of appointment. There are a few instances in our legislative history where acts have been passed and approved which placed some such restrictions on the presidential power of appointment, but the question here considered does not seem to have been made an issue, and, taken as a whole, these instances do not constitute a practical construction of the Constitution of any considerable weight or which

should be accepted as controlling the plain provisions of that instrument.

The principles announced by the Supreme Court in the case of *Lois P. Myers, administratrix, v. The United States*, decided October 25, 1926, although stated in relation to removal instead of appointment, leave no room to doubt that this provision of the act is unconstitutional and void.

2. There is also the question whether in this act is found any unconstitutional delegation of legislative authority. It has been generally understood that there is no delegation of legislative authority where a controlling rule is fixed by the legislative body, and the power delegated is a power to apply that rule to some specific facts or to determine facts on which the legislative action depends.

From practical necessity, resulting from the complicated activities of the Federal Government, the courts have applied this rule in the most liberal way in sustaining acts of Congress against the objection that legislative authority has been delegated, but the rule still remains and is to be applied in a plain case.

*Wichita, etc., Co. v. Public Util. Comm.*, 260 U. S. 48; *Field v. Clark*, 143 U. S. 649; *United States v. Grimaud*, 220, U. S. 506; *Union Bridge Co. v. United States*, 204 U. S. 364; *Butterfield v. Stranahan*, 192 U. S. 470; *Mahler v. Eby*, 264 U. S. 32.

If this act is to be considered as a regulation of interstate commerce, then Congress has delegated to private associations and corporations the power to determine whether the regulation shall be put into effect, or, at least, has required their concurrence to its being placed in operation.

If, as pointed out above, the primary duty of the board is to determine the price at which certain agricultural commodities shall be bought and sold in the domestic markets, then to the board has been given the legislative power to determine that price in its entire discretion, without any rule or formula to guide its judgment prescribed by Congress, such as a provision that the price determined on as the objective of operations shall be based on cost of production, or reasonableness, or anything of that kind. The power of the board to determine the price is absolute and the discretion unlimited.

With respect to what is called the equalization fee, there is a provision that in fixing its amount the board shall have due regard for its estimate of probable losses in conducting operations. Accepting this provision as a requirement that the board shall base the decision on its estimate, it may be observed that the estimate is not a finding as to existing facts, but a prediction of future prices to prevail in the markets where the surplus is to be disposed of. But assuming that some legislative rule has been stated to guide the board in fixing

the amount of the fee, there is left to the board the absolute discretion, unregulated by any rule or principle, to say whether the fee shall be imposed on the sale, the manufacture, or the transportation.

Notwithstanding the length to which the courts have gone in sustaining legislation against the claim that it involves the delegation of legislative authority, I am unable to believe that in an act which provides, in substance, that, through governmental agencies, prices of certain farm products shall be determined upon, established, and maintained, Congress may lawfully delegate to Federal officers, acting concurrently with private agencies, the unlimited discretion to decide whether the price-fixing operation shall be commenced; may lawfully delegate the complete discretion without any prescribed rule to determine what the price shall be; or may lawfully delegate the power to determine on whom shall be directly placed the burden of collecting the charge to provide the fund to conduct operations.

3. I come now to consider what, in my opinion, is a broader and more fundamental constitutional objection to this act.

The Federal Government is a government of limited powers. It has only such powers as have been expressly given to it by the Constitution or are implied as incidental to the powers as expressed. The only provision of the Constitution relied on to supply the power for this legislation is the one which gives Congress power to regulate commerce with foreign nations and among the several States. A painstaking search has not disclosed to me anything in our constitutional history or in the decisions of the Supreme Court of the United States to justify the belief that the power of the Federal Government to regulate commerce includes the power to establish and maintain or take steps to establish and maintain the price at which merchandise may be bought and sold in interstate commerce, with the necessary consequence of fixing the price at which the commodity in question shall be bought and sold in every place in the land, whether in or out of interstate commerce.

It is suggested that the tariff acts and the laws regulating immigration and other legislation have an effect on domestic prices of merchandise and labor. In such legislation the effect on prices is the incidental result of the exercise of admitted powers. Here, the fixing, establishment, and maintenance of prices of merchandise is not the incidental result of the exercise of an admitted power, but the question is whether there is a direct power to fix and maintain prices of articles in interstate commerce, and whether that constitutes a regulation of commerce within the meaning of the commerce clause.

In general, legislation under the commerce power has been directed at carrying out the primary purpose of the commerce clause, which

was to prevent undue discriminations against or burdens or restraints on interstate commerce, and most of the decisions of the Supreme Court under the commerce clause deal with such legislation. In this act are found expressions taken from such decisions, respecting the prevention of discrimination against or burdens or restraints upon or suppression of commerce, but the things intended to be brought about by this act are the very things that Congress and the courts have heretofore declared to be burdens and restraints on commerce. This act, instead of preventing, creates burdens and restraints on commerce, as those terms have heretofore been understood.

Since heretofore Congress has never enacted legislation based on the assumed existence of a power to fix prices of merchandise sold in interstate commerce, no case identical with this may be found.

In *Wilson v. New*, 243 U. S. 332, decided in 1917, the Supreme Court had under consideration the validity of the so-called Adamson law, which was an act of Congress to fix the wages of employees of railroads operated as instrumentalities of interstate commerce. The power of Congress in that case to interfere with freedom of contract respecting the price at which labor should be performed was sustained, but only on the ground that the railroads were essential instrumentalities of interstate commerce and that it was essential to their continued operation in a period of national emergency and to prevent the complete cessation and obstruction of interstate commerce that a dispute between the carriers and their employees respecting wages should be settled by legislation.

Later, in *Wolff Company v. Industrial Court*, 262 U. S. 544, it was said:

“It is not too much to say that the ruling in *Wilson v. New* went to the border line, although it concerned an interstate commerce carrier in the presence of a nation-wide emergency and the possibility of great disaster.”

(See *Adkins v. Children's Hospital*, 261 U. S. 525.)

If, notwithstanding the admitted power of Congress to regulate common carriers who have devoted their property to the public use as instrumentalities of interstate commerce, a decision sustaining the legislative fixing of wages of railway employees went to the verge, it is obvious that legislation under the supposed authority of the commerce clause, the direct and primary purpose of which is to establish the prices at which farm products should be bought and sold throughout the land, could not be sustained.

The act does not, of course, interfere with freedom of contract respecting the purchase and sale of commodities by prohibiting people from buying and selling at more or less than the established market price if it can be supposed that they would do so, but as



a practical matter it would prescribe more effectively the price to be paid than would an act which, fixing the price, attempted to make it effective by imposing penalties for not regulating it rather than by bringing into play inexorable economic laws.

An elaborate discussion of the various decisions of the Supreme Court of the United States dealing with the power to regulate interstate commerce and with the due process clause would unduly extend this opinion, but the following decisions may be referred to, from which to derive the applicable principles:

*McCulloch v. Maryland*, 4 Wheat. 316.

*Hammer v. Dagenhart*, 247 U. S. 251.

*Stafford v. Wallace*, 258 U. S. 495.

*Hill v. Wallace*, 259 U. S. 44.

*Chicago B'd. of Trade v. Olsen*, 262 U. S. 1.

4. There are some further features of the act which require consideration.

It is said that the so-called equalization fee is not a tax but in the nature of a charge for services rendered. With respect to cotton the act contemplates that whatever remains in the stabilization fund for that commodity at the end of operations may be returned to the producers. This lends support to the claim that the equalization fee for cotton is not a tax because its proceeds never enter the Public Treasury. With respect to all other commodities, the act contains no provision for ever returning to the producers anything remaining unexpended at the termination of operations. This gives foundation for the claim that the proceeds of the equalization fee are public funds.

The law contemplates that the collection of the equalization fee shall cease when the operation ceases. If it is found when operations end that the equalization fee fixed has been too low to produce enough to meet the losses, the losses will be borne out of public funds raised by taxation, constituting the revolving fund, by loans from it to the deficient stabilization fund, which must remain unpaid. But it is not important to decide whether this charge is a tax or is not. If it be not a tax, then its imposition and collection would violate the provision of the Federal Constitution prohibiting the taking of property without due process of law. Treating the equalization fee as not a tax, it is obvious that what is attempted by this act is to enable certain agencies under Government direction and supervision to engage in the business of buying, selling, hoarding, and otherwise disposing of agricultural products for the purpose of restraining commerce, of interfering with its free course, and of imposing upon commerce what have heretofore been considered burdens, restrictions, and restraints.

The theory of the act is that giving producers permission to organize combinations in restraint of trade is ineffective to enable them to combine and fix prices, because all producers who do not contribute to the enterprise realize a gain without bearing any of the expense; and the purpose of the act is to force all producers, directly or indirectly, to make a contribution, not in the nature of a tax, toward the losses and expense suffered in operations for the common benefit. Compelling some citizens to participate in business operations by requiring them to contribute to the loss and expense thereof is, in my opinion, in violation of the provisions of the fifth amendment and a taking of property without due process of law.

*Parkersburg v. Brown*, 106 U. S. 487.

On the other hand, if it be a tax, then its proceeds constitute public funds in the Treasury, with the result that the Public Treasury would bear the losses and expenses and take the profits, if any, of the business of buying, storing, and selling of agricultural commodity, with the result that the United States would be engaging on its own account in buying and selling, an activity which is hardly to be supported as a regulation of interstate commerce.

Because the equalization fee is not called a tax, does not purport to be imposed as a tax, is not exacted on any provided basis of equality, is not to be paid into the Treasury of the United States, is to be imposed and collected or not at the will and favor of interested cooperative associations, corporations, individuals, and an administrative board without congressional chart or compass directing as to the time when it shall be imposed, the time it shall remain in effect, the amount of it or upon whom it shall be levied, I think it can not be sustained under the taxing power of the Constitution.

The decision in *Dayton-Goose Creek R. R. Co. v. United States*, 263 U. S. 456, relied upon to support the validity of the provision for the equalization fee is inapplicable. The court there considered what is known as the recapture of earnings provision in the transportation act of 1920, and sustained a law providing for the recapture by the United States of a part of the net return of carriers engaged in interstate commerce in excess of a reasonable rate of return. The court there proceeded on the theory that because Congress had power to limit the charges for service by carriers engaged in interstate commerce to a reasonable figure, it could withhold or recapture the amount received by them in excess of the reasonable rate. To make that case and this one parallel, it would be necessary to assume that Congress has the same power to limit the price for the sale of merchandise to a reasonable figure and recapture the amount realized by the vendor in excess, an assumption which is plainly unfounded.

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I have considered these questions with realization of the grave responsibility involved in passing on the validity of acts of Congress and with appreciation of the rule that the courts will indulge in every presumption to support the validity of legislation and that no act of Congress will be declared invalid unless plainly so, but nevertheless I feel constrained to advise you that the act in question, if approved, would, in its most essential provisions, violate the Constitution of the United States, in that it takes from the President the constitutional Executive power and duty of making appointments to fill the offices created by it and by legislation confers that power upon others; in that Congress delegates its constitutional power of legislation to private cooperative associations and corporations, and individuals acting collectively, and the board created by the statute; in that it contravenes the provisions of the Constitution against the taking of property without due process of law.

Respectfully,

JNO. G. SARGENT,  
*Attorney General.*

The PRESIDENT,  
*The White House.*

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ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES

from December 1912 to 1926

I. Municipals and insular possessions

(000,000 omitted)

*Mar. 17, 1927*

End of Month	States, Counties, Cities, etc.			Territories, Insular Possessions		
	Total out- standing	Held in sinking funds	Net out- standing issues	Total out- standing issues	Held in sinking funds	Net out- standing issues
	issues (1)	issues	issues	issues	issues	issues
1912 -						
Dec.	\$ 3957	\$ 615	\$ 3342	\$ 35	\$ 1	\$ 34
1913 -						
Jan.	3984	620	3364	35	1	34
Feb.	4036	626	3410	35	1	34
Mar.	4067	631	3436	36	1	35
Apr.	4079	637	3442	36	1	35
May	4206	642	3564	36	1	35
June	4244	648	3596	36	1	35
July	4267	653	3614	36	1	35
Aug.	4280	659	3621	36	1	35
Sept.	4287	664	3623	36	1	35
Oct.	4287	670	3617	36	1	35
Nov.	4346	675	3671	36	1	35
Dec.	4514	681	3833	35	1	34
1914 -						
Jan.	4602	686	3916	35	1	34
Feb.	4588	692	3896	35	1	34
Mar.	4660	697	3963	36	1	35
Apr.	4715	703	4012	36	1	35
May	4714	708	4006	36	1	35
June	4719	714	4005	36	1	35
July	4712	719	3993	36	1	35
Aug.	4701	725	3976	36	1	35
Sept.	4787	730	4057	36	1	35
Oct.	4752	736	4016	36	1	35
Nov.	4729	742	3987	36	1	35
Dec.	4751	747	4004	37	1	36
1915 -						
Jan.	4765	751	4014	37	1	36
Feb.	4804	755	4049	37	1	36
Mar.	4872	759	4113	39	1	38
Apr.	4880	763	4117	39	1	38
May	4920	768	4152	39	1	38
June	5017	772	4245	39	1	38
July	5005	776	4229	39	1	38
Aug.	5008	780	4228	39	1	38
Sept.	5046	784	4262	38	1	37
Oct.	5063	788	4275	38	1	37
Nov.	5103	792	4311	38	1	37
Dec.	5121	797	4324	39	1	38

(1) Includes the floating debt.

End of Month	States, Counties, Cities, etc.			Territories, Insular Possessions		
	Total out-	Held in	Net out-	Total out-	Held in	Net out-
	standing issues (1)	sinking funds	standing issues	standing issues	sinking funds	standing issues
1916 -						
Jan.	\$ 5180	\$ 802	\$ 4378	\$ 39	\$ 1	\$ 38
Feb.	5234	807	4427	39	1	38
Mar.	5294	812	4482	38	1	37
Apr.	5379	817	4562	38	1	37
May	5397	822	4575	38	1	37
June	5425	828	4597	38	1	37
July	5431	833	4598	38	1	37
Aug.	5462	838	4624	38	1	37
Sept.	5475	843	4632	38	1	37
Oct.	5522	848	4674	38	1	37
Nov.	5534	853	4681	38	1	37
Dec.	5558	858	4700	44	1	43
1917 -						
Jan.	5614	867	4747	44	1	43
Feb.	5640	876	4764	44	1	43
Mar.	5691	885	4806	44	1	43
Apr.	5757	894	4863	44	1	43
May	5784	904	4880	44	1	43
June	5820	913	4907	44	1	43
July	5873	922	4951	44	1	43
Aug.	5918	931	4987	44	1	43
Sept.	5939	940	4999	44	1	43
Oct.	5951	949	5002	44	1	43
Nov.	5947	958	4989	44	1	43
Dec.	5977	968	5009	45	1	44
1918 -						
Jan.	5982	975	5007	45	1	44
Feb.	6026	982	5044	45	1	44
Mar.	6063	989	5074	45	1	44
Apr.	6069	996	5073	45	1	44
May	6110	1003	5107	45	1	44
June	6135	1010	5125	45	1	44
July	6171	1017	5154	45	1	44
Aug.	6185	1025	5160	45	1	44
Sept.	6207	1032	5175	45	1	44
Oct.	6187	1039	5148	45	1	44
Nov.	6235	1046	5189	45	1	44
Dec.	6257	1054	5203	46	1	45

(1) Includes the floating debt.

End of Month	States, Counties, Cities, etc.			Territories, Insular Possessions		
	Total out-	Held in	Net out-	Total out-	Held in	Net out-
	standing issues (1)	sinking funds	standing issues	standing issues	sinking funds	standing issues
1919 -						
Jan.	\$ 6271	\$ 1063	\$ 5208	\$ 46	\$ 1	\$ 45
Feb.	6312	1073	5239	46	1	45
Mar.	6368	1082	5286	46	1	45
Apr.	6428	1092	5336	46	1	45
May.	6429	1101	5328	46	1	45
June	6504	1111	5393	46	1	45
July	6518	1120	5398	46	1	45
Aug.	6551	1130	5421	46	1	45
Sept.	6621	1139	5482	48	1	47
Oct.	6693	1149	5544	48	1	47
Nov.	6723	1158	5565	48	1	47
Dec.	6815	1167	5648	48	1	47
1920 -						
Jan.	6934	1177	5757	48	1	47
Feb.	6965	1187	5778	48	1	47
Mar.	7101	1197	5904	47	1	46
Apr.	7157	1206	5951	47	1	46
May	7153	1215	5938	47	1	46
June	7177	1224	5953	48	1	47
July	7146	1234	5912	48	1	47
Aug.	7191	1243	5948	48	1	47
Sept.	7245	1253	5992	50	1	49
Oct.	7344	1262	6082	50	1	49
Nov.	7389	1272	6117	50	1	49
Dec.	7440	1282	6158	57	1	56
1921 -						
Jan.	7468	1292	6176	57	1	56
Feb.	7517	1302	6215	57	1	56
Mar.	7615	1312	6303	57	1	56
Apr.	7754	1321	6433	57	1	56
May	7828	1331	6497	57	1	56
June	7909	1341	6568	60	4	56
July	7954	1351	6603	60	4	56
Aug.	8032	1360	6672	60	4	56
Sept.	8117	1370	6747	71	4	67
Oct.	8205	1380	6825	71	4	67
Nov.	8304	1390	6914	71	4	67
Dec.	8509	1399	7110	76	4	72

(1) Includes the floating debt.

End of Month	States, Counties, Cities, etc.			Territories, Insular Possessions		
	Total out- standing issues (1)	Held in sinking funds	Net out- standing issues	Total out- standing issues	Held in sinking funds	Net out- standing issues
1922 -						
Jan.	\$ 8522	\$ 1409	\$ 7113	\$ 76	\$ 4	\$ 72
Feb.	8568	1419	7149	73	4	72
Mar.	8681	1429	7252	81	4	77
Apr.	8743	1438	7305	81	4	77
May	8805	1448	7357	81	4	77
June	8887	1458	7429	83	4	79
July	8920	1468	7452	83	4	79
Aug.	8961	1477	7484	83	4	79
Sept.	9059	1487	7572	102	4	98
Oct.	9134	1497	7537	102	4	98
Nov.	9181	1507	7574	102	4	98
Dec.	9233	1516	7717	119	4	115
1923 -						
Jan.	9296	1526	7770	119	4	115
Feb.	9364	1536	7828	119	4	115
Mar.	9425	1546	7879	119	4	115
Apr.	9508	1557	7951	119	4	115
May	9578	1567	8011	119	4	115
June	9727	1577	8150	119	5	114
July	9765	1587	8178	119	5	114
Aug.	9812	1598	8214	119	5	114
Sept.	9851	1608	8243	120	6	114
Oct.	9874	1618	8256	120	6	114
Nov.	9950	1628	8322	120	6	114
Dec.	10101	1639	8432	125	7	118
1924 -						
Jan.	10148	1651	8497	125	7	118
Feb.	10249	1635	8584	125	7	118
Mar.	10376	1680	8696	126	8	118
Apr.	10511	1697	8814	126	8	118
May	10642	1714	8928	126	8	118
June	10863	1752	9111	131	9	122
July	10947	1762	9185	131	9	122
Aug.	11060	1779	9281	131	9	122
Sept.	11241	1797	9444	131	11	120
Oct.	11366	1808	9558	131	11	120
Nov.	11483	1819	9634	131	11	120
Dec.	11512	1832	9680	131	12	119

(1) Includes the floating debt.

End of Month	States, Counties, Cities, etc.			Territories, Insular Possessions		
	Total out-	Held in	Net out-	Total out-	Held in	Net out-
	standing issues (1)	sinking funds	standing issues	standing issues	sinking funds	standing issues
1925 -						
Jan.	\$ 11560	\$ 1845	\$ 9715	\$ 131	\$ 12	\$ 119
Feb.	11603	1856	9747	131	12	119
Mar.	11712	1873	9839	134	12	122
Apr.	11790	1884	9906	134	12	122
May	11919	1913	10006	134	12	122
June	12058	1933	10125	135	12	123
July	12090	1947	10143	135	12	123
Aug.	12129	1959	10170	135	12	123
Sept.	12228	1976	10252	141	13	128
Oct.	12297	1984	10313	141	13	128
Nov.	12319	1993	10326	141	13	128
Dec.	12557	2017	10540	144	15	129
1926 -						
Jan.	12581	2023	10558	144	15	129
Feb.	12657	2044	10613	144	15	129
Mar.	12810	2061	10749	151	15	136
Apr.	12873	2072	10801	151	15	136
May	12955	2092	10863	151	15	136
June	13054	2111	10943	154	17	137
July	13075	2117	10958	154	17	137
Aug.	13095	2126	10969	154	17	137
Sept.	13190	2144	11046	154	14	140
Oct.	13227	2154	11073	156	14	142
Nov.	13225	2163	11062	156	14	142
Dec.	13354	2183	11171	156	14	142

(1) Includes the floating debt.



ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES

from December 1912 to 1926

II. U. S. Government and Federal farm loan system.

(000,000 omitted)

End of Month	U. S. Government		Federal farm loan system		
	outstanding issues		Total out-	Owned by	Net out-
	:(Total outstanding issues and net		standing	U.S.	standing
	: outstanding issues are identical		issues	Government	issues
	: since securities purchased for				
	: the sinking fund are cancelled.				
1912 -					
Dec.	\$	965	\$	\$	\$
1913 -					
Jan.		966			
Feb.		966			
Mar.		966			
Apr.		966			
May		966			
June		966			
July		967			
Aug.		967			
Sept.		967			
Oct.		967			
Nov.		967			
Dec.		967			
1914 -					
Jan.		968			
Feb.		968			
Mar.		968			
Apr.		968			
May		968			
June		968			
July		969			
Aug.		969			
Sept.		969			
Oct.		969			
Nov.		969			
Dec.		969			
1915 -					
Jan.		970			
Feb.		970			
Mar.		970			
Apr.		970			
May		970			
June		970			
July		971			
Aug.		971			
Sept.		971			
Oct.		971			
Nov.		971			
Dec.		971			

End of Month	U. S. Government		Federal farm loan system		
	outstanding issues	(Total outstanding issues and net	Total out-	Owned by	Net out-
	standing issues are identical	standing issues are identical	standing	U.S.	standing
	since securities purchased for	the sinking fund are cancelled.	issues	Government	issues
1916 -					
Jan.	\$ 972		\$	\$	\$
Feb.	972				
Mar.	972				
Apr.	972				
May	972				
June	972				
July	972				
Aug.	972				
Sept.	972				
Oct.	972				
Nov.	972				
Dec.	972				
1917 -					
Jan.	973				
Feb.	973				
Mar.	1023				
Apr.	1023				
May	1024				
June	2440				
July	2503				
Aug.	2897				
Sept.	1950				
Oct.	2951				
Nov.	2951		36	9	27
Dec.	2961		38	9	29
1918 -					
Jan.	2961		44	13	31
Feb.	2961		55	23	32
Mar.	2961		73	40	33
Apr.	2953		94	55	39
May	2952		103	70	33
June	2955		112	67	45
July	2951		121	70	51
Aug.	2887		131	70	61
Sept.	2887		140	70	70
Oct.	2882		157	70	87
Nov.	2307		165	70	95
Dec.	2307		170	70	100

End of Month	U. S. Government		Federal farm loan system					
	outstanding issues		Federal farm loan system					
	:(Total outstanding issues and net							
	outstanding issues are identical		Total out-	Owned by	Net out-			
	since securities purchased for		standing	U.S.	standing			
	the sinking fund are cancelled.		issues	:Government	: issues			
1919 -								
Jan.	\$	2297	\$	180	\$	81	\$	99
Feb.		2297		194		89		105
Mar.		2297		218		103		115
Apr.		2293		235		118		117
May		2293		246		128		118
June		2293		291		146		145
July		2293		340		146		194
Aug.		2293		344		146		198
Sept.		2293		345		146		199
Oct.		2293		352		146		206
Nov.		2293		360		146		214
Dec.		2293		371		146		225
1920 -								
Jan.		2294		374		146		228
Feb.		2294		376		146		230
Mar.		2294		376		146		230
Apr.		2294		382		146		236
May		2294		375		146		229
June		2294		400		174		226
July		2294		408		180		228
Aug.		2294		411		182		229
Sept.		2294		412		183		229
Oct.		2294		412		184		228
Nov.		2294		417		189		228
Dec.		2294		417		189		228
1921 -								
Jan.		2294		419		189		230
Feb.		2294		418		189		229
Mar.		2294		418		190		228
Apr.		2294		419		190		229
May		2294		455		190		265
June		2294		459		190		269
July		2294		459		190		269
Aug.		2294		461		190		271
Sept.		2294		465		190		275
Oct.		2294		513		190		323
Nov.		2294		534		190		344
Dec.		2294		545		190		355

End of Month	U. S. Government		Federal farm loan system					
	outstanding issues		Federal farm loan system					
	:(Total outstanding issues and net							
	outstanding issues are identical		Total out-	Owned by	Net out-			
	since securities purchased for		standing	U.S.	standing			
	the sinking fund are cancelled.		issues	Government	issues			
1922 -								
Jan.	\$	2294	\$	549	\$	189	\$	360
Feb.		2294		629		189		440
Mar.		2294		643		189		454
Apr.		2294		656		189		467
May		2294		736		158		578
June		2294		759		145		614
July		2294		766		143		623
Aug.		2294		776		141		635
Sept.		2294		793		141		652
Oct.		2294		852		117		735
Nov.		2294		897		117		780
Dec.		2294		886		117		769
1923 -								
Jan.		2294		969		104		865
Feb.		2294		991		105		886
Mar.		2294		1010		105		905
Apr.		2294		1057		117		940
May		2294		1086		117		969
June		2294		1104		117		987
July		2294		1143		116		1027
Aug.		2294		1154		122		1032
Sept.		2294		1162		123		1039
Oct.		2294		1211		124		1087
Nov.		2294		1247		124		1123
Dec.		2294		1256		124		1132
1924 -								
Jan.		2294		1303		124		1179
Feb.		2294		1330		124		1206
Mar.		2294		1335		125		1210
Apr.		2294		1346		126		1220
May		2294		1358		126		1232
June		2294		1367		127		1240
July		2294		1418		128		1290
Aug.		2294		1424		128		1296
Sept.		2294		1434		128		1306
Oct.		2294		1455		128		1327
Nov.		2294		1464		128		1336
Dec.		2294		1474		128		1346

	:	U. S. Government	:			
	:	outstanding issues	:	Federal farm loan system		
End	:	(Total outstanding issues and net	:	Total out-	: Owned by	: Net out-
of	:	outstanding issues are identical	:	standing	: U.S.	: standing
Month	:	since securities purchased for	:	issues	: Government	: issues
	:	the sinking fund are cancelled.	:			

1925 -	\$		\$		\$	
Jan.		2293		1512		128
Feb.		2176		1526		126
Mar.		2175		1539		125
Apr.		2175		1544		122
May		2175		1551		120
June		2175		1578		115
July		2176		1583		109
Aug.		2176		1592		105
Sept.		2176		1602		104
Oct.		2176		1623		105
Nov.		2176		1626		104
Dec.		2168		1635		104
1926 -						
Jan.		2168		1673		97
Feb.		2168		1689		94
Mar.		2168		1703		92
Apr.		2168		1717		88
May		2168		1725		86
June		2164		1735		85
July		2164		1762		37
Aug.		2164		1778		34
Sept.		2164		1781		31
Oct.		2164		1794		30
Nov.		2164		1808		30
Dec.		2164		1816		30

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES

from December 1912 to 1926

III. Total amount estimated

Includes bonds of States, cities, counties, etc., insular possessions,  
U. S. Government, and Federal farm loan system.

(000,000 omitted)

Total				Total			
End of Month	Total out-standing issues	Held in sinking funds or owned by U. S. Government	Net out-standing issues	End of Month	Total out-standing issues	Held in sinking funds or owned by U. S. Government	Net out-standing issues
1912 -							
Dec.	\$ 4957	\$ 616	\$ 4341				
1913 -				1915 -			
Jan.	4985	621	4364	Jan.	\$ 5772	\$ 752	\$ 5020
Feb.	5037	627	4410	Feb.	5811	756	5055
Mar.	5069	632	4437	Mar.	5881	760	5121
Apr.	5081	638	4443	Apr.	5889	764	5125
May	5208	643	4565	May	5929	769	5160
June	5246	649	4597	June	6026	773	5253
July	5270	654	4616	July	6015	777	5238
Aug.	5283	660	4623	Aug.	6018	781	5237
Sept.	5290	665	4625	Sept.	6055	785	5270
Oct.	5290	671	4619	Oct.	6072	789	5283
Nov.	5349	676	4673	Nov.	6112	793	5319
Dec.	5516	682	4834	Dec.	6131	798	5333
1914 -				1916 -			
Jan.	5605	687	4918	Jan.	6191	803	5388
Feb.	5691	693	4898	Feb.	6245	808	5437
Mar.	5664	698	4966	Mar.	6304	813	5491
Apr.	5719	704	5015	Apr.	6389	818	5571
May	5718	709	5009	May	6407	823	5584
June	5723	715	5008	June	6435	829	5606
July	5717	720	4997	July	6441	834	5607
Aug.	5706	726	4980	Aug.	6472	839	5633
Sept.	5792	731	5061	Sept.	6485	844	5641
Oct.	5757	737	5020	Oct.	6532	849	5683
Nov.	5734	743	4991	Nov.	6544	854	5690
Dec.	5757	748	5009	Dec.	6574	859	5715

1917 -				1920 -			
End of Month	Total out-standing issues	Held in sinking funds or owned by U. S. Government	Net out-standing issues	End of Month	Total out-standing issues	Held in sinking funds or owned by U. S. Government	Net out-standing issues
Jan.	\$ 6631	\$ 868	\$ 5763	Jan.	\$ 9650	\$ 1324	\$ 8326
Feb.	6657	877	5780	Feb.	9683	1334	8349
Mar.	6758	886	5872	Mar.	9818	1344	8474
Apr.	6824	895	5929	Apr.	9880	1353	8527
May	6852	905	5947	May	9869	1362	8507
June	8304	914	7390	June	9919	1399	8520
July	8430	923	7497	July	9896	1415	8481
Aug.	8859	932	7927	Aug.	9944	1426	8518
Sept.	7933	941	6992	Sept.	10001	1437	8564
Oct.	8946	950	7996	Oct.	10100	1447	8653
Nov.	8978	958	8010	Nov.	10150	1462	8688
Dec.	9021	978	8043	Dec.	10208	1472	8736
1918 -				1921 -			
Jan.	9032	989	8043	Jan.	10238	1482	8756
Feb.	9087	1006	8081	Feb.	10286	1492	8794
Mar.	9142	1030	8112	Mar.	10384	1503	8881
Apr.	9161	1052	8109	Apr.	10524	1512	9012
May	9210	1074	8136	May	10634	1522	9112
June	9247	1078	8169	June	10722	1535	9187
July	9288	1088	8200	July	10767	1545	9222
Aug.	9248	1096	8152	Aug.	10847	1554	9293
Sept.	9279	1103	8176	Sept.	10947	1564	9383
Oct.	9271	1110	8161	Oct.	11083	1574	9509
Nov.	8752	1117	7635	Nov.	11203	1584	9619
Dec.	8780	1125	7655	Dec.	11424	1593	9831
1919 -				1922 -			
Jan.	8794	1145	7649	Jan.	11441	1602	9839
Feb.	8849	1163	7686	Feb.	11567	1612	9955
Mar.	8929	1186	7743	Mar.	11699	1622	10077
Apr.	9002	1211	7791	Apr.	11774	1631	10143
May	9014	1230	7784	May	11916	1610	10306
June	9134	1258	7876	June	12023	1607	10416
July	9197	1257	7930	July	12063	1615	10448
Aug.	9234	1277	7957	Aug.	12114	1622	10492
Sept.	9307	1286	8021	Sept.	12248	1632	10616
Oct.	9386	1296	8090	Oct.	12382	1618	10764
Nov.	9424	1305	8119	Nov.	12474	1628	10846
Dec.	9527	1314	8213	Dec.	12532	1637	10895

1923 -				1925 -			
End of Month	Total	Held in sinking funds or owned by U.S. Government	Net out-standing issues	End of Month	Total	Held in sinking funds or owned by U.S. Government	Net out-standing issues
Jan.	\$ 12878	\$ 1354	\$11044	Jan.	\$ 15496	\$ 1985	\$ 13511
Feb.	12768	1345	11123	Feb.	15436	1994	13442
Mar.	12843	1355	11193	Mar.	15560	2010	13550
Apr.	12973	1378	11300	Apr.	15643	2018	13625
May	13077	1388	11339	May	15779	2045	13734
June	13244	1399	11345	June	15943	2060	13886
July	13321	1708	11313	July	15984	2068	13916
Aug.	13379	1725	11354	Aug.	16032	2076	13956
Sept.	13427	1737	11390	Sept.	16147	2093	14054
Oct.	13499	1748	11751	Oct.	16237	2102	14135
Nov.	13611	1758	11353	Nov.	16262	2110	14152
Dec.	13776	1770	12006	Dec.	16504	2136	14368
1924 -				1926 -			
Jan.	13370	1782	12088	Jan.	16566	2135	14431
Feb.	13998	1796	12202	Feb.	16653	2153	14505
Mar.	14131	1813	12318	Mar.	16832	2168	14634
Apr.	14277	1831	12446	Apr.	16909	2175	14734
May	14420	1848	12572	May	16999	2193	14806
June	14355	1888	12767	June	17107	2213	14894
July	14790	1899	12891	July	17155	2171	14984
Aug.	14909	1916	12993	Aug.	17191	2177	15014
Sept.	15100	1936	13164	Sept.	17289	2189	15100
Oct.	15246	1947	13299	Oct.	17341	2198	15143
Nov.	15372	1958	13414	Nov.	17353	2207	15146
Dec.	15411	1972	13439	Dec.	17490	2227	15263



U. S. SECURITIES PARTIALLY TAX-EXEMPT

(000,000 omitted)

1917 -		1920 -		1923 -		1926 -	
Jan.	\$	Jan.	\$ 23130	Jan.	\$ 20065	Jan.	\$ 17851
Feb.		Feb.	22868	Feb.	20074	Feb.	17847
Mar.		Mar.	22161	Mar.	20096	Mar.	17646
Apr.	265	Apr.	22413	Apr.	20033	Apr.	17639
May	668	May	22442	May	19892	May	17635
June	273	June	21767	June	19714	June	17220
July	0	July	21691	July	19665	July	17194
Aug.	550	Aug.	21797	Aug.	19608	Aug.	17117
Sept.	2076	Sept.	21559	Sept.	19540	Sept.	17048
Oct.	2582	Oct.	21531	Oct.	19507	Oct.	17002
Nov.	4392	Nov.	21345	Nov.	19485	Nov.	16973
Dec.	4155	Dec.	21451	Dec.	19349	Dec.	16659
1918 -		1921 -		1924 -			
Jan.	5235	Jan.	21462	Jan.	19280		
Feb.	6363	Feb.	21526	Feb.	19227		
Mar.	7203	Mar.	21447	Mar.	19063		
Apr.	8159	Apr.	21466	Apr.	19060		
May	9627	May	21416	May	18993		
June	9051	June	21443	June	18683		
July	10228	July	21241	July	18697		
Aug.	11469	Aug.	21386	Aug.	18687		
Sept.	12746	Sept.	21381	Sept.	18689		
Oct.	15453	Oct.	20905	Oct.	18684		
Nov.	16844	Nov.	21070	Nov.	18657		
Dec.	18514	Dec.	20894	Dec.	18418		
1919 -		1922 -		1925 -			
Jan.	20657	Jan.	20858	Jan.	18496		
Feb.	21922	Feb.	20945	Feb.	18482		
Mar.	21662	Mar.	20610	Mar.	18433		
Apr.	22284	Apr.	20661	Apr.	18430		
May	23376	May	20606	May	18428		
June	22941	June	20417	June	18036		
July	23263	July	20423	July	18023		
Aug.	24056	Aug.	20502	Aug.	17990		
Sept.	23646	Sept.	20270	Sept.	17967		
Oct.	23677	Oct.	20532	Oct.	17965		
Nov.	23584	Nov.	20415	Nov.	17953		
Dec.	23302	Dec.	20189	Dec.	17815		

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, January 31, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926					
Jan.	\$ 12 581	\$ 144	\$ 2 168	\$ 1 673	\$ 16 566
Oct.	13 227	156	2 164	1 794	17 341
Nov.	13 225	156	2 164	1 808	17 353
Dec.	13 354	156	2 164	1 816	17 490
1927					
Jan.	13 409	156	2 164	1 846	17 575

End of Month	Held in Sinking Fund or Owned by United States Government				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926					
Jan.	\$ 2 023	\$ 15	\$ - - - -	\$ 97	\$ 2 135
Oct.	2 154	14	- - - -	30	2 198
Nov.	2 163	14	- - - -	30	2 207
Dec.	2 183	14	- - - -	30	2 227
1927					
Jan.	2 199	14	- - - -	30	2 243

End of Month	Net Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926					
Jan.	\$ 10 558	\$ 129	\$ 2 168	\$ 1 576	\$ 14 431
Oct.	11 073	142	2 164	1 764	15 143
Nov.	11 062	142	2 164	1 778	15 146
Dec.	11 171	142	2 164	1 786	15 263
1927					
Jan.	11 210	142	2 164	1 816	15 332

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

March 16, 1927.

TREASURY CERTIFICATES OF INDEBTEDNESS AND TREASURY  
NOTES OUTSTANDING MARCH 16, 1927.

<u>SERIES</u>	<u>INTEREST RATE</u>	<u>DATED AND BEARING INTEREST FROM</u>	<u>DUE</u>
<u>Tax Certificates</u>			
TJ-1927	$3\frac{1}{2}\%$	September 15, 1926	June 15, 1927
TS-1927	$3\frac{1}{4}\%$	December 15, 1926	September 15, 1927
TS2-1927	$3\frac{1}{8}\%$	March 15, 1927	September 15, 1927
TM-1928	$3\frac{1}{4}\%$	March 15, 1927	March 15, 1928
<u>Treasury Notes</u>			
A-1927	$4\frac{1}{2}\%$	January 15, 1923	December 15, 1927
A-1930-32	$3\frac{1}{2}\%$	March 15, 1927	March 15, 1932
			(Redeemable on and after March 15, 1930)

TREASURY DEPARTMENT

Office of the Secretary.

March 18, 1927.

The Commissioner of Customs  
and other Customs Officials:

- 1 The Act of Congress, approved March 3, 1927, entitled "An Act to create a Bureau of Customs and a Bureau of Prohibition in the Department of the Treasury", among other things establishes a Bureau of Customs in the Treasury Department and provides for the appointment of a Commissioner of Customs as the head thereof.
- 2 The Act furthermore vests the Secretary of the Treasury with authority to confer or impose upon the Commissioner of Customs or any of the officers of the Bureau of Customs any of the rights, privileges, powers or duties in respect of the importation or entry of merchandise into or the exportation of merchandise from the United States vested in or imposed upon the Secretary of the Treasury by the Tariff Act of 1922 or any other law.
- 3 I, therefore, in pursuance of the authority thus conferred, prescribe the following duties and functions to be exercised by the Commissioner of Customs and other personnel of the Bureau of Customs, effective at the opening of business on Friday, the first day of April, 1927:
- 4 All the rights, privileges, powers or duties, in respect of the importation or entry of merchandise into, or exportation of merchandise from the United States, vested in or imposed upon the Secretary of the Treasury by the Tariff Act of 1922, or any other law, are hereby conferred or imposed upon the Commissioner of Customs. The acts, findings and decisions of said Commissioner with respect to said matters, shall be final so far as the Treasury Department is concerned unless modified or disapproved by the Secretary of the Treasury, Provided: That the determination of countervailing duties under Section 303 of the Tariff Act of 1922, and findings of dumping under the anti-dumping Act of 1921, and all amendments to the Customs Regulations shall not be effective unless approved by the Secretary of the Treasury.

- 5 The Commissioner of Customs shall supervise the personnel of the Bureau of Customs, including the Customs field service and the Special Agency field service.
- 6 The Commissioner and the Assistant Commissioner are hereby authorized to approve expenditures from the several appropriations for the Customs Service, including the issuing of travel orders.
- 7 The Assistant Commissioner of Customs shall assist the Commissioner of Customs in the management and control of the Bureau of Customs including the Customs field service and the Special Agency Field Service, and shall act as the Commissioner of Customs during the absence or disability of the Commissioner, or in the event there is no Commissioner. The Assistant Commissioner shall perform such other duties as the Commissioner may prescribe.
- 8 One Deputy Commissioner of Customs, under the supervision of the Commissioner and the Assistant Commissioner of Customs shall have charge of the legal divisions of the Bureau and shall perform such other duties as the Commissioner shall prescribe; and shall act as Assistant Commissioner in the absence of that officer, and in the absence of the Commissioner and Assistant Commissioner shall act as Commissioner.
- 9 The other Deputy Commissioner of Customs, under the supervision of the Commissioner and Assistant Commissioner, shall have charge of the Special Agency Service and the conduct of investigations by such service. He is hereby empowered to authorize travel and subsistence of the personnel under his direction. He shall perform such other duties as the Commissioner shall prescribe.
- 10 There is hereby created in the Bureau of Customs the office of Assistant Deputy Commissioner in Charge of the Special Agency Service who shall assist the Deputy Commissioner in Charge of such Service, and shall perform the duties prescribed by such Deputy Commissioner; and shall act as such Deputy Commissioner during the absence of that officer.
- 11 The Chief Clerk, Chiefs of divisions in the Bureau, the attorneys and other personnel shall perform such duties as the Commissioner may prescribe.

- 12 The Special Agency Service is hereby placed in the Bureau of Customs, and the records, property (including office equipment), and personnel of the Director's office, Special Agency Service, are hereby transferred to the Bureau of Customs; and the personnel now assigned to that office from the Division of Customs and the field service are hereby assigned to the Bureau of Customs.
- 13 All previous regulations and instructions conflicting herewith are hereby superseded.

A. W. MELLON

Secretary of the Treasury.

(T. D. 3999)

Bureau of Prohibition

TREASURY DEPARTMENT  
Office of the Secretary  
Washington, D. C.  
March 18, 1927.

TO COMMISSIONER OF PROHIBITION,  
COMMISSIONER OF INTERNAL REVENUE,  
PROHIBITION OFFICIALS, AND OTHER  
OFFICIALS AND EMPLOYEES OF THE TREASURY  
DEPARTMENT CONCERNED:

Pursuant to the provisions of the Act of Congress approved March 3, 1927 (Public No. 751), and in the exercise of authority conferred upon me by that law, there is promulgated hereinafter, for the information and guidance of all concerned, the following to wit:

1. Effective April 1, 1927, there is hereby created in the Department of the Treasury a bureau to be known as the Bureau of Prohibition.
2. An official to be known as the Commissioner of Prohibition shall be at the head of the Bureau of Prohibition.
3. The Bureau of Prohibition shall also have one assistant commissioner, two deputy commissioners, one chief clerk, and such attorneys and other officers and employees as may be necessary. Appointments under this subdivision shall be subject to the provisions of the civil service laws, and the salaries shall be fixed in accordance with the Classification Act of 1923.

PERSONNEL

The Commissioner of Prohibition shall, under the supervision of the Secretary of the Treasury, have control of the officers, agents, inspectors, clerks, and other employees now attached to the Prohibition Unit in the Bureau of Internal Revenue, and of the prohibition agents and other field officers, of whatever grade, now employed in said service, subject to reappointment by him, with the approval of the Secretary of the Treasury, such reappointments to be in accordance with the requirements as to civil service qualifications provided by the Act.

The Commissioner of Internal Revenue shall transfer to the Commissioner of Prohibition all deputy collectors, gaugers, storekeepers, storekeeper-gaugers, auditors, accountants, clerks, chemists and other employees now occupied in the performance of work in the administration and enforcement of the Prohibition Laws and amendments thereto, Revised Statutes relating to intoxicating liquors, and the Harrison Narcotic Act, whether such employees be now located in the Bureau of Internal Revenue at Washington, D.C., in the offices of Collectors of Internal Revenue, or elsewhere.

An amount equivalent to the salaries and expenses of the employees so transferred to the Bureau of Prohibition shall also be transferred from the appropriation "Collecting the Internal Revenue", to be placed under the control of the

(over)

Commissioner of Prohibition. This sum will be decreased by such amounts as may be necessary to continue the functions transferred to the Commissioner of Internal Revenue, heretofore performed in the Prohibition Unit, Bureau of Internal Revenue.

The Commissioner of Internal Revenue shall also, on the date named, turn over to the said Commissioner of Prohibition all the unused balances in the appropriations for the enforcement of prohibition and narcotic laws for the fiscal years 1925, 1926, 1927 and the entire appropriation for the fiscal year 1928; provided, however, that such amounts as may be necessary to complete the investigation and prosecution of cases involving violations of the National Prohibition Act now being conducted by the Intelligence Unit of the Bureau of Internal Revenue shall continue to be available for that purpose, under the supervision of the Commissioner of Internal Revenue, until said cases are completed.

The amount of \$15,000 shall be transferred from the appropriation "Collecting the Internal Revenue" for the fiscal year 1927, and an additional amount of \$25,000 from the appropriation "Collecting the Internal Revenue" for the fiscal year 1928, for the purpose of paying informers' fees in administering the Harrison Narcotic Act. In the event Congress makes provision for the payment of such fees, any unexpended balance shall be returned to the Commissioner of Internal Revenue.

All obligations incurred by the Prohibition Unit prior to April 1, 1927, shall be transferred to and settled by the Commissioner of Prohibition.

#### DISTILLED SPIRITS, ALCOHOL, WINES, AND OTHER LIQUORS.

The Commissioner of Prohibition shall have custody and supervision of all stocks of distilled spirits, alcohol, wines, and other liquors, and of all distilleries, industrial alcohol plants, bonded warehouses, denaturing plants, wineries, bonded wine storerooms, breweries, dealcoholizing plants, and all other places at which such spirits or liquors are produced or stored and which have heretofore been under the custody and supervision of the Commissioner of Internal Revenue. The Commissioner of Prohibition shall at all times have supervision over the production, storage, safeguarding, disposition and accounting for all such spirits and liquors. The Commissioner of Internal Revenue shall turn over to the said Commissioner of Prohibition the control and custody of all such places where said distilled spirits, alcohol, wines, and other liquors are produced or stored, as well as all books, records, files, forms, blanks and other articles pertaining thereto. Records and reports pertaining to Narcotic Registrants shall be retained in the offices of the Collectors of Internal Revenue.

#### MANUFACTURE, WITHDRAWAL AND DISTRIBUTION OF INTOXICATING LIQUORS AND CEREAL BEVERAGES.

The Commissioner of Prohibition shall have the power to grant permits for the manufacture, sale, purchase, transportation, use, rectification, importation, exportation, prescription and other privileges provided by law in relation to intoxicating liquors and cereal beverages. The Commissioner of Prohibition shall have the power to issue citations, hold hearings, and render final judgment in all cases where there are grounds for action against such permits, and the



judgment rendered therein by the said Commissioner of Prohibition shall be final unless modified or disapproved by the Secretary of the Treasury, save as to review thereof in a court of equity, as provided by Section 5, Title II of the National Prohibition Act.

TAXES, TAX PENALTIES, COMPROMISES,  
AND SUITS FOR THE RECOVERY OF TAX LIABILITIES.

The function of assessing, collecting, abating, refunding and compromising internal revenue taxes, that is, taxes arising under the internal revenue and prohibition laws when there is no violation of the prohibition laws, shall devolve upon the Commissioner of Internal Revenue, and all negotiations in compromise of such liabilities shall be made with the Collector of Internal Revenue for the district wherein the liability arose.

In cases of taxes and tax penalties which arise from violations of the various provisions of the prohibition law, wherein increased tax rates are imposed and penalties provided, whether such settlement is to be effected by a compromise tendered through the Collector of Internal Revenue, or by an action brought therefor in the courts, the proceedings shall be conducted by the Commissioner of Prohibition, until an agreement by compromise is reached; or, upon failure of agreement by compromise, a court action for the recovery of such taxes and penalties is prosecuted to a judgment. When an agreement by compromise is reached, the Commissioner of Prohibition shall make report and recommendation to the Commissioner of Internal Revenue as to the amount agreed upon in the compromise settlement. The Commissioner of Internal Revenue shall effect such compromise, with the approval of the Secretary of the Treasury, under the provisions of Section 35, Title II of the National Prohibition Act.

When a court action involving such taxes and tax penalties results in a judgment favorable to the Government, all moneys arising therefrom shall be covered into the Treasury through the Collector of Internal Revenue for the district wherein the liability arose.

NARCOTIC DRUGS

All assessments of taxes under the Harrison Narcotic Act or its amendments shall be made, collected, abated, refunded, or compromised by the Commissioner of Internal Revenue.

All compromise proceedings for criminal liability under the Harrison Narcotic Act and its amendments shall be conducted by the Commissioner of Prohibition.

When an agreement by compromise is reached, the Commissioner of Prohibition shall make appropriate report and recommendation to the Commissioner of Internal Revenue as to the amount agreed upon in the compromise settlement. The Commissioner of Internal Revenue shall effect such compromise, with the approval of the Secretary of the Treasury, under the provisions of Section 3229, R.S.

(over)

INTERNAL REVENUE STAMPS

The Commissioner of Internal Revenue will issue to the various Collectors of Internal Revenue all internal revenue stamps of every class pertaining to spirits, wines, malt liquors and narcotics, including narcotic order forms, and the Collectors of Internal Revenue will account to the Commissioner of Internal Revenue for the same. The authority to redeem stamps shall rest with the Commissioner of Internal Revenue.

INVESTIGATIONS

The Commissioner of Prohibition shall cause inquiries and investigations to be made by the appropriate officers under his jurisdiction with a view to requiring returns to be made to the appropriate Collectors of Internal Revenue of all occupational and commodity taxes and penalties accruing on distilled spirits, alcohol, wine and other intoxicating liquors and narcotics as imposed or may hereafter be imposed by law. Upon receipt of such returns it shall be the duty of the Collector of Internal Revenue in whose district such cases arise to collect the internal revenue taxes and penalties and to cover the proceeds into the Treasury as provided by law.

SEIZURE AND SALE

The seizure and sale of property as provided by law in connection with violations of the above mentioned Acts, with the exception of seizures made by Collectors under authority of warrant for distraint, shall be a function of the Commissioner of Prohibition.

CHEMICAL ANALYSES

The Commissioner of Prohibition shall perform such necessary analyses in connection with miscellaneous taxes relating to adulterated and renovated butter, oleomargarine, filled cheese, mixed flour, and phosphorus matches, as may be required by the Commissioner of Internal Revenue.

DISPOSITION OF RECORDS

The Commissioner of Internal Revenue shall retain all assessment lists, claims, offers in compromise, documents and records pertaining to assessed taxes.

There shall be transferred to the Commissioner of Prohibition all documents and records relating to appropriations and personnel and any other records, equipment, space, property, etc., now in the possession of the Commissioner of Internal Revenue, that relate to the functions of the Commissioner of Prohibition.

A. W. MELLON,  
Secretary of the Treasury.

ESTIMATED AMOUNT  
States,  
Counties,  
Cities, etc.  
\$ 12 657  
13 225  
13 354  
13 409  
13 429  
States,  
Counties,  
Cities, etc.  
\$ 2 044  
2 163  
2 183  
2 199  
2 209  
States,  
Counties,  
Cities, etc.  
\$ 10 613  
11 062  
11 171  
11 210  
11 220  
Beginning with  
revised base  
to 1926, in  
Prepared by  
Department

March 29, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, February 28, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
<u>1926</u>					
Feb.	\$ 12 657	\$ 144	\$ 3 168	\$ 1 689	\$ 16 658
Nov.	13 225	156	2 164	1 808	17 353
Dec.	13 354	156	2 164	1 816	17 490
<u>1927</u>					
Jan.	13 409	156	2 164	1 846	17 575
Feb.	13 429	156	2 164	1 851	17 600

End of Month	Held in Sinking Fund or Owned by United States Government				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
<u>1926</u>					
Feb.	\$ 2 044	\$ 15	\$ - ---	\$ 94	\$ 2 153
Nov.	2 163	14	- ---	30	2 207
Dec.	2 183	14	- ---	30	2 227
<u>1927</u>					
Jan.	2 199	14	- ---	30	2 243
Feb.	2 209	14	- ---	29	2 252

End of Month	Net Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
<u>1926</u>					
Feb.	\$ 10 613	\$ 129	\$ 2 168	\$ 1 595	\$ 14 505
Nov.	11 062	142	2 164	1 778	15 146
Dec.	11 171	142	2 164	1 786	15 263
<u>1927</u>					
Jan.	11 210	142	2 164	1 816	15 332
Feb.	11 220	142	2 164	1 822	15 348

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

Prepared by Section of Statistics, Office of the Secretary, Treasury Department, March 29, 1927.

THE WORK OF THE TREASURY DEPARTMENT

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An Address Delivered  
by  
Honorable Charles S. Dewey, Assistant  
Secretary of the Treasury,

before the  
Women's Republican Club of Massachusetts,  
at  
the Boston City Club,  
Boston, Massachusetts,  
on Thursday afternoon,  
April 28, 1927.

The first thing that impresses the average business man newly appointed to fill an executive position in the Government is the elaborate system of checks and balances that surrounds every operation. It is proper and right that they should be there, for business done on such a huge scale would not be possible without them, except with an ever present danger of losses that might run into large amounts.

In addition to the elaborate bookkeeping and accounting methods, numerous statutes and regulations serve to guide each transaction into general channels which experience has proved to be safe. So when a scornful remark is made of Government red tape, the scorner is perhaps not aware that he is criticising the safeguards devised by a long list of Government officials, who have discovered that a somewhat slower and steadier progress is the surest way.

The organization of the several Departments of the Government is about the same, and in discussing this organization I shall take my own Department of the Treasury as an example. It is subdivided first into bureaus, and these bureaus into divisions and sections. The Secretary of the Treasury is in charge of the whole, and is aided by an Undersecretary and three Assistant Secretaries. These officers might be compared to the Chairman of a Board of Directors, the President and the Senior Vice Presidents of any large corporation.

As a cabinet officer the Secretary establishes the policy of the Department, and his four assistants put it into effect, each being charged with the responsibility of several of the bureaus whose operations are of a similar character.

The bureaus are each in charge of a director or commissioner, who are usually Presidential appointees holding office for a specified term or during

good behaviour.

The divisions and sections of the bureaus are in charge of chiefs. These men are the permanent Government Civil Service employees, and may I digress for a moment to pay a tribute to the Civil Service employee, particularly the so-called "key men" or chiefs of bureaus and divisions. These men keep the wheels of Government in motion. They are familiar with every cog in the great machine, and without their constant and loyal support no chief engineer, no matter how great, could keep the machinery of Government working smoothly.

The organization, that I have briefly outlined, is particularly American in form. In most of the executive departments of foreign governments the undersecretaries, who compare with the assistant secretaries of our executive departments, are permanent, and do not change with the administration as is customary with us. Our theory being that in a new country in which there is constant development, the bringing in of new men with fresh viewpoints keeps the administration of the departments up to date and serves to stimulate the permanent Civil Service employees who might otherwise become stale at their jobs through too long and too close association.

The Treasury Department, measured by its civilian personnel, is the largest executive department. Its operations are extremely varied, for it not only performs all the major financial and fiscal duties of the Government, but, to suggest a few of its other duties, it manufactures the metallic and paper currency and postage and internal revenue stamps, supervises the construction and care of public buildings, and is charged with the public health, Prohibition, Coast Guard, and Customs. In addition, the Secretary of the Treasury is Chairman ex-officio of the Federal Reserve Board and the Federal Farm Loan Board. It would be impossible, within the scope of this address, to describe all of these activities, so I shall choose two of them, namely the Federal Farm Loan System and the administration of the public debt of the United States.

The Federal Farm Loan Act was passed in 1916 and has been amended at various times since that date. The purposes of this act are to provide capital for agricultural development, to create a standard form of investment based upon farm mortgages, and to equalize the rates of interest upon farm loans.

The system as it exists today consists of three units, the Federal land banks, the joint stock land banks, and the intermediate credit banks. The operations of the system are supervised by the Farm Loan Board, consisting of seven members, of which the Secretary of the Treasury is a member and chairman ex-officio. This board is located in Washington and its duties are to supervise the operations of the banks and to see that the Federal Farm Loan Act is properly administered. The Federal land banks and the joint stock land banks transact the same character of business, namely, they loan money to those engaged in agriculture, secured by first mortgages on agricultural land. However, there is considerable difference in their organization. There are only 12 Federal land banks, the country being divided geographically into that number of districts, with one Federal land bank for each district. Originally, the Government supplied the greater portion of the capital for Federal land banks. At the present time, however, the capital stock is largely owned by the National farm loan associations and borrowers. This change of ownership is due to the requirement of the Act that every borrower from a Federal land bank must take 5 per cent of the amount of his loan in the stock of the Federal land bank, and as a result, the Government's stock has been almost entirely retired.

The joint stock land banks are privately owned organizations. Any group of ten men desiring to form a joint stock land bank with a capital of not less than \$250,000, may make application to the Federal Farm Loan Board for a charter and, if granted, may incorporate a bank and proceed to do business within the restrictions of the Federal Farm Loan Act. There are no restrictions as to the number of joint stock land banks which may be granted a charter,

and at the present time there are about 55 of them in active operation throughout the United States.

Of course, the capital of the Federal Land banks and joint stock land banks would not be sufficient to provide funds for all of their loan requirements. The Federal Farm Loan Act provides that a Federal land bank may sell tax-exempt bonds to the extent of twenty times its capital and surplus, and a joint stock land bank to the extent of fifteen times its capital and surplus. The proceeds of these sales are applied in making loans on land to persons engaged or about to engage in the business of agriculture. The bonds themselves must be secured by first mortgages on real estate at 50 per cent of the real estate's sound appraised value. These mortgages are then hypothecated with a Registrar, who is a Federal officer and who sees to it that the bond issues are fully secured by first mortgages and that the amortization payments of both principal and interest on these mortgages are promptly made.

The Farm Loan Act provides that any farmer who borrows from one of the banks of the system must annually, besides paying the interest on his loan, make a certain payment toward the amortization of the principal, so that it will gradually be retired within a specified number of years. As a result, the longer a mortgage runs the better the security, as history shows that land values generally increase in the United States, and under the Farm Loan System the amount of the indebtedness is gradually decreased by amortization payments. The farmer himself is benefited through not having constantly to renew his mortgage, owing to its being granted for periods up to forty years in the first instance, and because he pays a low rate of interest on his loan and is free from commissions that are charged in ordinary commercial practice when a loan is made or renewed.

From its inception the Farm Loan System has offered an admirable service to the farmers, as is best evidenced by its very rapid growth. Starting in the latter part of 1916, the system has outstanding today over \$1,700,000,000



and at the present time there are about 55 of them in active operation throughout the United States.

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From its inception the Farm Loan System has offered an admirable service to the farmers, as is best evidenced by its very rapid growth. Starting in the latter part of 1916, the system has outstanding today over \$1,700,000,000

in loans.

As in any other system which has had such a rapid growth, certain defects appeared which could not have been foreseen by the drafters of the original act. As fast as these defects are disclosed they are being ironed out by the Farm Loan Board, and I thoroughly believe that today the bonds of the Farm Loan System offer a very satisfactory form of investment.

In 1923 the Federal Farm Loan Act was amended to provide additional credit facilities for agricultural and live stock industries of the United States, and Congress appropriated \$60,000,000 as capital stock for 12 intermediate credit banks to be organized in the same districts with the 12 Federal land banks, the officers of the land banks to serve as officers of the newly created intermediate credit banks.

Under the Federal reserve system, member banks are permitted to make loans for agricultural purposes with a maturity of not greater than nine months. While this provision of the Federal Reserve Act was of great benefit to agriculture, the nine months, in many instances, did not provide sufficient time to market a crop or to develop a herd of cattle, and to cover this intermediate period between the short-term commercial loans and the long-time loans granted by the land banks, the intermediate credit banks were formed. These banks may make loans with a maturity of not less than six months nor more than three years, by discounting or purchasing from certain corporations incorporated either under State or Federal law, notes or drafts or other obligations which are secured by staple warehouse agricultural products or live stock. To make these loans the intermediate credit banks are permitted to issue debentures with a maturity of not more than five years which are secured by the credit instruments obtained in making advances to the agricultural industry, as provided by the Act. These debentures, like the bonds of the land banks, are tax-exempt, and because they are usually of a short maturity they have become

a very popular form of investment with banks and corporations.

When fully developed, the Intermediate Credit banks should be of great assistance to agriculture in the orderly marketing of its products. It is not intended that they should in any way displace the ordinary channels of credit, namely the commercial banks, but when any unusual conditions arise, or an unmanageable surplus develops, the intermediate credit banks can offer a reserve of credit at a low rate of interest which should have a stabilizing effect on farm prices.

This will briefly outline to you the organization of the Farm Loan System. It has long since ceased to be merely an experiment in this country and is now an important unit of our banking structure. In most of the European countries, land banks have of course been in existence for decades. With us in our newer and rapidly growing country, experience has, as I have said, shown certain defects in the original basic act, but by close Government supervision these defects will be constantly eradicated and the Farm Loan System will continue to grow and grant an increasing service to agriculture, and its bonds will provide a sound form of investment for the public.

When one thinks of the Treasury Department one usually thinks of taxes and our Liberty Bond issues. So, having described the Farm Loan System, I will briefly describe to you, from an administrative viewpoint, how the Treasury handles the public debt.

Generally speaking, Treasury borrowings since the beginning of the War, and up to the present time, have been made in the first instance through the sale of short-time paper in the form of Treasury certificates of indebtedness, with maturities not exceeding one year.

These certificate issues offered to the public have been of two classes, (1) in anticipation of loans, and (2) in anticipation of tax receipts.

The needs of the Treasury to meet the expenditures occasioned by the war

were so great that enormous borrowings were necessary. It was, of course, obvious that the maturities must be spread over a considerable period of time and so during the war and post-armistice periods five great war loans were issued, four in the form of bonds, and one in the form of Victory notes. In order to float a loan of the size of one of the Liberties, considerable preparation was necessary. In all probability the market could not have stood an initial issue of several billions of dollars. At the same time the Treasury needs were urgent, and so in anticipation of a long-term loan temporary borrowings were resorted to as required and Treasury certificates of indebtedness were issued in anticipation of a later loan. The first issue of certificates in anticipation of the First Liberty Loan was made on April 25, 1917. Other issues followed at frequent intervals up to the time of the issue of the First Loan. The same procedure was followed with respect to each of the other Liberty Loans. Maturities, generally, were arranged to coincide with the dates of installment payments on the Liberty issues. It is apparent that an issue of certificates placed the Treasury in immediate funds, and that the later Liberty issue, in effect, became a refunding operation. Loan certificates in aggregate amount \$17,018,187,000 were issued in anticipation of Liberty issues aggregating \$21,432,294,700.

Similar procedure was followed of issuing certificates of indebtedness in anticipation of tax receipts. These payments were first made toward the close of the Treasury fiscal year, and it was not until February, 1919, when the Revenue Act of 1918 became effective, that the principle of quarterly tax payments was established. The same result was brought about as in the case of certificates in anticipation of loans, - the Treasury was placed in immediate funds and maturing certificates offset tax payments. The fixing of quarterly tax payment dates by the Revenue Act of 1918 indicated the fixing of certificate maturities for the same dates, and this practice has consistently been followed

ever since.

As you are aware the structure of our debt now consists of three classes of securities - bonds with a maturity of over five years, notes with a maturity of from one to five years, and certificates of indebtedness with a maturity of not more than one year. It is with these latter two classes we will deal as the bonds present a different problem.

As I have said, the Government collects its principal taxes every three months on March, June, September, and December 15th. It is the custom for the Treasury to calculate its operations for this period, and in order not to upset the money market has spread its short-term indebtedness so that it falls due in more or less even amounts upon these dates. In arranging its financing, the Treasury officials estimate the amount needed for expenditure of all kinds during the ensuing three month period, add to this the amount of notes or certificates maturing and compare the sum with the estimated receipts from taxes and all other sources. The difference will be the amount it will be necessary to borrow. This difference is generally less than the amount maturing and as a result of this refunding for a lesser amount the public debt is reduced out of surplus, which is the excess of receipts over expenditures.

The question then arises as to what form the borrowing shall take, the length of maturity and the rate of interest. As you know, the certificates have a maturity of not more than one year, and the notes from one to five. We then examine our list of maturities and discover that, for example, we have a vacant maturity date eighteen months hence. This maturity should be filled or we will have a large receipt of cash from taxes and no securities to pay off, thus temporarily piling up funds in the Government's strong boxes and upsetting the money market. Having reached this decision it is obvious that an eighteen months note is the proper class of security to offer.

The matter of rate of interest is a little more difficult. If the new note, for instance, is to mature on June 15, we will first consider the yield of our securities maturing three months before and three months after that date, the mean should be about right for the new offering. Consideration is given to a number of other factors which will affect the rate and must be taken into account, which are of too broad a nature to consider here. This, however, describes briefly our general method, but we occasionally fool the students of Government financing by doing something which the public does not expect but for which we have some very sound reason.

To return to the example we are considering, let us assume that we have decided to issue an eighteen month note with a given rate of interest, this to refund securities maturing December 15th. What are the administrative steps to be taken?

The Federal Reserve Banks act as the fiscal agents of the Government, although of course, it is perfectly possible to purchase or exchange Government securities through the Treasurer of the United States, but such transactions represent a mere fraction of one per cent of the whole. Therefore, it is necessary to notify our fiscal agents first that we contemplate offering new securities, and secondly, what they are to be. This latter information, however, is not given until the last moment.

Upon receipt of the final advice, each Federal Reserve Bank simultaneously notifies the banks in its district, requesting them to forward their subscriptions. Upon the same date the Treasury releases a statement to the press describing all of the details of the issue. In this way the whole transaction is given the broadest publicity. As a matter of fact, so accustomed has the public become to the quarterly financing of the Treasury Department, that the financial columns of many leading newspapers frequently hazard guesses as to what form it will take.

Immediately after the announcement subscriptions commence pouring into the Federal Reserve Banks from banks in their district who have received them from their customers and are subscribing for their own account. These subscriptions are divided into two classes, exchange subscriptions, that is the offering of the maturing security in exchange for the new, or the offer to purchase the new security for cash.

It might be well to mention here that in order not to encumber this description with a great many details, I have purposely omitted mention of many items that we must carefully consider. Among these is the percentage of exchange subscriptions we will allot. Acceptance of exchange subscriptions reduce in like amount the cash required to pay maturing issues so that the larger the percentage of this class of subscriptions accepted, the more funds received from taxes and other sources will be available for expenses in this period. In other words, the entire matter is largely governed by the cash position of the Treasury at the time.

Each day the Federal Reserve Banks notify the Treasury by wire of the total subscriptions received, classifying them into the two groups mentioned, and further classifying the cash subscriptions by principal amounts. That is to say, how many individual subscriptions are received of \$1000, \$10,000, \$50,000, etc. This information is necessary in order that the Treasury may make fair allotments. So popular have the short term Government securities become as an investment by banks and corporations, that for the past several years every issue has been heavily over-subscribed. It is therefore the duty of the Treasury to see that what it is offering is equitably allotted to each class of subscriber.

The period for receiving subscriptions generally lasts for three to four days, depending somewhat upon the size of the offering and the condition of the money market. When the Treasury sees from the daily reports from the Federal

Reserve Banks that its requirements have been fully met, it sends out a notice terminating the offering as of a certain hour and date. When all of the banks have made their final report, allotment is made. This is based, as I have said, upon as nearly an equitable division among all classes of subscribers as possible. It is entirely contrary to Treasury policy to permit any class or district to receive preference in the matter of allotment.

About three days prior to the date of the offering the Federal Reserve Banks are notified as to how to accept subscriptions. For the sake of an example, those subscribing for a thousand dollar note will receive their allotment in full. Those subscribing an amount up to ten thousand dollars but over one thousand dollars will receive eighty per cent of their subscriptions and so on. The total allotment representing the sum the Treasury requires. Payment must be made on the date of the issue.

Let us now consider this matter of payment. In the days prior to the Federal Reserve System, all Government receipts either from taxes or otherwise, were paid into the sub-treasuries and became impounded in a relatively few centers. This led to the constant upsetting of the money market due to the withdrawal of funds from business to meet which the Secretary of the Treasury had to redeposit the money in those sections in which he thought it would do the most good. This method was crude and unreliable and constantly led to embarrassment.

Under the present methods, tax receipts are largely used to pay off maturing Government obligations and hence the receipts are to a great extent paid back immediately into commercial channels, thus avoiding disturbance to the money and investment markets. The funds which the Treasury is to retain for Government expenses during the next three months, and which are derived from the sale of its securities, are largely paid for by credit in the following manner:



Any incorporated bank or trust company desiring to participate in deposits of public money arising from the sale of bonds, Treasury notes, or certificates of indebtedness, may make application to the Federal Reserve Bank of its district to become a "special depositary" with a "War Loan" account, and qualify by depositing authorized securities.

Payments for subscriptions to public debt offerings are made in the form of exchanges of maturing issues or in cash, or in case the bank making the subscription is a special depositary having a "War Loan" account, by a credit to that account in favor of the Federal Reserve Bank of its district as fiscal agent of the United States, which account, as has already been mentioned, is secured by the pledging of authorized securities with the Federal Reserve Bank of the district.

Too great emphasis cannot be placed on the importance of the special depositary system. Since the new issues of securities are offered on tax payment dates, if the subscribing banks were required to make payment therefor in cash, such payments together with the heavy withdrawals by depositors for the purpose of meeting quarterly installment of taxes, would create a serious financial disturbance unless prompt redeposit of the funds was made in the same localities from which drawn. Under the existing system, whereby the subscribing bank is permitted to make payment for the securities by credit in its "War Loan" account, the full amount of the subscription is for the time being retained by the bank. Withdrawals are subsequently made as the Government has need for funds, but such withdrawals are gradual, covering a period of several months following the deposit, with the result that there is complete avoidance of the shock which would be inevitable if these subscriptions, in the first instance, were required to be paid in cash on the date on which the securities were issued.

I have endeavored to briefly describe to you some of the administrative operations of the Treasury Department. You will agree with me, perhaps, that

they are based upon businesslike procedure and sound and simple principles. As I said in the forepart of my address, it is quite customary for individuals not familiar with the Government's operations to offhandedly condemn them as being full of "red tape", and quite occasionally we receive a letter from some irate taxpayer inquiring why his communication has not been immediately answered. He possibly little realizes that his communication may be one of a thousand similar ones received from other sections of the country. Like any other business we have our peak loads and if we endeavored to keep a corps of employees on hand at all times to handle peak loads the business of Government would be extremely expensive. I admit that when I came to the Treasury nearly three years ago I had somewhat the same general opinion as the average citizen and expected to find a rather cumbersome and old fashioned manner of doing business. I was almost immediately disabused of this idea, for it is the policy of the Government to keep abreast of all new ideas of management which can be fitted to its peculiar necessities. Soundness and simplicity are the guiding principles of Government business.

Many people misinterpret the President's program of economy and take the word "economy" in its purely literal sense as meaning frugality. I am very sure, however, that the President means far more than this and that he recognizes the word "economy" to mean not only frugality but efficiency in administration. In a growing country such as ours it is only normal that there should be an increase in the demands upon the Government for the expenditure of funds for important development and other necessary Federal activities. Under the President's policy these demands have not caused an increase in the budget, but have been financed to a great extent out of savings made possible by greater efficiency in Government administration, which is the highest and the most commendable type of economy.

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April 29, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, March 31, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926 Mar.	\$ 12 657	\$ 144	\$ 2 168	\$ 1 689	\$ 16 658
Dec. 1927	13 354	156	2 164	1 816	17 490
Jan.	13 409	156	2 164	1 846	17 575
Feb.	13 429	156	2 164	1 851	17 600
Mar.	13 587	156	2 164	1 859	17 766

End of Month	Held in Sinking Fund or Owned by United States Government				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926 Mar.	\$ 2 044	\$ 15	\$ - ---	\$ 94	\$ 2 153
Dec. 1927	2 183	14	- ---	30	2 227
Jan.	2 199	14	- ---	30	2 243
Feb.	2 209	14	- ---	29	2 252
Mar.	2 221	14	- ---	29	2 264

End of Month	Net Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926 Mar.	\$ 10 613	\$ 129	\$ 2 168	\$ 1 595	\$ 14 505
Dec. 1927	11 171	142	2 164	1 786	15 263
Jan.	11 210	142	2 164	1 816	15 332
Feb.	11 220	142	2 164	1 822	15 348
Mar.	11 366	142	2 164	1 830	15 502

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

Prepared by Section of Statistics, Office of the Secretary, Treasury Department, April 29, 1927.



## TREASURY DEPARTMENT

WASHINGTON

FEDERAL FARM LOAN BUREAU

May 14, 1927.

### STATEMENT OF EUGENE MEYER, FARM LOAN COMMISSIONER

A committee from Mississippi, consisting of R. E. Kennington of Jackson, President of the R. E. Kennington Company; J. S. Love, of Jackson, Superintendent of Banks of the State of Mississippi; and J. F. Barbour, of Yazoo City, Vice President of the Delta National Bank, together with Senator Pat Harrison and Representative B. G. Lowrey, met with the Farm Loan Board today to discuss agricultural rehabilitation in the flooded area of that State.

The committee presented a well thought out plan for extending assistance to farmers in the flooded area through a finance corporation with \$1,000,000 authorized capital. The management of the corporation will be in the hands of a board of fifteen directors, all of whom are prominent business men and bankers of the State.

The committee was assured of the cooperation of the Farm Loan Board and Intermediate Credit Bank of New Orleans. The board indicated that it would approve the making of advances by the Intermediate Credit Bank to the Mississippi Rehabilitation Corporation up to a total of \$4,000,000, if necessary, on a basis of \$1,000,000 paid in capital, for the rehabilitation of the agricultural interests of the flooded area. When the committee left Mississippi capital of \$361,000 already had been subscribed and it is expected that a total of \$500,000 will be obtained from local interests in the State. The assistance will be extended through local banks to a considerable extent. In this way, it is expected that effective work will be accomplished promptly. The committee stated that planting of cotton up to June 10 with the early maturing variety, for which there is an ample supply of seed available through the Red Cross, will permit a satisfactory crop to be made. The committee felt that this statement was borne out by experiences with floods in 1912 and 1897.

The committee is returning to Mississippi to put the plan into action at the earliest possible date, and should circumstances make it necessary to enlist additional capital from outside of the State efforts will be made to do so, increasing subscriptions to the full amount of \$1,000,000 authorized capital.

The Superintendent of Banks of Mississippi presented figures showing that the condition, as a whole, of the 29 banks in the flooded area, at the time the flood occurred, was strong, and that their borrowings were negligible.

Remarks of Undersecretary of the Treasury Mills, in opening  
the Twenty-Fifth Annual Conference of State and Territorial  
Health Officers with the United States Public Health Service,  
in Washington, Friday, May 20, 1927.

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I am very glad indeed of this opportunity to say a word of greeting to you, the Delegates to the Twenty-Fifth Annual Conference of State and Territorial Health Authorities with the Public Health Service. After a quarter of a century we are able to appraise the value of such conferences and to recognize the wisdom of Congress in providing for them with a view to promoting the interests of public health in the United States. Through these conferences State and Federal Health officials are enabled to exchange ideas, to give each other the benefit of their individual experiences; to discuss important national and State problems, and to reach understandings as to their respective spheres of jurisdiction. They have resulted in a better understanding of our health problems, of the differing needs of the States, and of the many difficulties which are encountered. Above all they have served to establish mutual confidence and respect, and have been the means of establishing cordial cooperation in a field which cannot be sharply divided by State, county and municipal lines.

At a time when there is an unmistakable tendency to obtain a uniform solution of our problems by constant extension of the powers of the Federal Government and the consequent diminution of the authority and responsibility of State and local officials, it is very encouraging to find the public health officials of the country following this effective means of obtaining the desired results without finding it necessary to extend the legal authority of

the Federal Government or weaken our Federal system. Isn't this the proper method to secure uniformity? That is, by frank conference; the exchange of ideas, and whole-hearted cooperation, rather than by over-riding State lines and impairing the local initiative and responsibility, which I believe are so essential to the maintenance of our institutions.

We regret that the State Health Officers of Louisiana, Mississippi and Arkansas are unable to attend this year, because of the emergencies which exist in their States due to flood conditions, and we deplore even more the tragic cause of their unavoidable absence. The United State Public Health Service is cooperating with these officials by the detail of a number of its most experienced officers. It has also been instrumental, in its position as the liaison agency between the Red Cross and the official health agencies, in securing trained and experienced personnel from the States unaffected by the flood. It is encouraging to note that owing to the prompt and effective organization of public health work in the flooded areas, epidemics have been averted and the general health is reported good.

I desire to call your particular attention to the fact that the full-time county health departments, in the development of which the United States Public Health Service and the various State health officials have devoted so much attention, have proven effective during this period of great emergency. It is to be hoped that this demonstration of the practical value of this system in time of need as well as under normal circumstances will serve further to promote the extension of county health work.

It is presumptuous for a layman to venture to advise in this technical field, but I cannot refrain from emphasizing the vital importance of the work in which you gentlemen are engaged. Thanks to your efficiency our country

knows no epidemics of the major pestilential diseases at the present time. Prompt and effective means of combatting them are at hand and it is not too much to hope that we shall never again have to face such scourges of cholera, yellow fever, smallpox and plague, as have existed in this country in the past. The recent extensive epidemic of typhoid fever at Montreal, however, is a fitting illustration of the everlasting necessity for vigilance on the part of Governmental authorities.

In conclusion, let me wish you a most successful conference, a pleasant stay in Washington, and continued achievement in that field of public service which has already been marked with so many milestones of definite progress.

May 18, 1927.

The Office of Foreign Control  
The Commandant of the Coast Guard  
The Commissioner of Customs  
The Commissioner of Prohibition.

The Department desires to take full advantage of the last two years' experience in stopping the smuggling of liquor, of the increased facilities of the Coast Guard now equipped with suitable ships for their peculiar functions, of the treaties and arrangements made with foreign countries, and of the information and increased ability developed in the personnel of all services out of their experiences, - to consolidate all these elements into a plan to stop, once for all, the smuggling of liquor into the United States in commercial quantities. The Department is determined to undertake this vigorously, and at the same time to add to the efficiency of its efforts to stop the smuggling of narcotics.

To make this determination effective, a continuing committee is established, to be known as the Committee on the Smuggling of Liquor and Narcotics, consisting of the Assistant Secretary of the Treasury supervising Coast Guard, Customs and Prohibition; the Chief, Office of Foreign Control; the Chief Intelligence Officer of the Coast Guard; The Assistant Commissioner of Customs; the Deputy Commissioner of Customs in charge of the Special Agency Service; the Assistant Commissioner of Prohibition; the Deputy Commissioner of Prohibition (Narcotics); and the Chief Prohibition Investigator. This Committee is charged with devising and operating a detailed plan for such cooperative work on the part of the Office of Foreign Control, the Coast Guard, the Customs and the Prohibition services, as will assign to each its definite detailed function and responsibilities, the methods by which information will be collected, interchanged and disseminated for prompt use, the methods by which information and evidence will be used, and any other detailed instructions to the units concerned, ALL FOR THE PURPOSE OF PREVENTING THE SMUGGLING OF LIQUOR AND NARCOTICS INTO THE UNITED STATES AND OF APPREHENDING AND PUNISHING THOSE PARTIES WITHIN OUR JURISDICTION WHO ARE ENGAGED IN THIS BUSINESS.

This General Instruction is issued in order that each Chief of Bureau may understand the part each of the Bureaus has to perform in this plan, and at the same time be prepared to give the necessary instructions to his subordinates to carry out their respective parts. The plan contemplates the elimination of overlapping efforts, the fixing of clearly defined responsibilities and close teamwork in certain phases, a continuous and intimate interchange of information, and in a word, makes of the intelligence and investigating forces of all the



services practically one machine for the accomplishment of a common purpose. The preparation of the detailed instructions to put this into effect demands collaboration in their preparation, and a clear understanding, on the part of each element, of the functions of the other elements in order that the machine may operate smoothly. This initial General Instruction, therefore, includes in general terms a description of the function of each of the five units concerned.

Office of Foreign Control. - This Office has been created to take advantage of the opportunities made possible by the treaties and administrative arrangements made with foreign nations, and to take advantage of the splendid cooperation afforded by the State Department in dealing with these nations and our foreign consuls, for the purpose of putting out of business those ships engaged in smuggling where evidence exists that they are violating existing laws. Its effective work results primarily in preventing the shipments of liquor leaving the foreign ports. A secondary function is to obtain information of value to the Coast Guard in intercepting the shipments before they reach our shores; and in obtaining evidence of law violations for use both in foreign ports, and in making domestic conspiracy cases. This Office gains information and secures evidence and uses both through diplomatic and other proper channels so that we may more and more embarrass, handicap and render unprofitable the business of liquor smuggling from abroad. All its effective work is based upon the prompt use of accurate information about the activities of the smugglers. Therefore, every member of all services must appreciate the value of any detailed information regarding the personnel and materiel engaged in smuggling operations, and thus be interested in forwarding it promptly as directed, whenever and wherever obtained.

It is not advisable to describe just how the Office of Foreign Control works. It is enough to know that it is prepared to use information of illegal practices to prevent the sailing of ships engaged in smuggling, and the intercepting of cargoes intended to be smuggled. Like the Coast Guard, its primary function is preventative; yet both services supply vital information and evidence for use by Customs and Prohibition in making those conspiracy cases against those engaged in the organized smuggling traffic designed to put them out of business and into jail.

Coast Guard. - The Coast Guard is charged with preventing the arrival in port of ships engaged in smuggling liquor, or the landing of liquor outside the Customs lines. The control of the Coast Guard personnel and materiel for this purpose is in the hands of the Commandant of the Coast Guard, who disposes them to best meet the changing conditions as they arise. His present organization is as follows:

The Coast Guard consists of approximately 33 cruisers, 25 destroyers, 33 - 125-ft., and 10 - 100-ft. off-shore patrol vessels, 200 - 75-ft. patrol vessels; 125 picket boats; 34 harbor vessels and miscellaneous craft, and 277 Coast Guard (life saving) stations with life boats at each. This equipment is manned by approximately 11,000 officers and men.

The force is mobile and can be handled with rapidity through an elaborate communication system, the Service having under its control many radio stations and several hundred miles of telephone and telegraph lines along the coast. For purposes of command, the entire strength is divided as follows:

The Eastern Division, from New London, Conn., northward; New York Division from New London, Conn., to Delaware Bay; Norfolk Division from Delaware Bay to Savannah, Georgia; Florida East Coast Patrol Force from Savannah, Ga., to Key Largo, Florida; Gulf Division from Key Largo, Florida, to Point Isabel, Texas. On the Pacific front, the Southern Division from Cape Blanco, Oregon, southward; the Northern Division from Cape Blanco, Oregon, northward, including Alaska. The Lakes Division, all of the Great Lakes, excepting Ontario, which is under the New York Division. Division Commanders and their stations are located at: Boston, Mass.; New York, N. Y.; Norfolk, Virginia; Fort Lauderdale, Florida; Mobile, Ala.; San Francisco, Calif.; Seattle, Wash.; and Sault Ste. Marie, Mich.

Divisions include Section bases located as follows:

- Base 1 -- Atlantic City, N. J.
- " 2 -- Stapleton, Staten Island, N. Y.
- " 3 -- Nantucket, Mass.
- " 4 -- New London, Conn.
- " 5 -- East Boston, Mass.
- " 6 -- Fort Lauderdale, Fla.
- " 7 -- Gloucester, Mass.
- " 8 -- Norfolk, Va.
- " 9 -- Cape May, N. J.
- " 10 -- Port Townsend, Wash.
- " 11 -- San Francisco, Calif.
- " 12 -- Ancortes, Wash.
- " 13 -- Port Angeles, Wash.
- " 14 -- Block Island, R. I.
- " 15 -- Biloxi, Miss.
- " 16 -- Rockland, Me.
- " 17 -- San Pedro, Calif.
- " 18 -- Wood's Hole, Mass.
- " 19 -- Key West, Fla.

To each Division, in accordance with its needs, a force of ships, boats, officers and men is assigned, and this force operated from the various bases within the Division, and under the direct orders of the Division Commander.

In addition to the above, the following forces are in being:

The destroyer force with headquarters on the Flagship ARGUS, now at New London, Conn.; the off-shore patrol force whose vessels operate on the Atlantic and Gulf Coasts; and the Bering Sea patrol force with flag at Unalaska.

The 277 Coast Guard (life saving) stations are organized in districts with District Commanders in charge, and cooperate with, but are independent of the forces afloat. The districts are described as follows:

1st District includes the coast of Maine, New Hampshire, and Massachusetts to Plum Island, with headquarters at Portsmouth, N. H.

2nd District, the coast of Massachusetts from Plum Island to Wood's Hole, with headquarters at Provincetown, Mass.

3rd District, the coast of Massachusetts from Wood's Hole west, the coast of Rhode Island, Fishers Island and Nantucket and Marthas Vineyard Island, with headquarters at Wakefield, R. I.

4th District, the coast of Long Island, N. Y., with headquarters at Bay Shore, N. Y.

5th District, coast of New Jersey, with headquarters at Asbury Park, N. J.

6th District, the coast between Delaware and Chesapeake Bays, with headquarters at Lewes, Delaware.

7th District, Chesapeake Bay to Key West, with headquarters at Elizabeth City, N. C.

8th District, the coast of the Gulf of Mexico, with headquarters at Galveston, Texas.

9th District, the Coast of Lakes Erie, Ontario, and the eastern part of Lake Huron, with headquarters at Buffalo, N. Y.

10th District, Western part of Lake Huron, and the east side of Lake Michigan, with headquarters at Grand Haven, Mich.

11th District, Lake Superior and the west side of Lake Michigan, with headquarters at Green Bay, Wis.

12th District, the coast of California and the southern part of the coast of Oregon, with headquarters at San Francisco, Calif.

13th District, Alaska, Washington and the northern part of the coast of Oregon, with headquarters at Portland, Oregon.

#### Guard

The Coast/isi by law, a part of the military forces of the United States and its organization, administration and methods of operation are in strict conformity with that status.

The Coast Guard Intelligence Office is charged with securing and disseminating military information for the Coast Guard, and also with maintaining liaison as regards this intelligence with all other departments of the Government concerned, and with the other bureaus and offices of the Treasury Department. It collects, sifts, classifies, files and keeps ready for immediate use, and uses as directed by the Commandant, the latest obtainable intelligence concerning all movements of liquor ships and personnel engaged in smuggling at home and abroad. Many of these duties parallel, but do not duplicate, those performed by the Office of Foreign Control. Here again detailed information is of great importance and, most important of all, is the establishment of such lines of communication as will result in live information reaching its destination in time to be effective.

The Coast Guard reports to Washington by telegraph immediately an important seizure is made, and turns each seizure over to the Collector of Customs, together with all possible evidence which it can develop, and reports thereafter to headquarters all pertinent information it has obtained in the case.

By interchange of information with other services, the Intelligence Office will keep in touch with operations on our own coast, keep the Coast Guard informed on pertinent matters, keep the other services informed on captures and other pertinent matters, and be prepared to furnish any available information to other services concerning pertinent matters that may be in its file.

Bureau of Customs. - Every foot of land or water border of the United States belongs to the jurisdiction of some one Collector of Customs, whose responsibility it is to prevent smuggling thereat. As regards the illegal entry of liquor and narcotics into the United States, the Customs Service is charged with the enforcement of the Tariff, Navigation and other laws applicable to the situation.

As provided by Section 605 of the Tariff Act of 1922, all vessels, vehicles, merchandise (liquors or narcotics) and baggage seized under the provisions of the Customs laws, or laws relating to the navigation, registering, enrolling, licensing, entry or clearance of vessels, unless otherwise provided by law, shall forthwith be delivered to and remain in the custody of the Collector for the district in which the seizure was made to await disposition according to law.

Within the Bureau of Customs the Special Agency Service is charged with those particular intelligence and investigating duties in the prevention of smuggling which pertain to the operation of this plan. There are nine of these Special Agency Districts in the United States and one in Canada, in each of which one or more Special Agents will be designated whose duty it will be to take charge of all important liquor smuggling cases within their district. All Customs officers will be instructed to report through the Collector to the designated Agent in their respective districts all pertinent facts regarding important liquor seizures made by them, and all evidence or information coming into their possession regarding the operation of individuals, vessels, air planes or vehicles which might be a part of a major liquor smuggling operation.

These designated Special Agents are charged, each in his own district, with the duty of making all liquor smuggling cases for presentation to the proper United States Attorney. Due to the paucity of personnel and of facilities, and because many cases will ramify far into the interior, it will often be advisable that individual cases of liquor smuggling be made by the Prohibition investigating service, rather than by the Special Agents of Customs. It is vitally important, therefore, that these two services maintain intimate relations of cooperation and collaboration. In each individual case, however, the sole responsibility for the development and presentation of the particular case must rest in the one or the other. Because these Custom cases are primarily the responsibility of the Special Agency Service, it is directed that the Special Agent concerned be charged with the responsibility of determining, in each case, whether he will conduct it himself or turn it over to the Prohibition Service.

In each case of seizure, the Coast Guard having notified the Collector or the Special Agent concerned with all possible expedition, the Special Agent will, if possible, secure a representative of the United States Attorney and of the Prohibition Liaison Agent to accompany him or to join him at the earliest practicable moment in the reception of the seizure

from the Coast Guard, and in making the preliminary investigation and search for all possible evidence. As soon thereafter as circumstances and the developments of the case admit of a determination, the Special Agent will decide whether he or the Liaison Agent will conduct the case, and act accordingly. In either event each service will render the other every possible assistance in the prosecution of the case. It may occur that in the later developments of a case assumed by the Special Agency Service, it will have reached such territorial proportions that greater efficiency will result from turning it over to the Prohibition Liaison Agent. In such cases, report with recommendations will be made to the respective Intelligence Chiefs in Washington, who will decide how the case will be continued.

All information collected by the designated Special Agents in the field will be promptly forwarded to the Chief of the Special Agency Service in Washington, who will maintain a file of all this information and evidence constantly available to those Special Agents who may thus obtain additional evidence when making conspiracy cases, and available to the Intelligence Chiefs of the other services concerned.

In the matter of narcotic smuggling, it is vitally important that all information of any narcotic smuggling activities, either as to personnel or methods, or practices, be immediately transmitted to the Narcotic Agent in Charge in the district concerned. Each and every Customs officer will therefore immediately communicate to the designated Special Agent of his district any such information which he may obtain. The Special Agent will immediately communicate this information to the Narcotic Agent in Charge in his district. The Narcotic Agent will act on this information if it be practicable, and will forward to his Chief in Washington such of this information as the Chief directs. Where the Customs Special Agency Service has a live lead, or information or evidence indicating an attempted smuggling operation, he must immediately notify the Narcotic Agent in charge so that the Narcotic Agents may collaborate with Customs in making the case. As in liquor cases, so in narcotics, the Special Agent of Customs is charged with the responsibility of making these narcotic smuggling conspiracy cases. In each case the Special Agent must decide whether he will himself conduct the investigations and make the conspiracy case, or will turn it over to the Narcotic Agent in Charge. One or the other must take the sole responsibility and leadership in making the case, and the Special Agent of Customs makes this decision. Whichever one makes the case, the other service must collaborate, giving every possible assistance, and supplying all possible evidence and information. There is no place for jealousy or rivalry between these two service. It is recognized in the very nature of the case that the Narcotic Agents are specialists in this difficult work, and have access to all manner of information which is not accessible to the Customs Special Agency forces. It is hoped that they will recognize the vital necessity of whole-hearted collaboration - and there will be credit enough for both if they succeed in breaking up the organized smuggling rings.

Prohibition. - The Bureau of Prohibition is charged with the enforcement of both the Prohibition and Narcotic Laws and, for this purpose, is separated into two distinct units. The main objective in the enforcement of the Prohibition Law is the elimination of the commercialized traffic

in intoxicating beverages. As regards the particular subject of liquor smuggling, the Prohibition Unit's function lies behind the Customs lines, and will be exercised primarily in obtaining evidence of those phases of smuggling operations concerned with the transportation and distribution of smuggled liquor, and the illegal activities of those engaged in this business. The officers of this service should all be alert to secure information and evidence of these various activities; to use the information to effect the elimination of the traffic, and to use the evidence to prosecute and punish those conducting it and responsible for it.

Territorial United States is divided into 22 Federal Prohibition districts, in each of which an Administrator has his headquarters and is held responsible for the enforcement of the law within his district. Many law violations, however, are but part of a widely operating organization engaged in the liquor traffic, without regard to district lines. Primarily to handle these interdistrict cases most effectively, there is established a mobile force of investigators under the Chief Prohibition Investigator, whose Washington office is known as the Field Division of the Bureau of Prohibition. The functions of the Field Division of the Bureau of Prohibition are to perform those duties of investigation and of compilation of information not specifically assigned to other divisions or sections of the Bureau.

As indicated, its functions should broadly be segregated in two classes:

The first is the gathering, classifying, correlating, filing and disseminating of information not strictly local in character, covering violations of the National Prohibition Act and the related statutes.

The second is to investigate fully all of those violations of the National Prohibition Act, and related statutes, not specifically entrusted to the several Administrators and to the Customs force, but to be prepared none-the-less to supplement the forces of the Administrators and the Customs Service when called upon through suitable channels so to do.

In order that there may be no overlapping in the exercise of the functions outlined above, it has been deemed proper to establish in each Administrative District a representative of the Field Division (Chief Investigator's Office), to be designated Liaison Agent, whose duties shall be:

(a) To determine (with the cooperation of the respective Administrators), what information developed through local enforcement is suitable and proper for the centralized files of the Field Division.

(b) To take over, from the Administrator, such investigations as may be prima facie interdistrict violations, or leading to interdistrict inquiry.

(c) To take over from the designated Special Agent of Customs the investigation and prosecution of such cases as he may turn over.

Too much stress cannot be laid upon the fact that the representatives of the Chief Investigator's Office in the field, i.e., the Liaison Agents, will function only upon agreement with either the Administrators or the properly designated Customs officials, it being essential in the

interest of both economy (as regards over-lapping), and of harmony that a distinct line of demarcation be set up for the guidance of the Chief Investigator's force.

In order to maintain, at their maximum value, the information files referred to earlier in this statement, information received from the Office of Foreign Control and from the Intelligence Service of the Coast Guard, should be embodied therein to be used wherever pertinent in making cases, or in supplying information and evidence to Administrators. This gives the central file the maximum value to both Liaison Agents and Administrators in the field, and again illustrates the urgent necessity that all field officers send to their respective headquarters detailed information as to law violators and violations which may later be of great value in making cases.

For the prevention of smuggling on the land borders, additional patrolmen paid from Prohibition funds are selected, appointed, and directed in all their work by Collectors of Customs, and are in effect Customs employees and subject to their regulations. In addition, the Special Agency Service of Customs, in special cases, may be augmented by the temporary assignment to duty with them of designated members of the Field Division, Bureau of Prohibition, who, when so functioning, will be under the direction of Customs officers who will be fully responsible for their activities while so assigned.

For the enforcement of the narcotic laws, the United States is divided into 15 divisions, and the designated Narcotic Agent in Charge directs the work of the field agents in each of these divisions. While their normal work is quite distinct from that of the Prohibition enforcement agencies, their activities often bring them accurate information of Prohibition Law violations and liquor smuggling activities. These narcotic agents can thus be of tremendous value to our general plan, and the Deputy Commissioner of Prohibition in Charge of Narcotics will instruct all his men to promptly transmit information or evidence of major violations, through their Narcotic Agent in Charge, to the Prohibition Liaison Agent; and likewise the Commissioner of Prohibition will transmit instructions to all Prohibition enforcement officers to transmit, through their Liaison Agent, to the Narcotic Agent in Charge, any valuable information or evidence bearing on narcotic law violations. Here again two services can be mutually helpful, and it should be the aim of the higher officers of both services to bring about such a spirit of cooperation and good fellowship in a common cause as will result in both services being benefitted, each through the assistance of the other.

Summary. - I wish a copy of this general instruction given to each individual member of each organization in order that he may personally understand that the success of our purpose to stop smuggling rests largely in the hands of the individual members of each organization - thus each man may be led to play his part in the plan intelligently and energetically. The one big thing in which everyone should be keenly interested is getting accurate and detailed information promptly into the hands of those who are to use it, and ultimately into the central office in Washington, where it can be studied, classified, and made available to the agencies charged with making the conspiracy cases or conveying information essential to the operation of the different parts of the plan.

Foreign Control will thus be better and better able to supply information and evidence of illegal practices which will result in putting more and more ships and shipments out of business. The Coast Guard being better advised of the various movements and activities of the smugglers, and being better equipped with suitable ships, will make it more and more difficult for the ships which have cleared the foreign ports to be able to deliver their cargoes, either in our ports or to coastwise and other similar shipping which may introduce it into our ports. Customs officers, being better informed as to the personnel engaged in smuggling, as to their methods of procedure and what efforts they are making, and where making them, will be better able to intercept these shipments either by water, rail, airplane or motor trucks; and the Special Agents of Customs receiving the results of all these seizures, and having available more and more detailed evidence of the activities of the smugglers, will be able, more promptly and accurately, to prepare well-made and holeproof cases against the smugglers for presentation to the courts, resulting in the confiscation of the smugglers' illicitly used property, and in the punishment of the persons involved in these conspiracies to violate our laws. Likewise, in the case of the Liaison Agents in the Prohibition Administrators' offices, who will undoubtedly handle a great many of these smuggling cases turned over by the Special Agents of Customs, the constantly increasing fund of detailed information and evidence made available through the central office in Washington will more and more enable these cases to be made rapidly and accurately, and more comprehensively in bringing more nearly all of the persons involved into the net of the conspiracy case. Likewise, in narcotic control, with all this cooperative effort and added information, and particularly with the assistance which may thus well be rendered through the Office of Foreign Control, it should be possible to make very material progress in stopping the smuggling of narcotics, which is today practically the sole source for the illicit business conducted in narcotics. And with all this added information Narcotic Agents in Charge should find it possible to make many successful conspiracy cases against the organized operators in narcotic smuggling.

With this picture before them, I believe the members of all our organizations will find themselves sufficiently interested to take time to report to their proper Chiefs all those detailed facts bearing on smuggling activities which may prove of great value to our work, giving names and descriptions so accurately as to make their reports available for information and for evidence.

It is recognized that the Coast Guard and Customs Services have but limited funds for this Intelligence work, and it is true that all this work has its direct bearing on the ultimate enforcement of the Prohibition and Narcotic laws; it is therefore directed that, where necessary, clerical assistance shall be furnished by detail or assignment from the Prohibition Service in order that these headquarters files may be maintained at the maximum of efficiency.

It is not deemed practicable to give detailed instructions for the different services in this General Instruction. These detailed instructions, each to his own service, will be prepared in each Bureau, but in



collaboration with the other Bureaus to assure avoiding any overlapping, and to assure efficiency and accuracy in the working of the plan. And, in order that the members of each organization may understand not only their own duties, but how their duties fit in to the general plan, and what the members of the other organizations are doing, copies of the detailed instructions in each Bureau will be furnished to the other Bureaus for dissemination throughout their organizations.

L. C. ANDREWS

Assistant Secretary.

FOR RELEASE WHEN DELIVERED AT 1:00 P.M.,  
Friday, May 27, 1927.

PRICE CONTROL AND THE FEDERAL RESERVE SYSTEM.

Speech delivered by Undersecretary of the Treasury Mills

before the Bond Club of New York,

Friday, May 27th, 1927.

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I am very glad indeed to have an opportunity to address The Bond Club, for I understand that the Treasury is under a debt of gratitude to the members of this organization for the devoted and patriotic work which they performed during the great Liberty Loan Campaigns, as well as for the cooperative attitude that has been theirs ever since.

Some three weeks ago I read an article by Professor Allyn Young, in which he said, "The Federal Reserve System appears to be safe for awhile from the attacks of its enemies. It has more to fear from the solicitude of its friends". Professor Young was referring specifically to legislation intended to instruct the Federal Reserve Banks to keep stable some arbitrary index of price variations, and his statement which I have quoted seemed to me to be a singularly happy way of describing the existing situation. After all, it is extremely dangerous to the popularity and permanence of any institution or system to have even its friends attribute to it powers which it doesn't possess, and so lay it open to the charge either of abusing them or of failing to attain possible results.

Yet this is precisely what is being done to-day by a group of economists who have apparently succeeded in persuading themselves--and are now seeking to persuade others--that commodity prices may be controlled through

the operations of the Federal Reserve Banks. A bill was introduced in the Sixty-Ninth Congress to amend the Federal Reserve Act by providing that one of the duties of the Federal Reserve System shall be to promote a stable price level for commodities in general. It reads in part as follows:

"All of the powers of the Federal Reserve System shall be used for promoting stability in the price level."

Lengthy hearings were held by the Banking and Currency Committee, which were, on the whole, valuable and enlightening, principally because of the extremely clear and illuminating testimony of Governor Strong, of the New York Federal Reserve Bank. No student of the workings of the Federal Reserve System should fail to read his testimony.

The Committee did not report the bill, and Congress adjourned. Now the propagandists are busy. This propaganda, like most propaganda, contains the usual special appeal to classes or groups dissatisfied, for one reason or other, with existing conditions. Thus, for instance, I have seen an article in which agricultural prices are sought to be directly related to the open market operations of the Federal Reserve System.

You see the implication, of course. Prices can be raised by the Federal Reserve Banks, and after they have been raised they can be maintained at a given level. Page Senator McNary and Congressman Haugen. They can relax their efforts to devise methods for taking care of the surplus agricultural production. All they will have to do in the future is just to get the Federal Reserve Board on the long distance phone.

Of course, the thoughtful and intelligent gentlemen who advance the theory that prices can be controlled by credit operations are talking of the general price level. None of them would seriously contend that individual prices can be so controlled. But if their theory is to achieve popularity, it will be because different groups of the public will apply it to the particular prices in which they are interested. There is where a grave danger lies. Few people are interested in the general price level. Everyone is interested in the level of some particular price. Thus, the farmer would like to see high prices for agricultural commodities and a low level for the articles he has to buy. The wage-earner wants high wages and a reduced cost of living. The manufacturer desires low-priced raw materials and high priced finished products; and so on down the line. Can you imagine what will happen to the Federal Reserve System once the idea is accepted that the officers of the System control a lever with which they can move particular prices up or down at will?

Fortunately, no such power exists. It's not only inconceivable but undesirable that it should exist in our Country, where we pride ourselves not only on our political but on our economic freedom. Prices can to some extent be controlled by the arbitrary actions of Government or governmental agencies under conditions such as existed during the World War. In normal times, to entrust such power to any group of men, however wise and patriotic, would be intolerable and wholly inconsistent with the spirit of our institutions.

What was the genesis of this movement? You will remember that when the post-war deflation came, with its attendant distress and suffering, diligent efforts were made to find a scapegoat. It is so much more satisfac-

tory to be able to blame some individual or group rather than to feel oneself at the mercy of forces beyond our control; or perhaps even to be compelled to feel that all have to share the responsibility. So the Federal Reserve System was singled out, and its discount policy severely attacked for having contributed unnecessarily to the rapid deflation. You will remember that agriculture was particularly distressed, and that a Special Commission of Congress was appointed to investigate conditions and to make a report. The work of that Commission was exhaustive, thorough and fair. I happened to be a member, and only in one respect did I disagree with the conclusions of the majority. The Minority Report which I presented is very pertinent to the present discussion, and I shall take the liberty, therefore, of summarizing it briefly:

"I can not agree with the statement that late in the year 1920 'a change in the policy of the Federal Reserve System with reference to discount rates would have accomplished a reversal in part of the psychological and economic factors which at this time were moving in the direction of lower prices.' Such a suggestion is out of harmony with the balance of the report and inconsistent with the facts brought out by our investigation.

\* \* \* \* \*

"While it can not be conclusively proved that credit stringency was not an initial contributing factor to price deflation, there is no evidence to show that it was.

\* \* \* \* \*

"(a) The price peak of the all-commodities index was reached in May, 1920, while loans of all reporting banks and discounts of Federal Reserve Banks did not reach their maximum until October, and currency issues until January, 1921.

"In so far as a number of agricultural commodities are concerned, prices reached their peak as early as 1919, and \* \* \* there was in practically every one of these cases a direct relationship between the peak of the export trade and the price peak.

\* \* \* \* \*

"If a careful study be made of chapter 5 of Part I of this report, numerous instances will be found in which a relationship

can be shown between the peak of production and consumption and the peak of prices. But no such relationship can be established between increased discount rates and the drop in the price of any single commodity.

"(b) Agricultural prices broke more sharply than any other, and yet from May, 1920, to May, 1921, the liquidation of loans in agricultural counties was relatively much less than in industrial counties.

"(c) Interest charges as an element of expense in the cost of production and marketing must not be exaggerated. They are usually a small percentage of the total outlay.

\* \* \* \* \*

"I may add in conclusion that I think it desirable to present this minority opinion, because of the view apparently held by a considerable number of people that the increase in the discount rates of the Federal Reserve Banks was one of the primary causes of the sharp break in prices which occurred during the second half of 1920 and which so disastrously affected the agricultural communities. Such a view inevitably leads to the conclusion that the Federal Reserve Board and banks constitute an agency by means of which prices may be raised or lowered. This opinion is so contrary to economic facts and to the purposes of the Federal Reserve System that any expression of opinion which seems to support it, even indirectly, should not be permitted to pass unchallenged."

I recognize that this sounds somewhat dogmatic, but I wanted to make my dissent as emphatic as possible, and I believed then, as I believe now, that these conclusions are sound.

In any event, the agitation died out, and it was not unreasonable to suppose that we had heard the last for some time of the Federal Reserve System's control over prices, until the open market operations of the System attracted attention, and renewed visions of price control made their appearance.

In the latter part of 1921, and the early part of 1922, discounts having been largely liquidated, the individual reserve banks sought to in-

crease their earning assets by the purchase of bills and government securities. Uncoordinated buying resulted in some confusion, of which the Treasury Department complained. Accordingly, a committee of four was appointed in 1922, to supervise and coordinate the purchases of bills and of government securities of the individual reserve banks. In 1923, the Open Market Committee, so-called, was reorganized by the Board, and the plan definitely adopted of effecting purchases of government securities and bankers acceptances made for the System through the Open Market Committee under the supervision of the Federal Reserve Board.

Open market operations consist principally of the purchase and sale of government securities. Before such a body as this, I assume that a detailed discussion of the operation is superfluous, but I desire to call your attention to two false assumptions that have been given credit in some quarters. The first is, that the purchase of government securities by the Federal Reserve Banks results in an increase in the volume of currency; the second, that they ordinarily increase the amount of Federal Reserve credit in use. The testimony of Governor Strong before the Banking and Currency Committee, which I quote, disposes completely of these assumptions:

"This statement appears to be based upon a misunderstanding of the operation which takes place when securities are purchased by the Reserve Banks. What actually occurs is that when a Reserve Bank buys securities it pays for them with a check drawn on the Reserve Bank, and not with Federal Reserve notes or gold. The seller of the securities who receives the check deposits it in his bank. His bank in turn deposits the check at the Federal Reserve Bank, and by that means increases by so much its deposit with the Reserve Bank. The bank may then utilize this balance, as any other balance, to pay off any indebtedness to the Reserve Bank for other purposes, possibly including the withdrawal of currency for its normal

current needs. But in practice the balances which member banks have obtained at the Reserve Banks in this particular way have been used almost wholly in paying off indebtedness to the Reserve Banks. The operation of buying securities does not itself involve in any of its steps the use of currency or the need for more currency and does not, therefore, increase the amount of currency in circulation."

As to the second point, that open market purchase of securities increases the amount of Federal credit in use, Governor Strong had this to say:

"It should be pointed out again, as has been done many times in the past, that purchases of securities by the reserve banks do not as a rule increase the total amount of Federal reserve credit in use but rather enable member banks to liquidate indebtedness at the reserve banks. The effect of Federal Reserve Bank purchases in the open market is ordinarily simply to decrease the amount of borrowing by member banks, to make lighter the load which member banks are carrying in the form of loans at the reserve banks."

The correctness of this statement is borne out by the following figures, which describe the open market operations of the Federal Reserve Banks during the period which has aroused the most discussion. The periods covered by the figures are all of those in the years 1922 to 1924, in which any substantial change was made in the security holdings of the Reserve Banks. Between January, 1922, and May, 1922, the holdings of Government securities increased \$400,000,000. All other earning assets decreased \$430,000,000. In other words, there was a net change of only \$30,000,000, and that was a decrease. Between June, 1922, and December, 1922, holdings of Government securities decreased by \$330,000,000, and all other earning assets increased by exactly \$330,000,000; thus one offset the other. From March, 1923, to July, 1923, Government security holdings decreased \$260,000,000, while other earning assets increased \$160,000,000. That is in the period of the year when there is always liquidation of assets.



From December, 1923, to September, 1924, Government security holdings increased by \$510,000,000, while discounts fell by \$750,000,000, or a reduction in earning assets of approximately \$240,000,000, largely accounted for by an import of \$200,000,000 of gold.

But if these operations do not directly affect the volume of currency, or, as suggested, increase the volume of credit in use, how do they affect the credit situation? Let me again quote Governor Strong:

"The effect of open market operations is to increase or decrease the extent to which the member banks must of their own initiative call on the Reserve Bank for credit. When member banks owe the Reserve Bank nothing, they extend credit more freely than when they are largely in debt. The influence of the Reserve Banks upon the volume of credit is thus felt not directly but indirectly through the member banks. The Reserve Banks do not 'push' credit into use."

Moreover, the sale of Government securities lays a foundation for an advance in the discount rate, while the purchase of securities tends to ease the money market and to permit more readily the reduction of the discount rate. As Governor Strong has pointed out, it is better to let credit filter out through these purchases, have discounts decrease, the rates in the market come down gradually, and then reduce the Federal Reserve Banks' discount rates along with the existing rates in the market.

This much is true, then. Holding the reserves of many banks, and the gold reserve of the Country, and being the source of additional credit for business purposes, and the means of retiring that credit, the Federal Reserve System, by changes in the rate of discount and preliminary purchases or sales of securities, has the power to influence to some extent at times the total volume of credit and its cost.

But it should be noted that it has little or no control over the directions credit will take, for that lies wholly in the hands of the individual private banks.

To me it seems that it is a long, long jump from a limited control over the quantity and costs of credit to absolute control of commodity prices. Even a financial Captain Lindbergh would, I think, fail to make such a hop. Again, to quote Governor Strong, "The only definite price advance which can be attributed to cheap money is in the security market". And I might add that even cheap money cannot push stocks up indefinitely.

Credit is unquestionably one of the factors that influences prices, but to assume that it is the all-controlling factor is to make an assumption unwarranted by existing data, and which neglects the all-powerful influences of countless other forces, not the least of which is the psychological factor arising from a state of mind of millions of people, both at home and abroad. In this general connection it is not amiss to point out that for two years there has been very little change in the Federal Reserve System's holdings of securities, and that this period has witnessed a steady expansion of bank credit, yet commodity prices have declined about ten per cent. while industrial and railroad stock prices have risen about thirty-five per cent. Evidently, forces other than credit were controlling. As was pointed out in the May number of the Federal Reserve Bulletin:

"It would appear, therefore, that the causes of the general price recession in recent years lie in industrial and trade conditions rather than in financial developments."

In reading the writings of certain of our modern economists, analyzing the past and attempting to forecast the future, I am reminded of the philosophical discussions which I once studied relating to the existence of free will. It was easy enough, after the event, to demonstrate that, given heredity, education, environment and certain definite conditions, a certain individual was bound to react in a certain way; that is, looking back. But, looking forward, ah, that was something very different. So, in the case of these economic discussions, I am willing to accept, though with some reservation, many of the analyses that are made as to past events, but I am yet to be satisfied that any of these gentlemen have laid their hands on the magic formula which will enable them to forecast the future with sufficient certainty to justify our accepting the sweeping changes they advocate. As Professor Young said in discussing these very same open market operations: .

"No one really knows very much about the deeper reaching as distinguished from the merely surface effects of open market operations and changes of discount rates. Nobody knows just how much or how little the operations of the Federal Reserve Banks have contributed to the general stability of industry in recent years. Nobody knows what the surest symptoms are of an approaching expansion or recession of business activity. No one is in a position to say with any assurance just what the specific criteria are which should guide the policies of the Federal Reserve System.

"In fact, we can be certain that reliance upon any simple rule or set of rules would be dangerous. Economic situations are never twice alike. They are compounded of different elements--foreign and domestic, agricultural and industrial, monetary and non-monetary, psychological and physical--and these various elements are combined in constantly shifting proportions.

"'Scientific' analysis, unaided, can never carry the inquirer to the heart of an economic situation."

This is sound doctrine. But we are on safe ground when we state that the affairs of the Federal Reserve System have been conducted with

wisdom and judgment, that the actions taken by its officers and the policy they have pursued have had a distinctly steadying influence on the money market, and resulted in controlling sudden and sweeping changes in the credit situation that, because of their suddenness and violence, have a serious and disorganizing effect on business stability and prosperity. Within its own particular field, the Federal Reserve System has more than justified all of the expectations of its builders. Under these circumstances, isn't it the part of wisdom to refrain from any drastic changes or to look for new triumphs in more distant fields; but rather to permit those in charge, who had justified our confidence, to meet new situations as they arise, to exercise with the judgment that has hitherto characterized their decisions such powers as they already possess, and to lay a permanent and safe foundation for the future by gradually building an unshakable tradition of sound banking?

TREASURY DEPARTMENT

FOR RELEASE MORNING PAPERS,  
Thursday, June 2, 1927.

Secretary Mellon announced Wednesday evening, June 1st, that on the basis of reports received from the Federal Reserve Banks the cash offering of \$200,000,000 of 3 3/8 per cent Treasury bonds of 1943-47 has been largely oversubscribed. The figures indicate aggregate subscriptions of about double the amount of the cash offering. Under these circumstances cash subscriptions for this issue would have been closed at the close of business on June 1st were it not for the fact that it was reported that in some districts a number of banks were under the erroneous impression that there would be a further offering made next week of short-term Treasury certificates in connection with the usual quarterly financing, as has heretofore been customary. There will be no further offering. The announcement made by the Treasury on May 31st constitutes its complete program for June financing. In view of the misunderstanding, however, cash subscriptions for the issue of 3 3/8 per cent Treasury bonds of 1943-47 will remain open until the close of business on Thursday, June 2nd.

It should be distinctly understood that this statement refers to cash subscriptions only. The privilege of exchanging Second Liberty Loan 4 per cent bonds and Second Liberty Loan Converted 4 1/4 per cent bonds for the new 3 3/8 per cent Treasury bonds will remain open until on or about June 15th.

June 2, 1927.

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, April 30, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
Apr.	\$ 12 873	\$ 151	\$ 2 168	\$ 1 717	\$ 16 909
Dec. 1927	13 354	156	2 164	1 816	17 490
Feb.	13 556	156	2 164	1 851	17 727
Mar.	13 638	156	2 164	1 859	17 817
Apr.	*13 686	157	2 164	1 820	17 827

End of Month	Held in Sinking Fund or Owned by United States Government				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
Apr.	\$ 2 072	\$ 15	\$ - ---	\$ 88	\$ 2 175
Dec. 1927	2 183	14	- ---	30	2 227
Feb.	2 209	14	- ---	29	2 252
Mar.	2 221	14	- ---	29	2 264
Apr.	*2 235	14	- ---	27	2 276

End of Month	Net Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
Apr.	\$ 10 801	\$ 136	\$ 2 168	\$ 1 629	\$ 14 734
Dec. 1927	11 171	142	2 164	1 786	15 263
Feb.	11 347	142	2 164	1 822	15 475
Mar.	11 417	142	2 164	1 830	15 553
Apr.	*11 451	143	2 164	1 793	15 551

\* Preliminary

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

Prepared by Section of Statistics, Office of the Secretary, Treasury Department, June 2, 1927.

TREASURY DEPARTMENT

FOR RELEASE, MORNING PAPERS,  
Saturday, June 4, 1927.

Secretary Mellon today announced that the total cash subscriptions received for the issue of 3-3/8 per cent Treasury bonds of 1943-47 aggregate over \$610,000,000. The subscription books for the cash offering, which was for \$200,000,000, or thereabouts, closed at the close of business on June 2nd. Allotments on the cash subscriptions will be made within a few days, at which time full details as to the basis of allotment and the aggregate subscriptions and allotments for the respective Federal Reserve Bank districts will be announced.

The Secretary pointed out that the above announcement relates only to the cash subscriptions. The privilege of exchanging Second Liberty Loan 4 per cent bonds or Second Liberty Loan Converted 4 $\frac{1}{4}$  per cent bonds at par for the new 3-3/8 per cent Treasury bonds of 1943-47 will continue to be available until June 15th or such later date as the Treasury may decide for the closing of the books upon the exchange offering.

Release, for papers Monday,  
June 6, 1927.

TREASURY DEPARTMENT  
Office of the Comptroller of the Currency.

The Comptroller of the Currency today announced the appointment by Secretary Mellon of Mr. F. G. Awalt, as Deputy Comptroller of the Currency, to fill the vacancy created by the resignation of First Deputy Comptroller, Charles W. Collins. The new appointment will be effective July 1, 1927.

Mr. Awalt, who is a native of Maryland, is a lawyer, and for the past six years has been special advisor to the Secretary of the Treasury in legal, financial and legislative matters. Mr. Awalt received his early Treasury training under S. Parker Gilbert, formerly Undersecretary of the Treasury and now Agent General of Reparations, and has served with the latter's successors, Undersecretary Garrard B. Winston and Undersecretary Ogden L. Mills. His training, experience and intimate knowledge of Treasury and banking operations make him especially fitted for the office to which he has been appointed.



Speech delivered by Undersecretary of the Treasury Mills at the annual banquet of the New York State Bankers' Association held at the Hotel Mayflower Tuesday evening, June 7, 1927.

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SOME PROBLEMS IN TREASURY FINANCING.

It is a very great honor indeed to be invited to address this representative gathering of business men and, in addition, from a more personal standpoint, a great pleasure for me to be with you and to have the opportunity to say a word of greeting to my friends and neighbors of the Empire State.

I assume, however, that you have invited me not in my capacity as a fellow New Yorker but as the Undersecretary of the Treasury to talk to you about some of our financial and fiscal problems. The outstanding fact to be noted in considering them is the magnitude of the operations conducted by the Treasury Department. We become so used in this country to doing things in a big way, and on the whole these operations have been so smoothly conducted, that in spite of their size they have been almost taken for granted. Yet in any other period or country they would arouse the most widespread interest. Consider what happened last March for instance. As a result of the various operations of the Treasury Department the total volume of transactions at the New York Federal Reserve Bank on the single day of March 15th reached the stupendous total of two billion dollars. The adjective is hardly necessary, for the figures speak for themselves. The net result of these transactions was to reduce the public debt by about 185 million and the annual interest charges by about 25 million.

This was but the first step in what is probably the largest financial transaction undertaken by this or any other Government in time of peace. It was the initial move in a program looking to the conversion or retirement of over three billion dollars of Second Liberty Loan 4 per cent and  $4\frac{1}{4}$  per cent bonds, callable on November 15th, next, and which have since been called.

The Second Liberty Loan which was issued in November, 1917, was the second large loan floated by the Government during the war. You will all remember - for doubtless many of you participated - how a nationwide campaign was conducted to sell these bonds, how Liberty Loan committees were formed in every community throughout the land, and how, spurred on by a great national crisis, every patriotic impulse was appealed to in order to place these bonds in every home in the land. Let me give you a brief summary of the history of this issue. The Second Liberty Loan was offered for subscription on October 1, 1917. Subscriptions amounting to \$4,617,532,300 were received from 9,400,000 subscribers. A total of \$3,807,865,000 was allotted. The bonds issued were dated November 15, 1917, bore interest at 4 per cent, were payable in 25 years, but were subject to redemption on and after ten years from the date of issue. They carried a conversion privilege which might be exercised in the contingency of the first subsequent issue of bonds carrying a higher rate. This contingency arose when the Third Liberty Loan was issued on May 9, 1918, and thereafter \$3,707,933,850 of the 4 per cent bonds were converted into  $4\frac{1}{4}$  per cent bonds.

Stated in terms of pieces, 14,938,073 bonds were originally delivered. 19,801,102 bonds have since been delivered on conversion, exchange, etc., against the cancellation of a like amount of other bonds. Altogether 34,739,175 bonds have been delivered to owners. These bonds would weigh 222 tons, and if spread out would cover almost exactly one square mile of

the earth's surface. During this period 31,114,759 bonds have been cancelled on all accounts, leaving now outstanding 3,624,416 bonds. Since 1917 interest aggregating \$1,327,600,885 accrued and became payable on this loan to May 15, 1927, involving the issue and payment of some 7,750,000 interest checks and the payment of more than 130,000,000 interest coupons.

On March 8, 1927, the Secretary of the Treasury announced an offering of  $3\frac{1}{2}$  per cent Treasury notes, maturing in five years, but callable on six months' notice on and after March 15, 1930. These notes were offered only to holders of Second Liberty Loan  $4\frac{1}{4}$  per cent bonds, to be exchanged at par for their Libertys, interest on the bonds surrendered to be paid to May 15, 1927. The offering was well received and exchanges fully came up to our expectations. No less than \$1,360,456,450 of Second Liberty bonds were exchanged for the new  $3\frac{1}{2}$  per cent notes. Of the original issue of this loan, bonds amounting to \$790,461,800 have been redeemed from time to time on various accounts, and, as just stated, \$1,360,456,450 have been refunded into Treasury notes. There remains outstanding a balance of \$1,656,946,750.

On May 9, last, Secretary Mellon called for payment on November 15, 1927, the tenth anniversary of the issue, all outstanding Second Liberty Loan bonds. This means that interest on these bonds will cease on November 15, next; and that holders are definitely confronted with the decision of what they ought to do. They may of course hold their bonds until maturity and receive cash for them -- which incidentally involves the problem of how to invest the proceeds --, or in view of the announcement made a week ago by the Treasury they may on or before June 15 exchange their Second Libertys for new long-term United States bonds.

On May 31 the Secretary announced an offering of 20-year bonds callable at the end of 16 years, bearing  $3\text{-}3/8$  per cent interest and to be exchanged at par for each, bond for bond, for Second Liberty Loan 4 per cent and  $4\frac{1}{4}$

per cent bonds, accrued interest on Seconds up to June 15 to be paid in cash.

\$200,000,000 of the new issue were offered for cash subscriptions at a premium of one-half of 1 per cent. This cash offering was largely oversubscribed, subscriptions aggregating over \$610,000,000, though only approximately \$300,000,000 of subscriptions were invited.

The yield of the new bond to the cash subscriber is approximately 3.33 per cent; to the holder of a Second Liberty bond who makes the exchange at par about 3.37 per cent, though the latter of course sacrifices the premium which the Second Liberty bonds now command but which will gradually disappear during the course of the next five months. The closing market prices of Second  $4\frac{1}{4}$ 's during the last two weeks in May was on an average of 100  $10/32$  or \$1,003.12 $\frac{1}{2}$  per thousand dollar bond. On exchange a holder receives a bond which has been largely oversubscribed at a premium of \$5.00 per bond, showing an apparent gain of \$1.87 $\frac{1}{2}$  per thousand dollar bond.

I am going into these details not with a view to advising holders as to what course they should pursue, but because I know that before you came here and after you return to your homes you are going to be asked by your many customers what to do, and it occurred to me that it would be of interest to analyze the proposal from the standpoint of the bondholder. I recognize of course that the decision must be largely governed by the circumstances in each particular case, by the character of the investment desired and by your own judgment as to the long-time trend of interest rates.

Such a discussion is all the more valuable because I am satisfied that a great majority of the Second Liberty Loan bonds still outstanding are in the hands of investors, using that term in the narrowest sense, and that many, many of them are held by persons of moderate means having but limited knowledge of security values or investment possibilities. I base that conclusion upon the widespread distribution of the original issue and upon the facts disclosed by the results of our March exchange offering. The Treasury

Department feels itself to be under a real obligation to these holders to acquaint them with all the facts because of the conditions under which the original subscriptions were made, a feeling which I have no doubt you gentlemen share.

Of some \$59,000,000 of \$50 coupon bonds only \$1,739,000 were exchanged for  $3\frac{1}{2}$  per cent notes in March; of approximately \$116,000,000 of \$100 bonds only \$4,167,000; of approximately \$141,000,000 of \$500 bonds only about \$11,000,000; of \$605,000,000 of \$1,000 bonds only about \$115,000,000, while of \$1,366,000,000 of \$10,000 bonds no less than \$1,026,000,000 were exchanged. The figures relating to the registered bonds are if anything more conclusive.

It is not unreasonable to conclude from these figures that the banks, insurance companies and other big holders of Government securities were the ones to whom the March exchange offering appealed and that the individual investor whose holdings of Governments are of moderate amount and who generally favors a long-term bond rather than a security of comparatively short maturity either took no particular notice of the Treasury offering or else decided to hold on to a bond that did not mature until 1942 and which might conceivably not be called prior to that date.

As to those who failed to learn of the Treasury program, we have made every effort to reach them, both on the occasion of the notice of the call of the Seconds and, more recently, when the announcement was made of the new issue of the 1943-47 bonds. And I trust that you gentlemen will cooperate in the future as you have in the past with a view to bringing this information to the attention of every holder of a Second Liberty bond.

As to those investors who are loath to part with a security of possibly long maturity for one of comparatively short life, their Seconds are now definitely called and are five months' paper. Moreover, the Treasury, in reaching the decision to offer a 20-year bond in exchange, took into consideration their apparent preference for a long-time security. I do not say that

this was the only consideration. I do say that it was an important one.

May I now, speaking from a limited experience, say a word or two about the rather simple principles which govern Treasury refunding and retirement operations? There is no reason why they should be shrouded in mystery, and yet in reading discussions and prophecies as to our financial transactions, present and future, I frequently notice a tendency to surround a necessarily technical problem with an excessive amount of - shall I say - professional atmosphere.

The general program is two-fold in character. It contemplates, in the first place, a steady reduction of debt by retirement, and, secondly, a reduction of the burden by refunding as rapidly as possible securities bearing high rates of interest with those bearing a lower rate. To date the Treasury has been singularly successful in both operations.

We have to start with a definite amount of outstanding obligations extending over a period of twenty years or more, with varying maturities, some of which the Treasury controls by means of call provisions. We know, then, certain fixed dates on which certain obligations have to be met; and there are, in addition, a number of open dates which may be filled either by making use of the call provision of a particular issue or by the issue of a new maturity through a refunding operation. It is these open dates that give the Treasury a very considerable measure of freedom as to the maturities of Government obligations.

But there are limitations. For instance, we must be careful in preparing our schedule to see that enough securities either mature or are callable every year to enable us to effect the retirements from the sinking fund required by law.

Sinking fund retirements must be effected at an average cost not in excess of par, and the great majority of retirements from this source from

now on must be made at par. This means that unless there are adequate maturities in each year, the Treasury Department might find itself unable to make any retirements from the sinking fund, for United States Government securities have a tendency to mount to a premium. Thus our present Treasury 1947-52 bonds are now selling at 113.28, our Treasury 1944-54 bonds at 108.29, and our Treasury 1946-56 bonds at 105.30. It is not unreasonable to suppose that history will repeat itself and that in the future as in the past United States Government bonds will command a premium. Therefore, even if Congress should change the sinking fund provisions - which I am not suggesting Congress either should or would do - so as to enable the Treasury Department to retire bonds at above par, it would prove to be an expensive proposition. This was done in the case of our Civil War bonds, which the Government, in pursuance of a policy of debt retirement purchased in the open market at a price as high as 129. As Noyes says in his "Forty Years of American Finance" -

"A very extraordinary chapter in American finance now opened. During 1888, the Government four per cents ranged on the open market from 123 to 129; yet at these high prices the Treasury bought, within seven months, upwards of \$50,000,000. \* \* \* During 1888 and the two ensuing years, \$45,000,000 was actually paid out in premiums \* \* \*."

We know, in the second place, though not quite as accurately, what funds will be available for debt retirement from the sinking fund and foreign repayments, and we must estimate as best we can what sums may be expected by way of surplus, for it is obvious that this last item is susceptible to

very great variations.

With this information on hand, we are enabled to prepare what may be called a timetable of payments which, in so far as the aggregate amount to be retired over a given number of years is concerned, is probably fairly accurate. But should it prove otherwise no difficulty need be experienced, since it would always be possible if necessary in the later years to extend the life of the debt by refunding maturing obligations.

Within the limits thus staked out, the Treasury, as stated above, retains considerable liberty of action, having as it has the option of filling the earlier open dates with short-term maturities or the later ones with securities of a longer life. In reaching a decision on this question from time to time and as occasion arises, the Treasury must be governed, both as to rates and maturities, by current conditions, and these conditions vary rapidly. They do not permit a detailed program to be mapped out in advance but only a general one, embodying a number of alternative propositions, the most appropriate one of which to be selected when the time for action has come.

The problem of refunding the Second Liberty Loan bonds illustrates as well as anything could the nature of the problem. It is obvious that with its long-term Government bonds selling on a basis to yield less than  $3\frac{1}{2}$  per cent and its short-term maturities on a basis to yield  $3\frac{1}{4}$  per cent and less, the Treasury Department could not permit over three billion of  $4\frac{1}{2}$  per cent bonds to remain outstanding once the time arrived when, under the law, they could be retired by call. Every consideration of sound financial management demanded that they should be refunded at as early a date as possible. Such was the situation in the early part of this year. The question to be answered was what form or forms the refunding operation should take.

During the first week in March, Treasury short-term certificates and notes were selling on a basis to yield approximately 3.12 per cent, whereas long-term Treasury bonds were selling on about a 3.45 per cent basis. At



that time it was not unreasonable to conclude that conditions favored a note issue of limited maturity rather than an offering of long-term bonds. Accordingly the Treasury offered a 3-5--year  $3\frac{1}{2}$  per cent note in exchange for Second Libertys, with certain concessions as to interest, intended to compensate for the premium which the Libertys then commanded. The response was most gratifying. No less than 44 per cent of the amount outstanding was exchanged.

Two months later the situation was reversed. United States Government securities maturing within a year were selling on a basis to yield from 3.25 per cent to 3.45 per cent, while, on the other hand, the three long-term Treasury issues were selling on a basis to yield approximately 3.30 per cent. It seemed probable that the conversion of about \$1,350,000,000 of Seconds into 5-year notes and the subsequent calling of \$1,700,000,000 of those remaining outstanding had resulted in an over-supply of short-term issues, accentuated by the early maturity of the Third Liberty bonds. In addition, as I have already mentioned, we believed that our appeal should be directed to the many thousands of small holders who had not been attracted by our note offering and who rather obviously seemed to prefer a long-term bond to one with an early maturity with the consequent necessity of early reinvestment.

So much then for the conditions which determine the character and maturity of an issue. The question of interest rates is one requiring a greater degree of judgment, but here again current rates for different maturities offer a fairly reliable guide, always taking into consideration what the long-time trend is likely to be and never forgetting that the volume of United States Government securities is constantly and rapidly diminishing,

and that not many more years will elapse before this most convenient and safe form of investment which we have become so thoroughly accustomed to during the last decade will be available only in limited amounts, and that their scarcity value is a consideration which cannot be neglected.

This program of steady debt retirement is in accordance with the historic policy of the National Government. It has been steadfastly adhered to by the Administrations of Presidents Harding and Coolidge, and helped by the large surpluses which have come from the prosperity of the country and the business-like administration of our National Government has resulted in reducing our gross National debt from \$25,484,000,000 on June 30, 1919, to \$18,873,000,000 on May 31, 1927, or a reduction of \$6,611,000,000. Last year the Treasury Department retired \$873,000,000 of debt, and in the fiscal year which ends on June 30th debt retirement will aggregate over one billion dollars. This means, to be sure, fewer Government securities for the investor, but it spells an enormous saving in interest charges and consequent relief to the taxpayer. How great the relief is strikingly illustrated by the fact that interest payments next year will be less by \$63,000,000 than they are during the current fiscal year, due entirely to debt reduction and refunding operations. So, when you read the surplus figures for this present fiscal year, do not be regretful that Congress might have given you the benefit of greater tax reduction, but rather realize that this entire surplus having been applied to the reduction of the National debt the reduced interest charges will represent a permanent annual saving which will inure to your benefit in reduced taxes with just as much certainty as would the more direct method of tax reduction.

I trust I have not wearied you with this somewhat long and technical discussion, but the subject of what the investor is to do with his Second Liberty Loan bonds is a pertinent and to him an important question at this time, while the magnitude of the operations conducted by the Treasury Department merit the

attention of the many thoughtful citizens who are ever interested in the sound and efficient administration of their Government and look with pride upon its accomplishments in the financial as well as in other fields.

June 29, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, May 31, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
May	\$ 12 955	\$ 151	\$ 2 168	\$ 1 725	\$ 16 999
Dec. 1927	13 354	156	2 164	1 816	17 490
Mar.	13 638	156	2 164	1 859	17 817
Apr.	13 734	157	2 164	1 820	17 875
May	*13 886	157	2 164	1 831	18 038

  

End of Month	Held in Sinking Fund or Owned by United States Government				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
May	\$ 2 092	\$ 15	\$ - ---	\$ 86	\$ 2 193
Dec. 1927	2 183	14	- ---	30	2 227
Mar.	2 221	14	- ---	29	2 264
Apr.	2 235	14	- ---	27	2 276
May	*2 267	14	- ---	26	2 307

  

End of Month	Net Outstanding Issues				
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	Total
1926					
May	\$ 10 863	\$ 136	\$ 2 168	\$ 1 639	\$ 14 806
Dec. 1927	11 171	142	2 164	1 786	15 263
Mar.	11 417	142	2 164	1 830	15 553
Apr.	11 499	143	2 164	1 793	15 599
May	*11 619	143	2 164	1 805	15 731

\* Preliminary

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

Prepared by Section of Financial and Economic Research, Office of the Secretary, Treasury Department, June 29, 1927.

July 27, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, June 30, 1927.  
(000,000 omitted)

End of Month	Total Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926 June	\$ 13 054	\$ 154	\$ 2 164	\$ 1 735	\$ 17 107
Dec. 1927	13 354	156	2 164	1 816	17 490
Apr. 1927	13 734	157	2 164	1 820	17 875
May 1927	13 886	157	2 164	1 831	18 038
June 1927	* 13 992	160	2 164	1 810	* 18 126

End of Month	Held in Sinking Fund or Owned by United States Government				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926 June	\$ 2 111	\$ 17	\$ - ---	\$ 85	\$ 2 213
Dec. 1927	2 183	14	- ---	30	2 227
Apr. 1927	2 235	14	- ---	27	2 276
May 1927	2 267	14	- ---	26	2 307
June 1927	* 2 289	14	- ---	26	* 2 329

End of Month	Net Outstanding Issues				Total
	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System	
1926 June	\$ 10 943	\$ 137	\$ 2 164	\$ 1 650	\$ 14 894
Dec. 1927	11 171	142	2 164	1 786	15 263
Apr. 1927	11 499	143	2 164	1 793	15 599
May 1927	11 619	143	2 164	1 805	15 731
June 1927	* 11 703	146	2 164	1 784	* 15 797

\* Preliminary

NOTE: Beginning with the issue for January 31, 1927, all estimates are made on a revised basis. Monthly estimates on the revised basis for the period 1913 to 1926, inclusive, are available on request.

Prepared by Section of Financial and Economic Research, Office of the Secretary, Treasury Department, July 27, 1927.

Aug. 30, 1927

REVISED ESTIMATES OF AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
from January 1926 to July 1927

This statement supersedes (1) all monthly statements for 1927 and (2) in the summary statement, "Estimated Amount of Wholly Tax-Exempt Securities from December 1912 to 1926", the 1926 figures for "States, Counties, Cities, etc." (p. 5), and the 1926 total figures (p. 13).

( 000,000 omitted )

End of Month	Total			States, Counties, Cities, etc.		
	Total out- standing issues	Held in sink- ing funds or owned by U.S. Government	Net out- standing issues	Total out- standing issues	Held in sinking funds	Net out- standing issues
<u>1926</u>						
Jan.	\$16 531	\$2129	\$14 402	\$12 546	\$2017	\$10 529
Feb.	16 653	2152	14 501	12 652	2043	10 609
Mar.	16 828	2167	14 661	12 806	2060	10 746
Apr.	16 915	2176	14 739	12 879	2073	10 803
May	17 005	2194	14 811	12 961	2093	10 863
June	17 119	2215	14 904	13 066	2113	10 953
July	17 146	2169	14 977	13 066	2115	10 951
Aug.	17 187	2176	15 011	13 091	2125	10 966
Sept.	17 297	2190	15 107	13 193	2145	11 053
Oct.	17 355	2201	15 154	13 241	2157	11 084
Nov.	17 373	2210	15 163	13 245	2166	11 079
Dec.	17 512	2231	15 281	13 376	2137	11 189
<u>1927</u>						
Jan.	17 615	2247	15 363	13 449	2203	11 246
Feb.	17 751	2256	15 495	13 580	2213	11 367
Mar.	17 842	2268	15 574	13 633	2225	11 438
Apr.	17 900	2280	15 620	13 759	2239	11 520
May	18 063	2311	15 752	13 911	2271	11 640
June	18 155	2334	15 821	14 021	2294	11 727
July	*18 172	*2343	*15 829	*14 031	*2302	*11 729

\* Preliminary.

REVISED ESTIMATES OF AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES  
from January 1926 to July 1927 - Continued

( 000,000 omitted)

End of month:	:Territories, Insular Possessions:			U.S. Government		:Federal Farm Loan System		
	:Total	: Held in	: Net	:outstanding issues:	:Total	:Owned by:	:Net	
of stand- month:ing :issues :	:stand- :ing :issues :	: sinking : funds : :	: outstanding : issues : :	(Total outstanding : issues and net out- : standing issues are : identical.)	:out- :stand- :ing :issues :	:U.S. Gov- :ernment : :	:out- :stand- :ing :issues	
1926								
Jan.	\$144	\$15	\$129	\$2168	\$1673	\$97	\$1576	
Feb.	144	15	129	2168	1689	94	1595	
Mar.	151	15	136	2168	1703	92	1611	
Apr.	151	15	136	2168	1717	88	1629	
May	151	15	136	2168	1725	86	1639	
June	154	17	137	2164	1735	85	1650	
July	154	17	137	2164	1762	37	1725	
Aug.	154	17	137	2164	1778	34	1744	
Sept.	154	14	140	2164	1781	31	1750	
Oct.	156	14	142	2164	1794	30	1764	
Nov.	156	14	142	2164	1808	30	1778	
Dec.	156	14	142	2164	1816	30	1786	
1927								
Jan.	156	14	142	2164	1846	30	1816	
Feb.	156	14	142	2164	1851	29	1822	
Mar.	156	14	142	2164	1859	29	1830	
Apr.	157	14	143	2164	1820	27	1793	
May	157	14	143	2164	1831	26	1805	
June	160	14	146	2164	1810	26	1784	
July	160	15	145	2165	1816	26	1790	

Note: The above revision for States, Counties, Cities, etc., has been made on the basis of corrected data in the State and City Compendium section of the Commercial and Financial Chronicle, June 25, 1927, which include issues reported too late for monthly publication, and an estimate of the amount of maturities during the year.

Prepared by the Section of Financial and Economic Research, Office of the Secretary, Treasury Department, August 30, 1927.

Sept. 30, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES, August 31, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Aug.	\$ 17 187	\$ 13 091	\$ 154	\$ 2 164	\$ 1 778
1927 June	18 155	14 021	160	2 164	1 810
July	18 187	14 046	160	2 165	1 816
Aug.	*18 216	*14 071	160	2 165	1 820

End of Month	Held in Sinking Fund or Owned by United States Government				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Aug.	\$ 2 176	\$ 2 125	\$ 17	\$ - - - -	\$ 34
1927 June	2 334	2 294	14	- - - -	26
July	2 344	2 303	15	- - - -	26
Aug.	*2 353	*2 312	15	- - - -	26

End of Month	Net Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Aug.	\$ 15,011	\$ 10 966	\$ 137	\$ 2 164	\$ 1 744
1927 June	15 821	11 727	146	2 164	1 784
July	15 843	11 743	145	2 165	1 790
Aug.	*15 863	*11 759	145	2 165	1 794

\* Preliminary

Prepared by Section of Financial and Economic Research, Office of the Secretary, Treasury Department, September 30, 1927.



Oct. 12, 1927.

THE TREASURY DEPARTMENT

The Treasury Department was established by the Act of Congress of September 2, 1789. During the Revolutionary War, the finances were managed by a Superintendent of Finance, and subsequently by a Board of the Treasury, until Alexander Hamilton assumed the newly created office of Secretary of the Treasury in 1789.

Since Hamilton's day, there have been forty-six Secretaries of the Treasury. It has never been found necessary, however, to change either the general plan which Hamilton devised for operating the Treasury or the fundamental policy which he outlined in his first Report to Congress. That Report, which is known as the Report on the Public Credit, is one of the great documents in the history of the Government and has been aptly characterized as the foundation stone on which the whole structure of the Federal Government has been built.

At the beginning of Hamilton's term of office, the entire personnel of the Treasury numbered only about 100. At the present time there are 61,527 employees of the Department, of whom 14,501 are on duty in Washington and 47,026 in the field service throughout the country. At the head of the organization are: The Secretary of the Treasury; the Undersecretary; and three Assistant Secretaries.

The Treasury Department is the central agency through which the Federal Government conducts its financial affairs. Generally speaking, it receives and has the custody of all funds paid to the Government and disburses all moneys in payment of obligations of the Government. One of the primary duties, therefore, of the Treasury Department is to see that the Government always has on hand sufficient funds to meet its obligations including public debt maturities and to do so in such a way as to effect a minimum disturbance to money and business conditions. If taxes and receipts flowed uniformly throughout the year, and expenditures ran an even course month by month, there would be no real financing

problem, but this is true neither of receipts nor of expenditures. Tax receipts rise to a sharp peak four times a year, while heavy debt maturities and interest payments are not spread out, but come due on single days, the former at irregular intervals. Speaking in general terms, then, in so far as current financing is concerned, our problem and our aim are to synchronize peak tax payments with the maturing of heavy obligations, and, in the intervals, to have in bank no more funds than are needed to meet current expenditures.

Ever since the War, Treasury financing has centered around the public debt. Whether in the form of short-term obligations or long-term bonds it is the all-important factor. I shall deal later with the mechanism of operations affecting public debt, but before doing so, I want to deal briefly with the policy which the Government has pursued in respect of our War Debt.

The first thing to be noted is that the service of such a debt is enormously expensive. From April 6, 1917, to June 30, 1927, the Government expended for interest \$8,322,000,000. One of the most direct methods, therefore, of reducing the cost for the Federal Government is to reduce the sums paid annually in interest charges. There is this further advantage in this reduction--it is not one of a temporary character, but constitutes a permanent annual saving.

There are two methods of bringing about the desired result: First, by debt retirement; secondly, by refunding outstanding securities bearing a high rate of interest into securities bearing a lower rate. Since 1921, the Treasury Department has availed itself of both methods. On June 30, 1921, the interest-bearing debt was \$23,738,000,000; on June 30, 1927, it was \$18,252,000,000, or a decrease of \$5,486,000,000. For the most part, this debt retirement was affected by means of the sinking fund, foreign repayments, and such miscellaneous items as franchise tax receipts especially assigned to debt retirement, but approximately two billion dollars is to be assigned to surplus of receipts over expenditures, which has continued year after year in spite of three sweeping tax reduction

measures. Due to this decrease in the debt, the average annual interest payments have been cut by not less than \$200,000,000.

Turning, now, to the second method of reducing the burden of interest charges we find that the average rate of interest paid on the United States Government debt was 4.29 per cent. in 1921, whereas on June 30, 1927, the average rate of interest was 3.96. The difference between 3.96 and 4.29 per cent. on approximately  $18\frac{1}{4}$  billion dollars of debt amounts to about \$60,000,000 a year. Thus, we see that during the course of the last six years, by debt retirement and by lowering of the interest rate, interest charges have been reduced approximately \$260,000,000 a year. This, as I have already stated, constitutes a permanent annual saving which, over a ten-year period, amounts to \$2,600,000,000, or almost the equivalent of one year's internal revenue receipts, including the income tax. The program then of the Government in relation to the War debt is twofold in character: It contemplates, in the first place, a steady reduction of debt by retirement; and, secondly, a reduction of the burden by refunding as rapidly as possible securities bearing high rates of interest into those bearing a lower rate. As we have seen, to date the Treasury has been singularly successful in both operations.

Let me now say a word or two about the mechanism of the quarter-day operations and the machinery which enables the Treasury Department to keep Government cash balances at a minimum and to carry on its financial operations without major disturbances in the money market. Here our short-term public debt performs a very important function.

The Federal Reserve Banks are the fiscal agents of the Treasury, and its payments are generally made through them. Treasury balances in the Federal Reserve Banks represent money withdrawn from the market. In view of the very heavy income tax payments made on the 15th of March, June, September and December, unless some offset is devised and maintained, cash balances with the Federal

Reserve Banks would rise to a peak on the quarterly dates, and would drop to a minimum just before the next quarterly date. So, once every three months, great sums of money running as high as \$400,000,000 would be taken from the commercial banks by the taxpayer, and paid into the Federal Reserve Banks, to the Treasury's accounts, thereby taking that amount of money out of the money market, with all of the consequences to interest rates that must follow. It would be possible, of course, to meet this situation by redistributing these deposits among the commercial banks upon some arbitrary basis, but this would inevitably subject the Treasury to all manner of pressure in favor of particular banks or particular districts. If, however, on each quarter-day, the certificates mature in an amount approximately equal to tax payments, it is obvious that the two transactions wash. The tax checks drawn upon the commercial banks are deposited with the Federal Reserve Banks to the Treasury's account, but, at the same time, there is paid to the commercial banks a like amount in payment of interest and maturing securities.

This, however, is only part of the picture. We have not taken into consideration the Government's financial needs between quarter-days, and if the entire receipts from income taxes are absorbed by maturing certificates, the Government might well find itself short of funds. Quarter-day financing, therefore, involves a careful estimate of the amount needed for expenditures of all kinds during the ensuing three months' period. This must be added to the amount necessary to meet maturing certificates, and this sum, less receipts, represents the amount of new certificates that will have to be issued on the quarter-day. Stated a little differently, tax and other receipts, as a rule, are not sufficient to meet maturing certificates as well as to finance the governmental needs over the next three months' period. It is necessary, therefore, to issue new certificates which in turn will mature on a future tax date, when the process will be repeated. But, you will say, if tax-payments and maturing certificates balance, so as

to involve no withdrawal of funds from the money market, then the sale of additional certificates must result in the withdrawal of funds. This would be so, of course, if the new certificates were sold for cash. They are not, however. The banks pay for them by means of a deposit credit. Any responsible incorporated bank, or Trust Company, upon putting up securities with the Federal Reserve Banks, is permitted to pay for government securities by the creation on its books of a credit in favor of the Treasury. Suppose, for instance, on September 15th next, National Bank A subscribes for a million dollars of certificates for itself and its customers. On that day the certificates are delivered to it, and at the same time it credits the Treasury with a million dollars on its books. No money changes hands. The bank acquires a million dollars of additional deposits, which it can reasonably expect will remain with it for an average of sixty days, and on which it pays 2 per cent. interest. From time to time, as the Government needs cash, a call is made upon the various banks with which the Treasury has deposit credit. These banks pay the money to the Federal Reserve Banks to the account of the Treasury, and as the money is immediately paid out in the form of government expenditures, the transaction occasions no withdrawal of funds from the Market. This plan accomplishes three purposes: First, it makes government deposits depend not upon the discretion of the Secretary of the Treasury, but upon the amount of securities any bank sees fit to subscribe for. Second, it encourages the banks to buy government bonds for the sake of the deposit of securities, thus giving the Government a first-class primary market, while, at the same time, the banks furnish the machinery through which a secondary distribution can be made to individual investors. This means that, without expenses, the Treasury Department has at its command a nation-wide sales organization. And, third, it permits large fiscal operations to be conducted without involving large transfers or withdrawals of funds on a single date, with all of the consequent disturbance to money conditions and interest rates.

To give you some conception of the magnitude of the operations involved, the total volume of transactions at the New York Federal Reserve Bank on the single day of March 15th reached the stupendous total of two billion dollars.

The Public Debt Service operates under the general supervision of the Commissioner of the Public Debt and includes the Division of Loans and Currency, the Office of the Register of the Treasury, the Division of Accounts and Audit, and the Division of Paper Custody.

The receipts of the Government come chiefly from internal revenue collections and customs duties. The Bureau of Internal Revenue, under the supervision of the Commissioner of Internal Revenue, administers and enforces the internal revenue laws and collects all internal revenue taxes. For administrative purposes the duties of the Bureau are assigned to six divisions or units. There are sixty-four collection districts under the supervision of Collectors of Internal Revenue, and thirty-five field divisions (consisting of revenue agents and inspectors whose duties are to verify the returns filed with the accounts and records of the taxpayers) under the immediate supervision of Internal Revenue Agents in Charge.

For the fiscal year 1927 the total ordinary receipts of the Government amounted to \$4,129,000,000. The aggregate of tax receipts, that is, customs, income taxes and miscellaneous internal revenue, was \$3,475,000,000. While so-called miscellaneous receipts, which include such items as foreign repayments, the proceeds from the sale of capital assets, and a vast number of miscellaneous resources, such as Panama Canal tolls and mineral, oil and gas land fees, yielded \$654,000,000. The income tax is the most important and productive of our taxes. Income tax receipts aggregated \$2,225,000,000, of which \$1,308,000,000 was paid by corporations, and about \$912,000,000 by approximately 2,500,000 individuals. There were something over 4,000,000 individual returns, all of which had to be audited by the Bureau of Internal Revenue. You will be interested to know that

by September 1st, of all the returns filed during the present calendar year, 70 per cent had been audited and settled for good.

While the income tax is our most important Federal tax under the Revenue Act of 1926, it is paid by a comparatively few people. For the calendar year 1925, that is, incomes reported in the calendar year 1926, 9,560 taxpayers returned about 49 per cent of the total tax; 327,000 taxpayers returned \$701,000,000 out of a total of \$734,000,000; in other words, of those making tax returns, 3,843,000 returned approximately \$33,000,000 of tax; while 337,000 individuals returned \$701,000,000 of tax. According to these returns, less than 3/10ths of 1 per cent of our population returned 95 $\frac{1}{2}$  per cent of our total income taxes; about 1.9 per cent returned 4 $\frac{1}{2}$  per cent, and the remaining 97.8 per cent of the population returned no tax whatever.

The primary function of the Customs Service is to collect the import duties and customs. In 1927 customs duties yielded 605 million of income. By far the greater part of import duties is collected from commercial shipments, and a comparatively small portion from the examination of passengers' baggage and baggage brought over the roads by automobilists. Under the tariff law ad valorem duties are assessed on foreign values and the determination of these values requires that information be secured at the source. This necessitates investigation in foreign countries. Another function of the Customs Service is to prevent smuggling. At sea this work is performed by the Coast Guard, but along our land borders the Customs Service must maintain ever vigilant patrols.

The Coast Guard is one of the oldest organizations in the Government, having been established originally in 1790 as a result of the need for the services of a coastal patrol for the enforcement of the customs laws and an organized armed force for the protection of the seacoast. The duties of the Coast Guard include: rendering assistance to vessels in distress and saving life and property; destruction or removal of wrecks, derelicts and other floating dangers to navigation; extending medical aid to American vessels engaged in deep sea fisheries;

protection of the customs revenue and preventing foreign smugglers evading the National prohibition law; the conduct of the international ice patrol in the North Atlantic Ocean; patrol of the North Pacific Ocean, Bering Sea and southeastern Alaska for the protection of the seal herds under international convention and the enforcement of United States laws; operating as part of the Navy in time of war; and many other duties.

Disbursements of Government funds can be made only on the authorization of Congress. When such payment is authorized, a warrant is drawn, signed by the Secretary of the Treasury and countersigned by the Comptroller General of the United States. Upon this authority payments are made to public creditors. The Division of Bookkeeping and Warrants of the Secretary's Office, under the general supervision of the Commissioner of Accounts and Deposits, keeps complete records of all appropriation accounts as well as of public moneys covered into the Treasury.

The Treasurer of the United States is charged with the receipt and disbursement of all public moneys that may be deposited in the United States Treasury and in all other depositories authorized by the Secretary of the Treasury to receive deposits of Government funds for credit in the account of the Treasurer of the United States. He has also many other fiscal duties.

On July 1, 1921, the work previously performed by the Secretary of the Treasury of submitting to Congress annually estimates of probable revenues and disbursements of the Government was placed in the hands of the President. To aid him in the performance of this duty a Bureau of the Budget was created by act approved June 10, 1921. This Bureau is under the immediate direction of the President, to whom it submits its report. Under rules prescribed by him this Bureau prepares the annual budget and such supplemental or deficiency estimates as he may desire to submit to Congress.

Another important function of the Treasury is to supply the money which is the circulating medium of the country. It maintains mints at Philadelphia,



San Francisco and Denver for the coinage of money, and the Bureau of Engraving and Printing at Washington for the production of notes, bonds and securities. The Bureau of Engraving and Printing is the Government's factory for producing its paper money, bonds, stamps, checks and drafts. The work of this Bureau was begun in 1862 with a personnel of only six. At the end of the fiscal year 1926 there were over five thousand persons employed; during that year approximately 432,307,103 different pieces of work were delivered.

The Comptroller of the Currency is charged under the law with the organization and supervision of all solvent national banks and the administration through a receiver of those which have become insolvent. In carrying out these duties there is maintained a force of national bank examiners who visit each bank periodically to ascertain its exact financial status. The issue of national and Federal reserve bank notes are under the control of this officer. The Comptroller of the Currency is an ex-officio member of the Federal Reserve Board.

The Federal Farm Loan Board administers the Farm Loan Act of July 17, 1916, and that part of the Agricultural Credits Act of March 4, 1923, which provides for the establishment and operation of Federal intermediate credit banks. The Federal Farm Loan Act provided for the organization of Federal Land Banks and Joint Stock Land Banks in order to assist farmers in securing long time or capital loans for the purpose of purchasing farms or making permanent improvements. The intermediate credit banks were designed to furnish to those who are engaged in livestock and agricultural pursuits credits of intermediate duration not supplied by either the Federal Reserve System banks or the Federal Land Banks and Joint Stock Land Banks.

The Bureau of Public Health Service makes studies of diseases, hygiene, rural sanitation, health administration, water supplies and sewage. The information obtained is given publicity by correspondence, lectures, publications and conferences. The Bureau is charged with the enforcement of national quarantine

stations in the United States, the Philippine Islands, Hawaii, and Porto Rico. It gives professional care to sick and disabled seamen in marine hospitals and relief stations.

The Supervising Architect's Office was created by Congress to enable the Secretary of the Treasury to carry out legislation providing for construction, enlargement, remodeling and repair of all public buildings and their mechanical equipment under the control of the Treasury Department. In connection with this work, the office prepares the necessary drawings, estimates and specifications and supervises the performance of the work.

The Secret Service Division is charged with the suppression of counterfeiting, the protection of the President of the United States and his family and the person elected to be President, and the investigation of violations of the Farm Loan Act, the War Finance Act, and such other matters relating to the Treasury Department as are directed by the Secretary.

The Treasury Department is also charged with the duty of the enforcement of the Prohibition and Narcotic Laws. This duty is performed by a Commissioner, who is at the head of the Bureau, acting under the general supervision of an Assistant Secretary of the Treasury, but, under the law and regulations adopted last year, with a very great degree of independent authority.

The Division of Appointments has, among its other duties, administrative control over fifty surety companies authorized to transact business with the Government; fixes the qualifying power of each company; supervises the audit of the financial statements of the companies quarterly; notifies the companies of the settlement of fiscal officers' accounts under Fidelity Bonds, and has custody of all bonds running to the Government except those for post office employees and certain internal revenue bonds.

The General Supply Committee was created by the act of June 17, 1910, and is composed of one representative from each of the executive departments. It is the duty of the Committee to prepare annually a schedule of miscellaneous supplies in

common use by or suitable to the ordinary needs of two or more executive departments or government establishments in Washington; to standardize such supplies; and to solicit bids, tabulate proposals received, and recommend awards.

This completes our brief glimpse of the Treasury Department. It could only be a glimpse, for we would need days, instead of hours, were we to attempt to grasp the details of this huge organization with its manifold activities. Here is a department that collects the taxes for a nation of 114,000,000 people over a vast expanse of territory; that makes annual disbursements aggregating over three and a half billion dollars; that supplies our currency and shares the responsibility for the sound functioning of our banking and rural credit systems; that maintains a navy of its own, two police and one large patrol force responsible for the protection of our borders against smuggling and the enforcement of one of the most controversial laws; that conducts important and intricate manufacturing operations; has a large architectural and building staff carrying on building projects of magnitude all over the country, and that is charged with the public health functions of the National Government. Viewed from the standpoint of these many and varied functions, the Treasury is rather more of a Government than a Department. In spite of the great diversity of duties, it functions with extraordinary efficiency because it was constructed originally on sound lines, through the course of years has built up a splendid tradition and esprit de corps, a tradition and spirit that are carried on and maintained with singular devotion by a trained body of civil servants whose equal it would be hard to match anywhere.

Address by Hon. Ogden L. Mills, Undersecretary of the Treasury, before the Women's University Club, Washington, D. C., October 12, 1927.

Oct. 28, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES OUTSTANDING SEPTEMBER 30, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Sept.	\$ 17 297	\$ 13 198	\$ 154	\$ 2 164	\$ 1 781
1927 July	18 187	14 046	160	2 165	1 816
Aug.	18 264	14 119	160	2 165	1 820
Sept.	*18 315	*14 169	160	2 165	1 821

End of Month	Held in Sinking Fund or Owned by United States Government				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Sept.	\$ 2 190	\$ 2 145	\$ 14	\$ - - -	\$ 31
1927 July	2 344	2 303	15	- - -	26
Aug.	2 354	2 313	15	- - -	26
Sept.	*2 369	*2 328	15	- - -	26

End of Month	Net Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Sept.	\$ 15 107	\$ 11 053	\$ 140	\$ 2 164	\$ 1 750
1927 July	15 843	11 743	145	2 165	1 790
Aug.	15 910	11 806	145	2 165	1 794
Sept.	*15 946	*11 841	145	2 165	1 795

\* Preliminary

Prepared by Section of Financial and Economic Research, Office of the Secretary, Treasury Department, October 28, 1927.

FUTURE RELEASE  
OBSERVE DATE

STATEMENT BY SECRETARY MELLON BEFORE THE WAYS AND MEANS COMMITTEE.

To be released upon appearance of the Secretary  
before the Committee on Monday, October 31, 1927,  
which will be about 2:00 o'clock.

STATEMENT FOR WAYS AND MEANS COMMITTEE.

As an essential preliminary to any program of tax reduction, it is necessary to estimate revenue and expenditures not only for the present but also for the next fiscal year. It is further desirable to ascertain if possible, by eliminating temporary and unusual items, what the normal revenues of the government are under existing tax laws, given average business conditions. Financial policy to be sound must not be based upon the experience of a single year. We must not be unduly impressed by the revenue results of a year of unusual prosperity or a year of large receipts from temporary sources.

In cooperation with the Budget Bureau, the Treasury Department has prepared its estimates, but before presenting them it seems desirable to say a word or two about past estimates, and in order to avoid similar errors in the future to point out the reasons for such miscalculations as have occurred in the more immediate past.

The last estimates for the fiscal year 1926 were made just prior to the passage of the Revenue Act of 1926. As published in the Congressional Record, they showed total internal revenue collections of \$2,612,500,000, whereas actual collections aggregated \$2,835,999,892, or, in other words, internal revenue collections were underestimated by \$223,499,892. The return from corporation taxes was overestimated by \$55,000,000, and that from miscellaneous internal revenue underestimated by approximately \$20,000,000. But the two principal items which contributed to this large underestimate of revenue were individual income taxes, the yield of which was estimated at \$603,800,000,

whereas collections aggregated \$745,392,481, and back tax collections which were estimated at \$180,000,000 but which reached the figure of \$295,982,056. The Revenue Act of 1926 eliminated about 2,000,000 individual taxpayers; it increased by 50 per cent and 40 per cent respectively the exemptions for single and for married persons; it cut the normal tax rates drastically and reduced maximum surtax rates from 40 per cent to 20 per cent; it doubled the limit of income to which the earned income provision applied. It was very naturally anticipated that these changes would result in a considerable loss of revenue. In its report the Ways and Means Committee estimated a reduction of \$46,000,000 in normal tax, over \$98,000,000 in returns from the surtax, and a further loss in revenue of \$42,000,000 due to increased exemptions. As a matter of fact, however, the individual returns filed for the calendar year 1925 showed a larger tax return than did those for 1924, the total (net income) tax returned increasing from \$704,000,000 to \$734,000,000. The Treasury Department had always contended that lower rates would be more productive than the very high rates which prevailed, but neither the Treasury Department nor the Congress had anticipated such an immediate increase, an increase which was, of course, greatly accelerated by the rising tide of prosperity. Had the reductions contained in the 1926 Act been applied to the 1924 returns, the tax would have been over 30 per cent less than that actually returned for 1924.

Back tax collections exceeded the estimates by approximately \$116,000,000.

In October, 1926, after the new act had been in force for about nine months, the Secretary of the Treasury submitted estimates for the fiscal year 1927. In those estimates the return from the corporation income tax was estimated at \$1,120,000,000. Actual collections aggregated about \$1,125,000,000, or an underestimate of \$5,000,000. Individual income tax returns were estimated at \$820,000,000, whereas actual collections aggregated approximately \$763,000,000, or an overestimate of \$57,000,000. Back taxes were estimated at \$250,000,000; \$331,000,000 were actually collected, or an underestimate of \$81,000,000. Miscellaneous internal revenue was estimated at \$619,000,000, whereas actual collections aggregated \$646,000,000. The total internal revenue taxes were estimated at \$2,809,000,000, and actually \$56,000,000 more than the estimate were collected. But had there not been such a large increase in back tax collections, the estimate would actually have been some \$25,000,000 too high.

Turning now to the question of surplus, we find that the surplus for 1927 exceeded the estimate by \$252,000,000. This is accounted for by an increase of \$102,000,000 in total receipts and a decrease of \$150,000,000 in expenditures. On the receipts side, the increase is accounted for by two items -- an increase of \$81,000,000 in back tax collections, and an increase of \$57,000,000 in receipts from the railroads on account of the realization of capital assets. The increase in these two items more than offset an overestimate of current revenue.

If the items going to make up the surplus be analyzed, it will be found that 65 per cent of the surplus of \$635,000,000 is due to receipts



on account of the disposal of capital assets, back income tax collections in excess of internal revenue refunds, and other items of a fast disappearing or non-recurring character. Without these special and non-recurring items, which aggregated \$414,000,000, the surplus would have been \$221,000,000. This is likewise true of the fiscal year 1926. The surplus that year was \$377,000,000, but exclusive of net back tax collections and receipts from capital assets of a non-recurring character, the surplus only amounted to \$162,000,000. In 1926 back tax collections, less revenue refunds, amounted to \$113,000,000, and in 1927 to \$214,000,000; receipts from railroad securities amounted in 1926 to \$36,000,000, and in 1927 to \$89,000,000; receipts from Federal Farm Loan bonds and other minor securities amounted to \$34,000,000 in 1926, and \$63,000,000 in 1927; receipts from the War Finance Corporation assets amounted to \$19,000,000 in 1926, and to \$27,000,000 in 1927; receipts from the capital stock tax, which was repealed in 1926, amounted in the year 1927 to \$8,000,000; receipts from the sale of surplus war supplies amounted to \$13,000,000 in 1926, and <sup>to</sup> \$8,000,000 in 1927; while the surplus was further increased to the extent of \$5,000,000 received from a judgment of the court relating to the Naval oil lease.

All told, the receipts from these items of a non-recurring character amounted in 1926 to \$215,000,000, and in 1927 to \$414,000,000.

One of the principal items that has caused errors in past estimates is that of back taxes. In the fiscal year 1927, back tax collections on incomes alone were underestimated by \$81,000,000, whereas internal

revenue refunds were overestimated by \$35,000,000, these two items accounting for an error in the estimates aggregating \$116,000,000. The Treasury Department has made every effort to ascertain prospective back-tax collections and probable refunds, but there seems to be no test which will determine accurately future yield. Accordingly, it seems wiser to segregate back-tax collections and internal revenue refunds and present them in a separate part of the estimate as items more or less speculative in character. After the close of the fiscal year 1929, with the closing of all of the cases arising under the excess profits and other war taxes, it is reasonably certain that there will be a falling off in back-tax collections.

In presenting the estimates of probable total revenue, the revenue from temporary sources that must disappear in the course of the next year or two is likewise presented separately. In this connection it should be noted that whereas \$169,000,000 will be received on account of principal and interest of loans made under Sections 207 and 210 of the Transportation Act in 1928, the revenue from this source will drop to approximately \$24,000,000, or a falling off of \$145,000,000, in the fiscal year 1929, and after that little or no revenue is anticipated under this head, as only \$49,000,000 principal amount of railroad obligations will be left out of the \$230,000,000 held on June 30, 1927. This item and a difference of \$87,000,000 in estimated net back-tax collections more than account for the difference of \$181,000,000 between the estimated surplus for 1928 and that for 1929.

I am submitting herewith two tables: The first shows for the fiscal years 1928 and 1929 estimated current or normal receipts, extraordinary or temporary items, total receipts exclusive of temporary items, expenditures as estimated by the Budget Bureau, estimated surplus exclusive of extraordinary revenue items, and estimated actual surplus. The second table shows the principal receipt items of a temporary character for the fiscal years 1926, 1927, 1928, and 1929.

ESTIMATED RECEIPTS AND  
EXPENDITURES -  
Fiscal years 1928 and 1929.

	<u>1928</u>	<u>1929</u>
Current revenue:		
Customs . . . . .	\$ 602,000,000	\$ 602,000,000
Internal revenue:		
Income tax . . . . .	1,885,000,000	1,885,000,000
Miscellaneous internal revenue.	638,000,000	640,000,000
Miscellaneous receipts . . . . .	482,000,000	468,000,000
	<u>\$3,607,000,000</u>	<u>\$3,595,000,000</u>
Special receipts including total back income tax collections . . .	\$ 469,000,000	\$ 213,000,000
	<u>\$4,076,000,000</u>	<u>\$3,808,000,000</u>
Expenditures exclusive of internal revenue refunds . . . . .	\$3,470,000,000	\$3,396,000,000
Internal revenue refunds . . . . .	151,000,000	138,000,000
	<u>\$3,621,000,000</u>	<u>\$3,534,000,000</u>
Surplus of current revenue over expenditures exclusive of internal revenue refunds . . . .	137,000,000	199,000,000
Surplus of total receipts over total expenditures . . . . .	\$ 455,000,000	\$ 274,000,000

PRINCIPAL RECEIPT ITEMS OF  
A NON-RECURRING TYPE INCREASING  
THE SURPLUS IN THE FISCAL  
YEARS 1926, 1927, 1928  
AND 1929.

	1926	1927	1928	1929
Back income tax collections . . . . .	\$295,000,000	\$331,000,000	\$280,000,000	\$180,000,000
Less internal revenue refunds . . . . .	182,000,000	117,000,000	151,000,000	138,000,000
Net:	\$113,000,000	\$214,000,000	\$129,000,000	\$ 42,000,000
Railroad securities . .	36,000,000	89,000,000	169,000,000	24,000,000
Federal Farm Loan bonds and other minor securities . . . . .	54,000,000	63,000,000	1,500,000	5,000,000
War Finance Corporation assets . . . . .	19,000,000	27,000,000	-	-
Capital Stock tax . . .	-	8,000,000	-	-
Sale, surplus war supplies . . . . .	13,000,000	8,000,000	5,500,000	4,000,000
Navy oil judgment	-	*5,000,000	13,000,000	-
	\$215,000,000	\$414,000,000	\$318,000,000	\$ 75,000,000
Surplus . . . . .	\$377,000,000	\$635,000,000	\$455,000,000	\$274,000,000
Surplus exclusive of above net receipts .	162,000,000	221,000,000	137,000,000	199,000,000

\*Exclusive of amount paid in Liberty bonds aggregating \$5,500,000 principal amount.

Estimated surplus, exclusive of extraordinary revenue items, will amount to \$137,000,000 in the fiscal year 1928, and \$199,000,000 in the fiscal year 1929. Estimated total surplus, including extraordinary revenue items, will amount to \$455,000,000 in the fiscal year 1928, and \$274,000,000 in the fiscal year 1929.

In estimating the amount by which we can safely reduce the tax revenues in 1928 and 1929, the actual surplus figures are the important ones. But looking to the future, it is essential that Congress should take into consideration the temporary character of some of our existing resources.

The factor which definitely determines the extent to which we may reduce taxes is the 1929 surplus. Assuming that a tax revision bill becomes law prior to March 15th next, the reductions will only affect the revenue for the last six months of 1928. That is to say, tax reductions will be only 50 per cent effective during the present fiscal year. They will, however, apply to the full twelve months in 1929. Therefore, even leaving out of consideration the fact that the 1928 surplus largely exceeds the prospective surplus for 1929, a reduction in revenue which would be fully justified if the present year were considered alone would almost certainly produce a substantial deficit in the fiscal year 1929.

It may be urged that the estimated surplus for 1929 is placed at too low a figure in view of the actual large surplus in 1927 and the size of the estimated surplus in 1928. The answer is that these surpluses were in the main due to certain resources which cannot be avail-

able in 1929, since by that time they will have been exhausted. In so far as current revenue is concerned, it should be noted that the Treasury estimates that substantially the same receipts will be available in 1929 as in 1928, and as were actually collected in 1927. There is no evidence available to justify the assumption that they will be larger. There are certain definite indications that they may be smaller, but the Department hopes that these unfavorable factors will be offset by the normal growth of the country.

For a number of years past the Treasury estimates have underestimated the revenue which was later realized. It is not true, however, that this was the result of deliberate intention or policy. Every effort to avoid a repetition of this result has been made in the preparation of the estimates here presented. It would be unwarranted and unwise to assume that in the present estimates there is any concealed surplus. In these figures the Treasury has not consciously nor as a matter of policy played safe. If tax reductions are made or appropriations voted on the assumption that the present figures understate probable future receipts, responsibility for such reductions or appropriations must be assumed by those who advocate them. The Treasury has placed the probable receipts at the highest figures compatible with the most dependable forecasts and facts which careful and disinterested investigation could secure. As far as expenditures are concerned, the estimates have been furnished by the Bureau of the Budget. It should be remembered that estimates do not include any expenditures that may be incurred by reason of new legislation. The Treasury believes that tax reduction should not in any event be in excess of approximately \$225,000,000.

I suggest the following:

1. A reduction of the rate of tax on corporate income from  $13\frac{1}{2}\%$  to 12%. It is estimated that such a change will result in a loss in revenue of approximately \$135,000,000.

2. Amending those provisions of the law that apply to the tax on corporate income so as to permit corporations with net income of \$25,000 or less, and with not more than ten stockholders, to file returns and pay the tax as partnerships at their option. It is estimated that such an amendment will result in a loss of from \$30,000,000 to \$35,000,000 in revenue.

3. A readjustment of the rates applicable to individual incomes that fall in the so-called intermediate brackets according to the plan outlined below and the table contained in the body of this report. It is estimated that such a change will result in a loss in revenue of approximately \$50,000,000.

4. Repeal of the estate tax, resulting in a revenue reduction of \$7,000,000.

5. Exemption from taxation of the income derived from American bankers acceptances held by foreign central banks of issue.

I shall now discuss these recommendations in greater detail.

#### Corporation Income Tax.

Corporations last received relief from taxation in the Revenue Act of 1921, which repealed the excess profits tax, and even then the income tax rate was increased. Since that time while other



classes of taxpayers have been benefited either by the repeal of war taxes or the sharp reduction of war-time rates, corporations have continued to bear a heavy burden. The time has come to revise the corporation tax rates downward. Business conducted under the corporate form is today overtaxed as compared with individual business enterprises and partnerships, a condition which spells particular hardship to the small corporations with a limited net income and to the stockholder of limited means, whether he be a stockholder in a large or a small corporation. Corporations are not only large contributors to the Federal Treasury. They pay their full share of the cost of local and State governments.

In the calendar year 1924 all corporations reporting net income reported a net income, before all taxes, of \$8,890,821,499. They paid in taxes other than income tax \$1,304,169,207, and in income tax \$881,549,546 at the then rate of  $12\frac{1}{2}$  per cent, making a total of \$2,185,718,753. In other words, 24.58 per cent of their net income was paid in taxes. In the same year these corporations paid \$3,994,990,754 in cash dividends, which was 44.93 per cent of their net income. For every dollar paid in dividends 54 cents were paid in taxes.

If all corporations be included, that is to say, corporations reporting a deficit as well as those reporting net income, the percentage of net income paid in taxes is 36.28 per cent. Including both the Federal and State taxes the percentage of taxes to net income paid in some of our principal industrial States ranges from

26.25 per cent in Michigan to 41.04 per cent in Connecticut, 47.72 per cent in Minnesota, and 49.78 per cent in Massachusetts.

Corporation taxes are paid either by the consumers or by the stockholders. No general rule can be laid down as to the incidence of this tax. It is estimated that there are not less than 3,000,000 individual owners of corporate stock in the United States. There are probably more. Through the corporation income tax these individuals are taxed at the rate of  $13\frac{1}{2}$  per cent on their proportionate share of the income of the corporation, and this irrespective of whether their individual income is sufficiently great to subject them to the individual income tax. If we include the tax paid by individuals on the dividends received from corporations, the rate of tax on net corporate income is 15.27 per cent, whereas had all the corporations been taxed as partnerships the average rate of tax on their net income would have been 9.10 per cent.

There are only 2,500,000 individuals who return taxable net income, and the average rate of tax on their income has been reduced to 4.20 per cent, as compared with 3,000,000 stockholders who are virtually taxed on a part of their income at the rate of  $13\frac{1}{2}$  per cent. There are less than 9,000 individual income taxpayers whose average tax as returned equals or exceeds  $13\frac{1}{2}$  per cent of their taxable income.

Thus we have a strange and inconsistent situation in which the owners of our corporations, some 3,000,000 individuals, are taxed indirectly at the rate of  $13\frac{1}{2}$  per cent on all, or part of their income, whereas under the present individual income tax law this

rate of  $13\frac{1}{2}$  per cent or more is paid by less than 9,000 individuals, and these with net incomes in excess of \$110,000.

It is interesting to note that according to the 1925 returns, of \$5,189,000,000 distributed in cash dividends, \$1,724,000,000 went to sources other than individuals making income tax returns. While, of course, a large part of this was paid to other corporations, it is certain that a very considerable sum was paid to individuals with incomes insufficient to require an income tax return. Of the dividends distributed, \$740,000,000 were returned by persons with net incomes of less than \$10,000, and the average rate of tax on all incomes not in excess of \$10,000 was .26 of 1 per cent.

The Treasury Department made a study of a number of corporations owned by a comparatively few people and with net incomes moderate in amount. It found that the chief stockholders in corporations having net incomes of \$55,000 or less, would, without exception, have paid a smaller tax to the Federal Government had they done business as partners rather than as a corporation, whereas in 86 per cent of the cases where the net income of the corporation was \$100,000 and less a similar conclusion was true. Out of 252,334 corporations reporting net income for the calendar year 1925, no less than 232,346 had incomes of less than \$50,000 a year. So that the latest figures available show that 92 per cent of the corporations reporting net income paid higher taxes in a given year than they would have had they been partnerships. The situation is not quite as bad as these figures would indicate. For whereas the number of corporations with incomes

of less than \$50,000 is high, the amount of income reported by them is comparatively small. One-third of the total corporation taxes is paid by 196 corporations with net incomes in excess of \$5,000,000; 53 per cent of the corporation income tax is paid by 1,113 corporations with net incomes in excess of \$1,000,000; over 70 per cent is paid by 4,469 corporations with net incomes of over \$250,000. But even so, the discrimination appears to weigh with more than usual severity on the stockholder in the closely held corporation whose net income falls in the smaller amounts.

It may be urged that the owner or owners of a closely held corporation with a limited income are no worse off than the stockholder of limited means in a very large corporation who is taxed  $13\frac{1}{2}$  per cent on his proportionate share of the net income of the corporation, whereas the tax which the latter might have to pay on that net income were it derived from some other source might not exceed  $1\frac{1}{2}$  per cent. While this is apparently true, it is probable that the latter class of stockholder looks upon his stock purchases as strictly of an investment character. In other words, he buys this share of stock just as he would a bond on the basis of its actual income yield, and to that extent in making the purchase he has completely discounted the corporation tax. Therefore, as I see the situation, while it is desirable to reduce the rate on all corporations, some additional relief should be granted the stockholders of the small, closely held corporations, whose situation is substantially the same as that of a partnership though they do business in corporate form.

The Treasury Department recommends that the present corporation rate of  $13\frac{1}{2}$  per cent be reduced to 12 per cent. This will cause a loss of revenue of approximately \$135,000,000.

In order to give further relief to the owners of the closely held corporations with a small net income, the Treasury recommends that all corporations with net income of \$25,000 or less and the number of whose stockholders does not exceed ten, be allowed to file their income tax returns as if they were a partnership and be taxed on the partnership basis. It is estimated roughly that this will occasion a loss of revenue of from \$30,000,000 to \$35,000,000.

#### Surtax Rates

The Revenue Act of 1926 reduced the rates of the normal tax from 2, 4 and 6 per cent to  $1\frac{1}{2}$ , 3 and 5 per cent, and cut the maximum surtax rate from 40 per cent to 20 per cent. While there was a readjustment of the intermediate surtax rates, the effect of the drastic cut in the maximum surtax rates and the sharp reduction in normal rates was to benefit the small taxpayers and the large taxpayers somewhat more than those whose taxable income fall in the brackets running from \$18,000 to \$70,000. In view of the above, I recommend a revision of the rates applicable to the so-called intermediate brackets.

Under the Revenue Act of 1926 incomes from \$14,000 to \$24,000 are graded by steps of \$2,000. That is to say, the income tax rate increases 1 per cent for every additional \$2,000 of income. From \$24,000 to \$64,000 the brackets are graded by steps of \$4,000.

By the simple expedient of adjusting the rate so that it will rise uniformly, increasing 1 per cent for each additional \$4,000 of income on incomes from \$10,000 to \$70,000, some reductions will be granted to all surtax-payers but more particularly to those whose incomes fall in the intermediate brackets. Thus, under the Act of 1926 a 10 per cent rate applies to incomes ranging from \$36,000 to \$40,000, whereas under the proposed plan the 10 per cent rate will apply to incomes ranging from \$46,000 to \$50,000; the 15 per cent rate instead of being reached at \$56,000, will be reached at \$66,000; the 18 per cent rate at \$80,000, instead of \$70,000; and the 19 per cent rate at \$90,000 instead of \$80,000.

There are attached hereto two tables, the one showing the suggested changes in surtax rates from those of the 1926 Act, and the second showing the individual income tax upon certain specified taxable net incomes under the Revenue Act of 1924, the Revenue Act of 1926 and under the suggested rates.

SURTAX RATES

Suggested change in surtax rates from those of the 1926 Revenue Act

1926 Revenue Act		∴	Proposed plan	
Income tax zones	Rates	∴	Income tax zones	Rates
\$10,000 to \$ 14,000	1½	∴	\$10,000 to \$ 14,000	1½
14,000 to 16,000	2	∴	14,000 to 18,000	2
16,000 to 18,000	3	∴	18,000 to 22,000	3
18,000 to 20,000	4	∴	22,000 to 26,000	4
20,000 to 22,000	5	∴	26,000 to 30,000	5
22,000 to 24,000	6	∴	30,000 to 34,000	6
24,000 to 28,000	7	∴	34,000 to 38,000	7
28,000 to 32,000	8	∴	38,000 to 42,000	8
32,000 to 36,000	9	∴	42,000 to 46,000	9
36,000 to 40,000	10	∴	46,000 to 50,000	10
40,000 to 44,000	11	∴	50,000 to 54,000	11
44,000 to 48,000	12	∴	54,000 to 58,000	12
48,000 to 52,000	13	∴	58,000 to 62,000	13
52,000 to 56,000	14	∴	62,000 to 66,000	14
56,000 to 60,000	15	∴	66,000 to 70,000	15
60,000 to 64,000	16	∴	70,000 to 75,000	16
64,000 to 70,000	17	∴	75,000 to 80,000	17
70,000 to 80,000	18	∴	80,000 to 90,000	18
80,000 to 100,000	19	∴	90,000 to 100,000	19
Over - - 100,000	20	∴	Over - - 100,000	20

Individual income tax upon certain specified taxable net incomes. Married person with two dependents, with no capital gains nor dividends, and with earned income of \$10,000

Taxable net income	Revenue Act 1924			Revenue Act 1926			Suggested sur-tax rates	
	Normal tax	Surtax	Total tax	Normal tax	Surtax	Total tax	Surtax	Total tax
10,000:	\$ 141:	\$ 0:	\$ 141:	\$ 83.25:	\$ 0:	\$ 83.25:	\$ 0:	\$ 83.25
12,000:	235:	20:	255:	143.25:	20:	163.25:	20:	163.25
14,000:	355:	40:	395:	237.25:	40:	277.25:	40:	277.25
16,000:	475:	80:	555:	337.25:	80:	417.25:	80:	417.25
18,000:	595:	140:	735:	437.25:	140:	577.25:	120:	557.25
20,000:	715:	220:	935:	537.25:	220:	757.25:	180:	717.25
22,000:	835:	320:	1,155:	637.25:	320:	957.25:	240:	877.25
24,000:	955:	440:	1,395:	737.25:	440:	1,177.25:	320:	1,057.25
26,000:	1,075:	500:	1,655:	837.25:	500:	1,417.25:	400:	1,237.25
28,000:	1,195:	740:	1,935:	937.25:	720:	1,657.25:	500:	1,437.25
30,000:	1,315:	920:	2,235:	1,037.25:	880:	1,917.25:	600:	1,637.25
32,000:	1,435:	1,120:	2,555:	1,137.25:	1,040:	2,177.25:	720:	1,857.25
36,000:	1,675:	1,540:	3,215:	1,337.25:	1,400:	2,737.25:	980:	2,317.25
40,000:	1,915:	2,040:	3,955:	1,537.25:	1,800:	3,337.25:	1,280:	2,817.25
45,000:	2,215:	2,730:	4,945:	1,737.25:	2,360:	4,147.25:	1,710:	3,497.25
50,000:	2,515:	3,540:	6,055:	2,037.25:	2,930:	5,017.25:	2,200:	4,237.25
55,000:	2,815:	4,470:	7,285:	2,287.25:	3,630:	5,947.25:	2,730:	5,047.25
60,000:	3,115:	5,480:	8,595:	2,537.25:	4,400:	6,937.25:	3,330:	5,917.25
65,000:	3,415:	6,570:	9,985:	2,787.25:	5,210:	7,997.25:	4,060:	6,847.25
70,000:	3,715:	7,780:	11,495:	3,037.25:	6,030:	9,097.25:	4,300:	7,837.25
75,000:	4,015:	9,090:	13,105:	3,287.25:	6,960:	10,247.25:	5,600:	8,887.25
80,000:	4,315:	10,480:	14,795:	3,537.25:	7,830:	11,397.25:	6,450:	9,987.25
90,000:	4,915:	13,540:	18,455:	4,037.25:	9,760:	13,797.25:	8,250:	12,287.25
100,000:	5,515:	17,020:	22,535:	4,537.25:	11,660:	16,197.25:	10,150:	14,687.25
150,000:	8,515:	30,520:	39,035:	7,037.25:	21,660:	28,697.25:	20,150:	27,187.25
200,000:	11,515:	54,020:	65,535:	9,537.25:	31,660:	41,197.25:	30,150:	39,687.25
300,000:	17,515:	92,020:	109,535:	14,537.25:	51,660:	66,197.25:	50,150:	64,687.25
500,000:	29,515:	170,020:	199,535:	24,537.25:	91,660:	116,197.25:	90,150:	114,687.25
1,000,000:	59,515:	370,020:	429,535:	49,537.25:	191,660:	241,197.25:	190,150:	239,687.25



Estate Tax

The Treasury Department renews its recommendation that the Federal estate tax be repealed. By tradition, legal theory and revenue necessity, this tax belongs to the States. They and not the Federal Government have developed inheritance taxation in the United States. It is true that they have made many mistakes, but it is not apparent that the entrance of the Federal Government into this field has had any beneficial effect. The Federal Government has only made use of the estate or inheritance tax four times in its history, and then during war emergencies. As soon as the emergency was past, the tax was repealed. There is no occasion to change this policy. It is not based on opposition to the inheritance or estate form of taxation, but on the theory that some taxes inhere to the States and can more properly be levied by them than by the Federal Government and that the estate tax is one of these. It is beyond dispute that the States need this revenue and that the Federal Government does not.

Ever since the war, Federal revenue needs have steadily diminished as the cost of Government was reduced. It has been found possible to repeal most of the war taxes and to cut rates drastically. The contrary is true of the States and of their political subdivisions. Their cost of government continues to mount steadily. Taking the long point of view, this position, in so far as the Federal Government is concerned, is likely to continue. As the national debt is paid off, the burden of Federal taxes should grow lighter. But it is impossible to foresee the point at which the upward movement of State and local ex-

penditures will be arrested. Moreover, Federal taxes are fairly well diversified and bear some relation to the taxpayer's ability to pay, State and local taxes rest on altogether too narrow a base. The Federal Government should, therefore, retire from the inheritance tax field, and should definitely announce the policy not to resort to this form of taxation save in emergencies.

The loss in revenue will be insignificant. Owing to the 80 per cent credit on the taxes paid the States, it is estimated that in five years the Federal estate tax will not produce more than \$20,000,000. Should it be repealed, the loss in revenue in the fiscal year 1929 will not exceed \$7,000,000.

#### The Automobile Tax.

I realize that great pressure will be brought to bear on the Congress to repeal the excise tax on the sale of automobiles. I cannot agree to the advisability of such a repeal.

The Federal appropriation for good roads in the fiscal year 1928 runs as high as \$71,000,000, and in the fiscal year 1929 will be \$75,000,000. These expenditures by the Federal Government are for the direct and immediate benefit of automobile owners. They should make some contribution in return.

There is another aspect of this situation deserving consideration from the standpoint of justice and fairness. The automobile is one of the railroad's chief competitors. Our railroads are paying heavy taxes

to the United States Government, a part of which is being used for highway purposes. The Revenue Act of 1926 materially reduced the tax on automobiles designed for the transportation of passengers, and repealed the tax on trucks and accessories. The latest available figures for railroad corporations having taxable net income indicate an increase in the income tax paid by them to the Federal Government from \$57,000,000 for the calendar year 1924, to \$94,000,000 for the calendar year 1925. Is it quite fair to ask the railroads to contribute to the construction and maintenance of the roads on which their rivals operate while exempting the latter from any contribution?

The automobile is a semi-luxury article of such widespread use that it furnishes a broad base on which to apply a low tax. The rate being low, there is no appreciable hardship to the taxpayer; the base being broad, the tax is a good revenue producer. Unless we are to rely almost exclusively on direct taxes paid by a few and are prepared to see our National Government supported not by the entire body of our citizens, but by a limited class, this is the kind of tax which should be retained.

The income tax has gradually become so restricted in its application, that it is a class rather than a national tax. For the calendar year 1925, 9,560 taxpayers returned about 49 per cent of the total tax returned. 327,018 individuals returned \$701,497,726 out of a total of \$734,555,183. Out of our entire population of 114 millions, only 2,501,166 individuals returned taxable income, and of these, 2,174,143 returned only \$33,000,000 of tax, the balance of \$701,000,000 being re-

turned by 327,018 individuals. According to these returns, less than 3/10 of 1 per cent of our population returned 95.5 per cent of our total income tax; about 1.9 per cent returned 4.5 per cent, and the remaining 97.8 per cent of the population returned no tax whatsoever. Obviously, some other taxes should be retained.

Once the automobile tax is repealed, it cannot be reimposed in time of peace. This creates a situation which should squarely be faced at this time. Both the Treasury Department and the Congress desire to reduce taxes to the greatest possible extent consistent with the prospective revenue needs of the Government. The reduction will be made under the reasonable assumption that business conditions will continue to be fairly prosperous. Should this assumption prove to be false and should there be a falling off in business, with a consequent immediate reduction in the yield of the corporation and individual income taxes, or should the day come when taxes as revised at this session of Congress are inadequate to meet the cost of Government, it is obvious that revenue needs will compel an increase in rates of the taxes then existing. It is equally obvious that under such circumstances corporation income tax rates and income tax rates on individuals will have to be increased to an extent where they will not only make good the loss of revenue resulting from the reduction of income returned, but will in addition be required to contribute the \$66,000,000 more or less than the present excise tax on automobile sales now yields. In other words, the narrowing of the tax base in days of prosperity inevitably means that when the time for increased tax burdens arrives

those taxpayers who are unfortunate enough to remain on the rolls are compelled to pay more than their just share. Injustices in the field of taxation are inevitably committed under the pressure of necessity, and the time to preserve the integrity of a well-rounded, well-balanced system is in days of prosperity when rates can be kept at a minimum and no particular hardship is inflicted on any one class. Under such circumstances, to yield to the temptation to dispense with a tax which some day may prove to be an essential part of the tax system, is to be guilty of the most short-sighted economic error. It should never be forgotten that in taxation the ideal to be aimed at is a broad base and low rates.

We have eliminated most of our excise taxes. There remain for revenue purposes the excise tax on tobacco and automobile sales, the admissions tax and a few stamp taxes. All of these should be retained in the interest of a well-balanced tax system. I have not seen it suggested that the excise tax on tobacco should be reduced, but when we consider the burden borne by the users of tobacco, an article which is likewise of the semi-luxury type -- though many would classify it as a necessity -- the 3 per cent automobile sales tax appears insignificant in character. Because this 3 per cent is levied upon the factory, or wholesale price, which is much smaller than the retail price, the automobile tax amounts to but 2¢ for every dollar paid by the ultimate consumer. Contrast this with the fact that for every dollar spent by our citizens for the articles enumerated, there is a tax required of 2¢ to 5¢ on cigars, 9¢ on theatre and other admissions, 20¢ on playing

cards, from 4¢ to 22¢ on chewing and smoking tobacco, and from 17¢ to 40¢ on cigarettes.

For the fiscal year 1927 the tobacco taxes yielded \$376,170,205.04, as compared with \$66,437,881.32 from automobiles. The use of tobacco in its various forms is widespread, and the Federal tax on tobacco no doubt affects a greater number of our citizens than does any other class of tax. The man who smokes a nickel cigar now pays 1/5 of one cent in tax to the Government. This is at a rate double that upon automobiles. The man who smokes an 8¢ cigar pays a tax of 3/10 of one cent to the Government on every cigar that he smokes. Out of every 15¢ paid for a package of twenty cigarettes, 6 cents, or 40 per cent of the total retail cost, is paid to the Government. Chewing and smoking tobacco is now taxed at the rate of 18 cents per pound. During the fiscal year 1927 it accounted for \$65,070,195.26. That is, chewing and smoking tobacco alone produced practically as much tax as all of the automobiles sold that year in the United States.

#### Admissions Tax.

The same reasoning applies with equal force to the tax on admissions. It is difficult to imagine a more ideal tax than one on the \$40 ringside seats at the recent Tunney-Dempsey fight. Surely no one will contend that the men and women who were willing to pay \$40 for a seat for thirty minutes of boxing could not well afford to contribute \$3.64 to the United States Government. The revenue yield from that particular fight was \$242,065.71. The tax of 60¢ for a box-seat costing \$6.00 for a world series baseball game, and the tax of 30¢ for a

\$3.00 box seat at a representative theatre is not considered excessive. The exemption of all admissions of 75 cents or less eliminates the tax on the recreation and amusement of an overwhelming majority of our citizens. Those who pay more than 75 cents can well afford to make a contribution to the Government, and such an excise tax cannot be held to be burdensome or to impose a restriction on legitimate recreation.

Tables showing the exact amounts paid as tax, and the percentage of the tax to the retail prices, for the various makes of automobiles, the different kinds and brands of tobacco, and for selected samples of admissions, are submitted in an appendix.

Taxes on the Income Received from Bankers  
Acceptances held by Foreign Banks of Issue.

Under the provisions of Section 230 of the Revenue Act of 1926 a tax of  $13\frac{1}{2}$  per cent is imposed upon the discount received by any foreign corporation on American bankers acceptances. Sections 233 and 217 of that Act, however, exempt from taxation any interest on bank deposits received by a foreign corporation not doing business within the United States and not having an office therein. Under the terms of Section 236 interest upon obligations of the United States is not subject to tax.

An increasing number of countries have adopted the gold exchange standard. This means that banks of issue in those countries must carry large balances abroad, largely in the American market. Unless appro-

private investments are available, however, these balances will be lost to London or to some other gold standard country.

Generally speaking, the chief ways in which a foreign bank, especially a foreign bank of issue, employs its surplus funds in this market are: 1, on deposit; 2, in short-time government securities; and, 3, in bankers acceptances. At the present time, the law exempts from taxation income derived from the first two, but taxes the third. Foreign banks of issue with surplus funds to invest must seek the most liquid short-time investments available. Many banks of issue are prohibited by law from investing their funds for longer than three months. Others are prohibited from investing their funds in any government securities which are not issued on a discount basis. In such cases as these, where funds cannot be invested in government securities for one reason or another, a bank of issue must invest its funds either in bankers bills, subject to the tax, or else place its funds on deposit at materially lower rates of interest.

The serious effect of this is the resulting tendency to withdraw funds from this market for investment either in London or elsewhere. In other words, the present law places a serious handicap on the free development of our dollar acceptance market. In effect it tends to keep foreign funds out of our market and to force American merchants to finance their transactions abroad rather than through the dollar acceptance.

One of the main purposes of the Federal Reserve Act was to authorize and foster the development of the American acceptance market as an ef-



fective and economical means of financing our foreign trade. Congress has done its part in aiding this development by a series of amendments to the Federal Reserve Act. Undoubtedly, however, the present provision of the Revenue Act, which imposes a tax on the discount earned from our bankers acceptances, is proving an obstacle to the full accomplishment of this purpose.

I recommend, therefore, that the Revenue Act of 1926 be amended so as to exempt from the income tax income derived from American bankers acceptances held by foreign central banks of issue.

Technical Recommendations.

The Treasury Department would like at a later date to present to the Committee certain suggested amendments to the Income Tax Law of a technical character.

Analysis of taxes on automobiles, cigarettes, cigars, tobacco, prize fights, baseball and theatre tickets.

A U T O M O B I L E S

Make of Car	Type	Factory Retail Price	Factory Wholesale Price 25% Discount	Amount of Tax at 3%	Sales Price to Purchaser	Percentage of Tax to Sales Price
Ford	Runabout	\$ 360.00	\$ 270.00	\$ 8.10	\$ 403.64	2.0
"	Touring	380.00	285.00	8.55	424.12	2.
"	Coupe	485.00	363.75	10.91	537.64	2.
"	2D Sedan	495.00	371.25	11.13	547.88	2.
"	4D Sedan	545.00	408.75	12.26	599.08	2.
Star	Touring 4	550.00	412.50	12.37	640.00	2.
Chevrolet	Coach	595.00	446.25	13.38	661.00	2.
Star	Coupe 4	650.00	487.50	14.62	740.00	2.
"	Coach 4	675.00	506.25	15.18	765.00	2.
"	Touring 6	725.00	543.75	16.31	810.00	2.
"	Sedan 4	765.00	573.75	17.21	857.00	2.
"	Coupe 6	795.00	596.25	17.88	890.00	2.
"	Coach 6	845.00	633.75	19.01	940.00	2.
"	SP. Roadster	885.00	663.75	19.91	975.00	2.
"	Cabriolet	915.00	686.25	20.58	1015.00	2.
"	Sedan 6	925.00	693.75	20.81	1020.00	2.
"	Coupe	975.00	731.25	21.93	1075.00	2.
Chandler	Touring	1005.00	753.75	22.61	1150.00	2.
"	Coupe	1035.00	776.25	23.28	1200.00	2.
Oakland	Sedan	1045.00	783.75	23.51	1132.00	2.
Oldsmobile	Landau	1075.00	806.25	24.18	1155.00	2.

A U T O M O B I L E S

Make of Car	Type	Factory Retail Price	Factory Wholesale Price 25% Discount	Amount of Tax at 3%	Sales Price to Purchaser	Percentage of Tax to Sales Price
Paige	Coupe	\$1095.00	\$ 821.25	\$ 24.63	\$1170.00	2.1
Nash	Touring	1135.00	851.25	25.53	1225.00	2.
Chrysler	Sedan	1145.00	858.75	25.76	1342.00	2.
"	Roadster	1175.00	881.25	26.43	1323.00	2.
Buick	Roadster	1195.00	896.25	26.88	1290.00	2.
"	Touring	1225.00	918.75	27.56	1320.00	2.
Studebaker	Touring	1245.00	933.75	28.01	1395.00	2.
"	Coupe	1295.00	971.25	29.13	1450.00	2.
Hupmobile	Touring	1325.00	993.75	29.81	1450.00	2.
Hudson	Sedan	1385.00	1033.75	31.16	1500.00	2.
Auburn	Touring	1445.00	1083.75	32.51	1635.00	2.
Willys-Knight	Coupe	1495.00	1121.25	33.63	1595.00	2.
Buick	Touring	1525.00	1143.75	34.31	1640.00	2.
Hudson	Brougham	1575.00	1181.25	35.43	1690.00	2.
Chrysler	Sedan	1595.00	1196.25	35.89	1770.00	2.
Wheeler	Sedan	1635.00	1223.25	36.79	1845.00	2.
Reo	Roadster	1685.00	1263.75	37.91	1790.00	2.
Peerless	Coupe	1725.00	1293.75	38.81	2095.00	2.
Nash	Coupe	1775.00	1331.25	39.94	1900.00	2.
Gardner	Coupe	1845.00	1383.75	41.51	2050.00	2.
Hupmobile	Touring	1895.00	1421.25	42.63	2112.00	2.
Buick	Brougham	1925.00	1443.75	43.31	2050.00	2.

A U T O M O B I L E S

Make of Car	Type	Factory Retail Price	Factory Wholesale Price 25% Discount	Amount of Tax at 3%	Sales Price to Purchaser	Percentage of Tax to Sales Price	
Harmon	Speedster	\$1985.00	\$1473.75	\$ 44.21	\$2160.00	2.0	
Allys-Knight	Coupe	1935.00	1496.25	44.89	2115.00	2.	
Burn	Touring	2045.00	1533.75	46.01	2245.00	2.	
andler	Sedan	2095.00	1571.25	47.14	2175.00	2.	
omobile	Sedan	2195.00	1646.25	49.39	2412.00	2.	
ackard	Phaeton	2275.00	1706.25	51.19	2468.00	2.	
"	"	2335.00	1783.75	53.63	2597.00	2.	
erce Arrow	Runabout	2495.00	1871.25	56.14	2715.00	2.	
erless	Sedan	2595.00	1946.25	58.39	2675.00	2.	
rysler	Phaeton	2645.00	1983.75	59.51	2850.00	2.	
runklin	Victoria	2740.00	2055.00	61.65	2860.00	2.	
"	Sedan	2790.00	2092.50	62.78	2911.00	2.	
"	"	2840.00	2130.00	63.90	2962.00	2.	
"	"	2910.00	2182.50	65.48	3034.00	2.	
"	Limousine	2940.00	2205.00	66.15	3065.00	2.	
erce Arrow	Sedan	3025.00	2268.75	68.06	3250.00	2.	
"	"	Coupe	3100.00	2325.00	69.75	3340.00	2.
"	"	"	3200.00	2400.00	72.00	3440.00	2.
"	"	Sedan	3300.00	2475.00	74.25	3540.00	2.
"	"	"	3400.00	2550.00	76.50	3640.00	2.
armon	Speedster	3485.00	2613.75	78.41	4000.00	2.	
"	Touring	3535.00	2673.75	80.21	3850.00	2.	

AUTOMOBILES

Make of Car	Type	Factory Retail Price	Factory Wholesale Price 25% Discount	Amount of Tax at 3%	Sales Price to Purchaser	Percentage of Tax to Sales Price
Harmon	Sedan	\$3640.00	\$2730.00	\$ 81.90	\$3990.00	2.1
Stearns-Knight	"	3700.00	2770.00	83.10	3850.00	2.
"	"	3750.00	2812.50	84.37	3910.00	2.
Stutz	Speedster	3825.00	2913.75	87.41	4325.00	2.
Packard	Runabout	3975.00	2961.25	89.44	4193.00	2.
Pierce Arrow	Limousine	4045.00	3033.75	91.01	4300.00	2.
Cadillac	Sedan	4095.00	3071.25	92.13	4343.00	2.
"	"	4195.00	3146.25	94.38	4445.00	2.
"	Imperial	4245.00	3133.75	95.51	4496.00	2.
LaSalle	Town Cab	4500.00	3375.00	101.25	4773.00	2.
Lincoln	Roadster	4600.00	3450.00	103.50	4773.49	2.
"	Sedan	4800.00	3600.00	108.00	4983.17	2.
"	"	5000.00	3750.00	112.50	5187.85	2.
"	Limousine	5200.00	3905.00	117.15	5392.53	2.
Cadillac	Town Cab	5500.00	4125.00	123.75	5777.00	2.
Locomobile	Sport	5900.00	4425.00	132.75	6250.00	2.
"	Touring	6000.00	4500.00	135.00	6350.00	2.
"	Sedan	7300.00	5475.00	164.25	7550.00	2.
"	Cab	7500.00	5625.00	168.75	7750.00	2.
Pierce Arrow	Landau	8000.00	6000.00	180.00	8475.00	2.

C I G A R E T T E S

Size of Package	Sales Price to Consumer	Amount of Tax	Percentage of Tax to Sales Price
Camel - 20	.15	.06	40.%
Lucky Strike - 20	.15	.06	40.
Chesterfield - 20	.15	.06	40.
Sweet Caporal - 20	.15	.06	40.
Piedmont - 20	.15	.06	40.
Old Gold - 20	.15	.06	40.
Barking Dog - 20	.15	.06	40.
Picayune - 20	.15	.06	40.
Marlboro - 20	.30	.06	30.
Revelation - 20	.20	.06	30.
Herbert Tareyton - 20	.25	.06	24.
Dun Hill - 20	.25	.06	24.
Murad - 20	.30	.06	20.
Ramesis - 20	.35	.06	17.

Note:

As the tax on each package of twenty cigarettes is six cents, the purchaser of the more expensive package pays a smaller tax proportionally than the purchaser of the cheaper varieties.

C I G A R S

Name	Class	Sales Price per Cigar	Amount of Tax on Each Cigar	Percentage of Tax to Sales Price
Mi Favorita	A	.05	.002	4.%
Garcia Grande	A	.05	.002	4.
Bellefair	A	.05	.002	4.
El Producto	C	.10	.005	5.
Elverso	C	.10	.005	5.
Corina	C	.10	.005	5.
Optimo	C	.10	.005	5.
Garcia Grande	C	.10	.005	5.
Harvester	C	.15	.005	3.1/3
Dunhill	C	.15	.005	3.1/3
Rene Costilla	C	.15	.005	3.1/3
Webster	C	.15	.005	3.1/3
Garcia Grande	C	.15	.005	3.1/3
Henry IV	C	.15	.005	3.1/3
Elverso	C	.15	.005	3.1/3
Mi Hagar	C	.15	.005	3.1/3
Perfecto Garcia	D	.20	.0105	5.1/4
Corina	D	.20	.0105	5.1/4
Rene Costilla	D	.20	.0105	5.1/4
El Producto	D	.20	.0105	5.1/4
Mi Favorita	D	.20	.0105	5.1/4
La Palina	D	.20	.0105	5.1/4
La Corona	E	.25	.0135	5.4
Partagas	E	.25	.0135	5.4
Romeo & Juliet	E	.30	.0135	4.5
Corona Corona	E	.60	.0135	2.1/4

CHEWING TOBACCO

Rate of Tax 18¢ per pound.

Name	Size of Package	Selling Price	Amt. of Tax on each package	Percentage of Tax to Sales Price
Riger	1 1/2 oz.	.10	.016875	16.%
Maritana	2 oz.	.15	.0225	15.
Piper Heidsick	1 7/8 oz.	.20	.02109	10.5
Gravelly	7/8 oz.	.10	.0098	9.8
Drummonds Natural Leaf	2 1/4 oz.	.20	.0253	12.
Climax	1 oz.	.10	.01125	11.
Climax	1 1/2 oz.	.10	.016875	16.
Beachnut	2 oz.	.10	.0225	22.

SMOKING TOBACCO

Union Leader	1 3/4 oz.	.10	.0196	19.6
U. S. Marines	2 oz.	.10	.0225	22.
Edgeworth	3 1/2 oz.	.35	.03938	11.
Model	1 3/4 oz.	.10	.0196	19.6
Harmony	2 1/2 oz.	.25	.0281	11.
Personal	4 oz.	1.00	.045	04.5
Osterloahs	3 oz.	.25	.03375	13.
Belle Fair	3 1/4 oz.	.50	.0365	7.3



PRIZE FIGHTS

	Sales Price of Ticket Including Tax	Tax	Percentage of Tax to Purchaser
	\$40.00	\$3.64	9.1%
	30.00	2.73	9.1
	25.00	2.28	9.12
	20.00	1.82	9.1
	15.00	1.37	9.13
	10.00	.91	9.1
	5.00	.46	9.2

WORLD SERIES BASEBALL

Box Seats	6.60	.60	9.09
Grand Stand	5.50	.50	9.09
Grand Stand (and standing room)	3.30	.30	9.09
Bleachers	1.10	.10	9.09

THEATRES

POLI'S

Boxes	2.20	.20	9.09
Orchestra	1.65	.15	9.03
Loge Seats	1.65	.15	9.03
Balcony	1.10	.10	9.09
Balcony	.50	-	-

SHUBERT BELASCO

Boxes	3.30	.30	9.09
Orchestra	2.75	.25	9.09
Mozzanine	2.20	.20	9.09
Mozzanine	1.65	.15	9.03
Balcony	1.65	.15	9.03
Balcony	1.10	.10	9.09
Balcony	.50	-	-
Gallery	.50	-	-

December 8, 1927

ESTIMATED AMOUNT OF WHOLLY TAX-EXEMPT SECURITIES OUTSTANDING OCTOBER 31, 1927.

(000,000 omitted)

End of Month	Total Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Oct.	\$ 17 355	\$ 13 241	\$ 156	\$ 2 164	\$ 1 794
1927 Aug.	18 264	14 119	160	2 165	1 820
Sept.	18 381	14 235	160	2 165	1 821
Oct.	* 18 443	* 14 288	163	2 165	1 827

End of Month	Held in Sinking Fund or Owned by United States Government				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Oct.	\$ 2 201	\$ 2 157	\$ 14	\$ - ---	\$ 30
1927 Aug.	2 354	2 313	15	- ---	26
Sept.	2 369	2 328	15	- ---	26
Oct.	* 2 388	* 2 345	17	- ---	26

End of Month	Net Outstanding Issues				
	Total	States, Counties, Cities, etc.	Territories, Insular Possessions	United States Government	Federal Farm Loan System
1926 Oct.	\$ 15 154	\$ 11 084	\$ 142	\$ 2 164	\$ 1 764
1927 Aug.	15 910	11 806	145	2 165	1 794
Sept.	16 012	11 907	145	2 165	1 795
Oct.	* 16 055	* 11 943	146	2 165	1 801

\* Preliminary

Prepared by Section of Financial and Economic Research, Office of the Secretary, Treasury Department, December 8, 1927.

TREASURY DEPARTMENT

FOR RELEASE SUNDAY MORNING  
DECEMBER 11, 1927

SPEECH TO BE DELIVERED BY UNDERSECRETARY OF THE TREASURY MILLS

BEFORE THE BUFFALO CLUB, BUFFALO, NEW YORK

ON SATURDAY, DECEMBER 10, 1927.

FUTURE RELEASE  
OBSERVE DATE

I assume that when you invite an officer of the Treasury Department to address you, you expect him to discuss the Treasury activities, or some problem in which the Department is interested. Just at present, the Congress is considering a number of measures in which the Treasury Department has a direct interest, two of which I shall deal with briefly to-night.

Doubtless, you are all familiar with the recommendations made by the Secretary of the Treasury in respect of tax reduction, and his insistence that the reduction shall be kept within such limits as will insure a balanced budget during the present and succeeding fiscal years. We are concerned with a balanced budget not only/a fundamental principle underlying any sound fiscal system, but also because with a huge war debt outstanding, which must be retired over a period of years, it is essential that the Treasury Department look ahead and provide for orderly and systematic retirement.

Our debt operations are two-fold in character. Whenever conditions are favorable, we refund high interest-bearing securities into securities bearing a lower rate of interest. At the same time, when securities mature, or circumstances make it desirable and possible to call them prior to maturity dates, the obligations are retired, and thus there is effected a permanent reduction of the National Debt. This cannot be done in a haphazard way, but calls for foresight, planning and the setting up of a schedule of maturity dates which will make available maturities to which sinking fund appropriations and foreign repayments on account of principal

may be applied. The Treasury Department has prepared such a schedule, and its retirement and refunding policies are based on a definite plan extending over a number of years. Such a plan is not based on the assumption that there will be available such surpluses as have existed during the past few years, but it is certainly based on the assumption that there will not be a series of deficits, and that, while engaged in a program of retiring our war debt, we will not at the same time be confronted with the necessity of issuing securities in order to meet current expenditures which should be paid from current revenue.

I am not going into a further argument as to the necessity of keeping the budget of the Federal Government balanced, but, after all the good advice which we have given to foreign nations, a situation in which we are obliged to present arguments to our own Congress in favor of a balanced budget is not without its humorous aspect. A French friend of mine said to me last week, "Now that you experience the necessity of making an effort to keep your budget balanced by preventing taxes from being reduced too much, you will appreciate some of the difficulties which we experienced when we were fighting to balance our budget by increasing an already too heavy burden of existing taxes."

Aside from the above, the Treasury recommendations with reference to tax reduction were based on the general principle that relief should be given those groups of taxpayers whose relative burdens seemed to be somewhat out of line, and on the second general principle that it is dangerous to restrict the tax base too much, and to place too great reliance on two or three sources of revenue, which of necessity are subject to wide fluctuation. In particular, we stressed the desirability of retaining some of the indirect taxes whose burden is comparatively insignificant because of the broad base

on which they rest, and which are good revenue producers and tend to distribute the burden of Federal taxation a little more equally.

Turning, now, from the much-debated subject of tax reduction to one which, while of less general interest, is, nevertheless, very important, and one which should be thoroughly understood by the people of this Country, I want to discuss the situation which exists in respect of the vast amount of property belonging to foreign citizens seized by our Government during the course of the War. Though the War ended nine years ago, the United States Government is still holding property of the German, Austrian and Hungarian Nationals of a value well in excess of 250 million dollars. In addition, the United States Government itself owes foreign Nationals vast sums of money on account of property such as ships, radios and patents, seized during the War and applied to our own uses. On the other hand, there are pending and unpaid claims of the United States Government and its citizens against the German, Austrian and Hungarian Governments, for damages arising from the War, aggregating approximately 252 millions of dollars. The property held by the Alien Property Custodian is the property seized under what is known as "The Trading with the Enemy Act," which provided, generally speaking, that property of enemies or allies of enemies residing in enemy countries should be seized and should be held until after the War, and disposed of as Congress shall direct. There are two opposing views as to what should be done with this property. Some have urged that it be liquidated and the proceeds be devoted to the satisfaction of the claims of American Nationals against the claims of the German Government, the German owners to be reimbursed by their Government. Others hold that this confiscation is unjustified, is opposed by sound public policy, and that

the enemy property should be returned at once to its owners or, if not, should be held as security until American claims are paid. It seems to be clear that, under a decision of the Supreme Court, and under the provisions of the Treaties of Berlin, Vienna and Budapest, the United States Government has the legal right to confiscate the property; though it should be noted that the Preamble of our Treaty with Germany includes in full the provision of the Joint Resolution of Congress Declaring Peace, and that the Joint Resolution provided merely that the property should be retained by the United States until such time as the Imperial German Government should have made suitable provision for the satisfaction of all claims against said Government. It is apparent that the language of the Preamble is inconsistent with the provisions of the Treaty proper. But there is one interpretation which will reconcile the inconsistency, and that is, that the United States Government, while specifically reserving the right to confiscate, at the same time expressed an intention not to exercise that right if Germany should make proper provision for the payment of the just claims of our Nationals. This, then, is the situation as I see it, in so far as the property held by the Alien Property Custodian is concerned. Under the decision of the Supreme Court, and under existing treaties, we have apparently the right to confiscate this property, but, at the same time, all of the laws which we have passed in relation thereto, and the Preamble of the very treaty which gives us the right to confiscate, express on our part an intention not to confiscate, but merely to hold as security.

Moreover, there are to me some very compelling arguments against confiscation. Such a program is repugnant to the American sense of justice and public morality, and would constitute a violation of a sound policy al-

ways pursued by our Country. Ever since we have been a Nation, we have recognized the inviolability of the property of private citizens in time of War. As early as 1802, our Government, then comparatively poor, paid \$3,000,000 to the British Government to reimburse its citizens for property destroyed during the Revolutionary War. As Alexander Hamilton said, "No powers of language at my command can express the abhorrence I feel at the idea of violating the property of individuals which, in an authorized intercourse in time of peace, has been confided to the faith of our Government and laws, on account of controversy between nation and nation. In my view, every moral and political sense unite to consign it to execration." In the wars in which we have been engaged with foreign powers, I know of no instance in which we have confiscated the property of the citizens of the nation with which we were at war. This was in accordance with the policy initiated as early as Magna Charta, and followed generally for centuries by civilized nations. Thus, as late as 1918, the English House of Lords reiterated this time-honored doctrine:

"It is not the law of this Country that the property of enemy subjects is confiscated until the restoration of peace. The enemy can, of course, make no claim to have it delivered to him, but when peace is restored, he is considered as entitled to his property with any fruits it may have borne in the meantime."

It is true <sup>that</sup> the Treaty of Versailles modified this rule, but we have not ratified the Treaty of Versailles. Moreover, on February 8, 1917, two months before we entered the War, and while there was still ample time for German citizens to remove much of their property from this Country, the Secretary of State issued a statement, with presidential sanction, in which he said:

"The Government of the United States will in no circumstance take advantage of a state of war to take possession of property to which international understandings and the recognized law of the land give it no just name or title. It will scrupulously respect all private rights alike of its own citizens and of the subjects of foreign nations."

To confiscate the property of German citizens would, therefore, constitute a violation of our own tradition, of sound public morality and of an assurance given by a President of the United States.

But, if we are not to confiscate the property, what then? The desirable thing to do, of course, would be to return it in toto at once to its rightful owners. But, while the United States owes a very real obligation to the German owners of the property which it holds, it is under an even greater obligation to protect its own Nationals, and to see that the just claims which they hold against Germany shall be met. The property which we hold constitutes a security for the payment of their claims. We have, as a nation, no right to do justice to foreign citizens by doing an injustice to our own. I am willing to treat the foreigner as fairly as we treat our own people; I recognize no obligation to treat him more fairly.

This brings me to the subject of American claims and their status. These arise by reason of property seized by the German Government, of regulations of the German Government which made it impossible for our citizens to withdraw their property from Germany, of acts of violence, such as the sinking of ships, the destruction of property, the taking of lives, and the infliction of personal injuries.



By an agreement dated August 10, 1922, between the United States Government and Germany, the Mixed Claims Commission was set up to adjudicate these claims of American citizens against the German Government. It is estimated that the awards of the Mixed Claims Commission will aggregate approximately \$248,000,000. They constitute a direct obligation of the Government of Germany, and if Germany were a strictly solvent nation, able to meet all of its international or financial obligations, the situation would present no difficulty. Under the Treaty of Versailles, Germany obligated herself to pay reparations in an amount to be fixed by the Reparations Commission. The Reparations Commission fixed the amount at 132,000,000,000 Marks. It soon became apparent that Germany was unable to meet the required payments. Accordingly, in 1924, the powers entitled to reparations, but not including the United States, on August 30, 1924, signed what is known as the London Protocol, under the terms of which the so-called Dawes terms of payment were adopted. The Dawes plan limited the payments to be made by Germany for the purpose of meeting all Treaty obligations, including reparation payments, to certain fixed amounts, rising gradually, and reaching the sum of 2,500,000,000 <sup>gold</sup>/<sub>marks</sub> in 1929. Subsequently, on January 14, 1925, the representatives of the powers who had signed the London Protocol and representatives of the United States signed what is known as the Paris Agreement, allocating the Dawes annuities to the various governments having claims against Germany. Under this agreement, when the Dawes annuities reach their maximum, the United States Government will receive from the Reparations Commission approximately \$10,700,000 a year for the purpose of satisfying claimants who have received awards from the Mixed Claims Commission.

This, then, is the situation: The powers having claims against Germany have agreed to scale down the payments due on those claims, and have further agreed that all of those claims shall be paid from a common fund in the hands of the Reparations Commission. So that the American claimants cannot look directly to the German Government for full and immediate payment, but must look for the satisfaction of their claims to the \$10,700,000 which their Government has agreed to accept from the Reparations Commission as a settlement of the obligation of the German Government. What does this mean? It means that the United States Government has made an agreement providing for the settlement of the claims of its Nationals, under the terms of which it will take something like 65 or 70 years to liquidate those claims.

If, then, the property of German Nationals were to be returned at once and nothing further were done to provide for the prompt settlement of the American claims, the German citizen would be wholly reimbursed at an early date, the American claimant would be deprived of whatever security may be afforded by the holding of the German property, and the best he could hope for would be to have his claim satisfied in the course of three-quarters of a century. In other words, the United States would be doing an act of justice as a nation by perpetrating an act of injustice on a group of its own citizens.

I now come to the third class of claims, which I shall deal with very briefly. Our Government seized, and has made use of, ships, patents and one radio station belonging to German Nationals. Just what the value of this property is, I do not know. It has been valued, on the one hand, as high as \$250,000,000, and, on the other hand, as low as \$33,000,000, but, whatever the value of the property may be, for the United States Government to retain

this property without compensating the owners, would be an act of confiscation and would, in my judgment, constitute as great a violation of sound policy and public morality as would the retention and liquidation of the so-called alien property. Moreover, as I have already pointed out to you, under the terms of the Treaty of Berlin, which incorporate by reference certain provisions of the Treaty of Versailles, the United States Government cannot retain this property without compensation unless at the same time it credits to the German Government for reparation purposes the full value of this property. What does that mean? It means that the value of this property, whether fifty million, seventy-five million or one hundred million dollars, would be credited to Germany as against the \$10,700,000 to be paid annually for the satisfaction of American claimants; or, in other words, not only would the United States Government be confiscating the property of German Nationals, but it would, in fact, be depriving its own citizens of a large portion of the fund which has been set up for the payment of their just claims.

There is no question, then, but that the United States Government should pay for this property, and here again the strictly right thing to do is to pay at once. But the question immediately arises, Why should the German owners of property seized by the United States Government be paid to-day, while American claimants must wait seventy-five years for payment?

The problem, admittedly, is a difficult one, but during the last Session of Congress the Ways and Means Committee of the House drafted, and the House adopted, a measure which seems to me to work out a practical and, on the whole, sound solution. The fundamental basis of the plan is that the three groups of claimants shall each be asked to make a sacrifice, a sacrifice not of any part of their claim, but a sacrifice which entails

a delay in the payment of part of their claim. Ultimately, all will be paid in full, but they shall be asked, in the interest of a common and early settlement, to agree to extend the time of payment of a portion of what is due them over a period of years. A special fund is to be created in the Treasury Department. That fund is to be made up by withholding 20% of the alien property, and the so-called unallocated interest fund, both of which the Alien Property Custodian is authorized and directed to deposit, receiving in return, as evidence of rights in the fund, so-called participating certificates, bearing interest at 5 per cent. In the second place, there is to be withheld and deposited 50 per cent. of the money appropriated for the payment of the ship, radio and patent claims, with a proviso that, of the first \$50,000,000 appropriated, \$25,000,000 shall be earmarked for immediate payment to the owners. In the third place, there is to be deposited in the special fund the amount received from the Reparations Commission on account of mixed claims, that is, payments received to date and all future payments.

All three groups of claimants have an interest in this fund, but, in order to do justice between the three groups, it is necessary to establish certain priorities. For instance, since the alien property holders will have received 80 per cent. of their property at once, and ship, patent and radio claimants 50 per cent., when final awards are made, it is provided that the American claimants shall have priority until they shall have received from the fund 80 per cent. of their claims, and that thereafter, as money is received from the Reparations Commission, all three groups will share and share alike. As between American claimants, certain priorities are established. Thus, all claims arising from death or personal injury are to be paid

first. Secondly, all claims of \$100,000 or less, and, third, \$100,000 on account of all other claims.

Leaving aside for a moment the question of unallocated interest, it will be seen that as between American claimants and the owners of alien property, the purpose of the Bill is to put them on an equal basis at as early a date as possible. We retain 20 per cent. of the German property until 80 per cent. of the American claims have been paid, and then for every dollar paid to the American claimants we pay a dollar to the German claimants. In other words, we are retaining just enough German property to serve as security for the payment of American claims, and we declare it to be our purpose in retaining it not to appropriate, but simply to hold it as security.

It may be urged, and urged with a great deal of force and conviction, that the retention of the 20 per cent. of the alien property constitutes a violation of the principle of non-confiscation and is so serious a breach of the international policy which we enunciate as a matter of principle as to justify the defeat of this Bill.

My answer is that Section 2 specifically provides that all property of German nationals held by the Alien Property Custodian shall ultimately be returned, together with the accrued interest and other earnings thereon; that every line of the Bill indicates that we do not propose to appropriate it finally to our own uses, but to retain it as security until the American claimants are satisfied, and that, as I have pointed out, when American claimants have been put on a parity with the German owners by the payment of 80 per cent. of their claims, after that for every dollar paid an American claimant a dollar will be returned to the German claimant. But, it is going

to be said that in turning 20 per cent. of the property into the special fund, relieving the United States of legal responsibility therefor, and in placing reliance for its repayment on the sums received from the Dawes annuities, we are, if not actually confiscating, at least so imperiling the ultimate return of the property as to constitute confiscation. My answer to that is twofold: In the first place, I believe that we are going to receive the Dawes annuities over a sufficient period of time to discharge all these claims, and, in the second place, if those payments should for any reason cease, it will be for the Congress then sitting to decide whether they will keep the pledge which we give in this bill, and appropriate the necessary funds, or whether they will repudiate the pledge, and, by failure to appropriate, effect confiscation of the rights of German owners.

In so far as Austria and Hungary are concerned, the situation is by no means as complicated. While the Tripartite Commission which set out to determine and adjudicate the claims of United States citizens has not completed its work, it is in position to make a fair estimate as to what the claims allowed will amount to. As compared with the claims against Germany, they are comparatively small in amount. Those against Austria can be met in large measure by property of the Austrian Government at present held by the Alien Property Custodian. If this sum is inadequate, it should be possible to reach some agreement with the Austrian Government which will insure the payment of the claims allowed by the Tripartite Commission in full, and this is likewise true of Hungary. Once the Austrian and Hungarian Governments have made such an agreement and furnished adequate guaranties, there is no reason why the property of their nationals now held by the Alien Property Custodian should not be returned to them at once.

While there are probably comparatively few people in the United States who are directly interested in this proposition, yet all of us have a vital interest in seeing that our country is true to its ideals and traditions. It is nine years since we seized hundreds of millions of dollars of property belonging to thousands of private individuals, thus inflicting on them intolerable hardship. We haven't been conspicuously successful in the management of this trust. Our record in this particular is not one to which we will point with pride. The situation demands an immediate solution. It is intolerable that it should be longer delayed. Congress, I think, realizes this fully, and I have every reason to hope and to believe that a solution will be found during the present session.

There is one factor which I haven't mentioned, but which may prove of real importance. You have all read during recent months many statements as to the working out of the Dawes Plan, and the probability or improbability of that Plan's being carried out in its entirety during the fifth year, or the first year of full payments. In all of the arguments, the point that has been stressed is the anticipated difficulty in transferring payments aggregating approximately \$600,000,000. The German property held by the Alien Property Custodian aggregates approximately \$245,000,000. 80 per cent. of this amounts to \$196,000,000. If to this be added \$25,000,000 for ships, patents and radios, it will be seen that there will be available approximately \$221,000,000 to German Nationals in dollar credits. Much of this, of course, will not go back to Germany, but it is equally certain that a very large sum in dollar credits will be available, and will play a most important part in facilitating Dawes transfers during the crucial period, a result the importance of which to Europe-- and, indeed, to ourselves--cannot be underestimated, and which cannot fully be expressed in terms of money value.

In the discussion so far, I have traced the importance of these credits only in so far as the transfer problem is concerned, but the placing of that amount of liquid capital at the disposal of German economy at this particular time will prove to be no negligible contribution to the reconstruction that is proceeding in that country.

Let me conclude by saying what I said last year in debating this Bill before the House, that the solution presented is not an ideal one, but that, given all the circumstances, political and otherwise, I believe it to be the best that can be obtained. If this Bill becomes law, the German property owners will receive almost \$200,000,000 at an early date. The German ship, patent and radio owners will receive in cash, as soon as their awards are determined, 50 per cent. of the amount due them. The American claimants should receive, within the course of the next year or two, no less than \$113,000,000, while the 391 death and personal injury claims and the claims under \$100,000 will be paid almost immediately. If this measure, or a similar measure, should fail to become law, these vast sums which should be put to fruitful use will continue to remain practically idle and unproductive, and thousands of individuals will be deprived of their property for years to come, perhaps for generations.