

TAX ON CIGARETTES

HEARING
BEFORE
THE COMMITTEE ON FINANCE
UNITED STATES SENATE
SEVENTY-THIRD CONGRESS
SECOND SESSION
ON
REDUCTION OF TAX ON CIGARETTES

—————
MARCH 30, 1934
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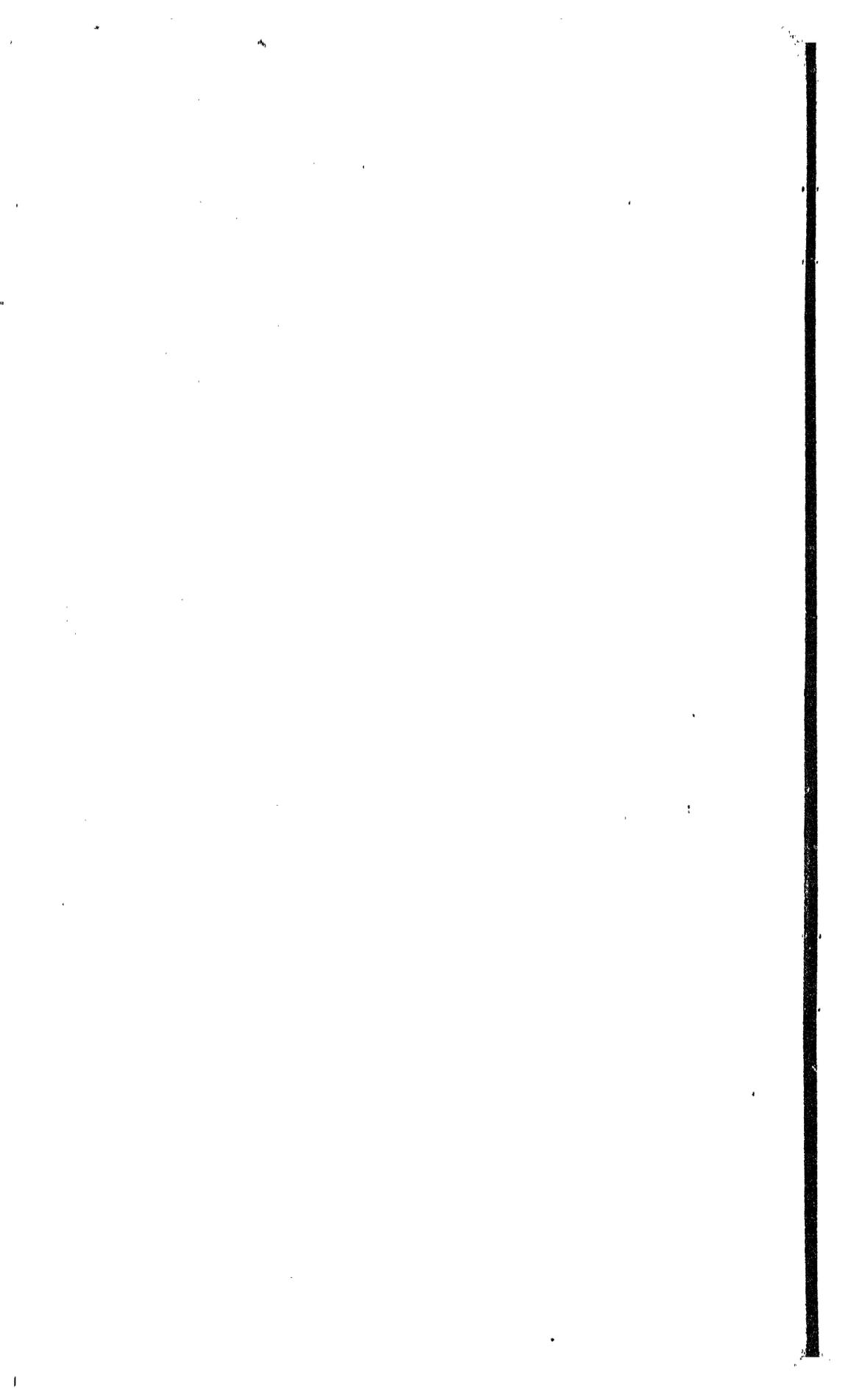
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TAX ON CIGARETTES

FRIDAY, MARCH 30, 1934

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met pursuant to call, at 10 a.m., in the committee room, 312 Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), King, George, Barkley, Bailey, Costigan, McAdoo, Byrd, Lonergan, Reed, Couzens, Keyes, La Follette, and Metcalf.

The CHAIRMAN. I ask that the statement made by Secretary Morgenthau before the committee several days ago be placed in the record.

A STATEMENT ON THE PROPOSAL TO REDUCE THE TAX ON 10-CENT CIGARETTES, MADE BY SECRETARY OF THE TREASURY MORGENTHAU BEFORE THE COM- MITTEE ON FINANCE, MARCH 21, 1934

As a result of declining costs, a number of companies in the early part of 1932 began to make and market 10-cent cigarettes. The sales of such 10-cent cigarettes gradually rose until in December 1932 they constituted 23 percent of all manufactured cigarettes. In the early part of 1933 the manufacturers of 15-cent cigarettes reduced their prices \$1.19 a thousand to meet the competition of the 10-cent cigarettes. As a result, the consumption of 10-cent cigarettes dropped to about 11 percent of the total in the latter part of 1933.

More recently, rising costs, from the operation of the N.R.A. and other factors, have made it substantially impossible for cigarettes to be made and marketed at 10 cents under the present tax of \$3 per thousand, now applicable to all ordinary cigarettes regardless of their selling price.

A study of the matter indicates that under present costs a reduction of the tax from \$3 a thousand to \$2.70 a thousand would make it possible for cigarettes to be made and retailed at 10 cents.

The indications are that, under present costs, the product cannot be manufactured and retailed at 10 cents under the present tax of \$3 a thousand. As of January 15, the manufacturers of 15-cent cigarettes have increased their prices to take account of the increased costs.

The 10-cent cigarette, if it continues, will continue to find part of its market in the "roll-your-own" field and a part in the field of the 15-cent cigarette—about 20 percent from the former and 80 percent from the latter. The tax on loose tobacco and cigarette papers is very small, and, so far as they are replaced by the 10-cent cigarette, there would be a gain in revenues of about \$2.25 per thousand. The loss of revenue from 10-cent cigarettes displacing 15-cent cigarettes would be 30 cents a thousand under the proposed tax of \$2.70 a thousand for 10-cent cigarettes. As near as it can be figured, the net result of this decrease in the tax on 10-cent cigarettes would be an increase of about \$5,000,000 in the Federal revenue.

I am advised by the experts of the Farm Credit Administration, the Bureau of Agricultural Economics, and the Agricultural Adjustment Administration that the presence of the independent manufacturers of the 10-cent cigarette in the market, bidding for farmers' tobacco has had a beneficial effect upon the market of the growers of cigarette tobacco.

The CHAIRMAN. The committee wishes to make a preliminary investigation of this subject which has been presented by the Treasury Department and the committee is in no position to go into extended hearings. The House Ways and Means Committee, we understand, has held 3 days of hearings. I do not know whether they have finished or not. Those hearings will be available to this committee and will be used by this committee, therefore, the committee will proceed with that in mind. We understand that there are three different groups—the producers, the 10-cent cigarette people, and the 15-cent cigarette people, not counting the warehousemen. We would like, if possible, for each group to select somebody to present the matter for them with the limitation of a concise statement, to give us their respective viewpoints, so that we may finish these hearings this morning. Who represents the producers?

Senator BARKLEY. In view of the fact that this hearing was especially called in connection with the suggestion made by the Secretary of the Treasury, would it not be better if those who propose the amendment to this tax bill that has been reported out, make their statements first, because I think the burden is upon them?

The CHAIRMAN. I think so. The suggestion was that this tax be reduced from \$3 to \$2.70?

Senator BARKLEY. Yes.

The CHAIRMAN. The group that favors that proposal, have you one witness whom you want to put on, or do you want to put on two?

Mr. M. H. THATCHER. I represent the 10-cent manufacturers, so-called, and I had in mind just to make a very brief preliminary statement, and then let Mr. Axton, the president of the Axton-Fisher Tobacco Co., of Louisville, and Mr. Robertson, the general counsel of the Brown & Williamson Tobacco Co., of Louisville, make the statements.

The CHAIRMAN. How much time will they require?

Mr. THATCHER. I understood there was to be an hour on each side.

The CHAIRMAN. If there are three different groups, that would be 3 hours.

Mr. JUNIUS PARKER. I represent a good many tobacco and cigarette manufacturers. When you speak of three different groups, you are quite correct, and perhaps the most interested group is the producers, but I do not think the producers are all on the same side. A great majority of them are on one side, perhaps 95 percent. There are some, nevertheless, that are on the other side.

The CHAIRMAN. Is it satisfactory so far as those present, that there shall be two sides represented here, those in favor of the Treasury recommendation and those that are opposed to the Treasury recommendation?

Mr. PARKER. I think that would be proper.

The CHAIRMAN. Suppose then that you try to get through in 55 minutes with your side of the proposition, so that we can then go through with 55 minutes on the other, and adjourn at 12 o'clock.

Mr. THATCHER. You want the proponents to go right through first?

The CHAIRMAN. Yes.

Mr. THATCHER. I did not know whether there might be something in rebuttal that we might wish to offer.

The CHAIRMAN. You will all hear each other in the hearings before the Ways and Means Committee, and I assume there is very little in each other's arguments that you are not familiar with.

STATEMENT OF M. H. THATCHER, REPRESENTING THE AXTON-FISHER TOBACCO CO., OF LOUISVILLE, KY., AND THE BROWN & WILLIAMSON TOBACCO CORPORATION, LOUISVILLE, KY.

Mr. THATCHER. Mr. Chairman and gentlemen of the committee: I represent the Axton-Fisher Tobacco Co., of Louisville, Ky., Brown & Williamson Tobacco Corporation, of Louisville, with factories also at Winston-Salem and at St. Petersburg. The 10-cent cigarette came into the picture about June 1932, during the midst of the depression, when these two companies, particularly, believed that the time was ripe for putting out that sort of a cigarette on the market. They were quite successful, and the figures will show that after the 10-cent cigarette was manufactured by these companies and put on the market, not only did it cheapen the cost of cigarettes to the producer, and substantially has given a cigarette as the older standard cigarettes for practical smoking purposes. The higher-priced cigarettes use foreign tobacco and use French paper in rolling it, whereas the 10-cent cigarette uses less foreign tobacco and uses an American manufactured paper. Those things have an effect on cheapening the cost.

The figures also show that with this depression, there was a decline in revenues from cigarettes, and that with the manufacture of the 10-cent cigarette, there was an increase in revenue, and I think that in this whole program that there should also be given some consideration to the millions of consumers in this country. Of course, I think the grower is the man primarily to consider, because he has suffered more than anybody else in the raising of tobacco and in the selling of it, because the sale has, through the years, been controlled, as we say, by the Big Four, which has stifled the elements of competition; but in any event when the 10-cent manufacturers appeared in the field with a 10-cent cigarette, it had the effect of providing an element of competition so far as the growers' product was concerned, and whereas when tobacco about that time was \$8 and something burley per hundred pounds, within a reasonable time after the 10-cent cigarette was manufactured, the price went up to about 12 cents, and also there was a corresponding increase in other tobaccos which the farmer had to sell.

These manufacturers were able to make a small margin of profit, but upon their volume of sales they were able to make a fair profit, and could have continued on that basis except for the fact that under the recovery program there has been N.R.A. costs, there have been tobacco marketing costs, which have been added, as you know, and there have been processing taxes added in addition. Those taxes and costs, by reason of the recovery program having added greatly to the burden of the 10-cent cigarette, so much so that they are threatened with extinction in trying to carry those additional taxes, and we say that the 10-cent cigarette today bears the highest tax of any American product. I do not think that can be successfully contradicted. It bears twice the tax of the so-called "15-cent cigarette." And so it is that the manufacturers of the 10-cent cigarette have appealed to Congress to graduate the tax, and they believe that if there were a graduated tax so that if the so-called "10-cent cigarette" which contains as much in contents as the 15-cent cigarette, if they could be assessed a tax at \$2.70 a thousand instead of the regulation \$3 per thousand, that that could be the situation.

In behalf of these contestants, I am asking the privilege of having to appear before you Mr. Wood F. Axton, who is president of the Axton-Fisher Tobacco Co., of Louisville, for 35 years, an independent concern employing several thousand men in the making of the 10-cent cigarette, and Mr. H. M. Robinson, general counsel for the Brown & Williamson Tobacco Co., employing 5 or 6 thousand men in the making of the 10-cent cigarette, and they can fill in the details of the picture which I have sought to outline, but we feel that unless some sort of relief is given, that the 10-cent cigarette may disappear from the market.

The CHAIRMAN. Whom do you want to appear first?

Mr. THATCHER. Mr. Axton.

Senator BARKLEY. Let me ask you a question—this is purely for information. Of course, we all know that tobacco and tobacco products are about the only products that are still bearing war-time taxes.

Mr. THATCHER. That is true.

Senator BARKLEY. I have had before Congress for a number of years, and have before this committee now, a bill for a horizontal reduction of 50 percent in all tobacco taxes, not only cigarettes but everything else. I desire that my bill S. 2287 reducing the rates of taxation on tobacco products be placed in the record at this point. Do you recall whether as a matter of history there has ever been a graduated tax on tobacco products?

Mr. THATCHER. Yes, sir. There is a graduated tax on cigars, and prior to 1907, from 1901 to 1907, there was a graduated tax on cigarettes.

Senator BARKLEY. Do you recall what that was?

Mr. THATCHER. No. We have the figures here. But tobacco has borne, we think, through the years, an undue burden.

Now, if Mr. Axton may appear?

The CHAIRMAN. Yes. Mr. Axton.

(The bill referred to by Senator Barkley is as follows):

[S. 2287, 73d Cong., 2d sess.]

A BILL Reducing the rates of taxation on tobacco products

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subdivision (a) of section 400 of the Revenue Act of 1926, as amended (U.S.C., Supp. III, title 26, sec. 832), is amended to read as follows:

"Sec. 400. (a) Upon cigars and cigarettes manufactured in or imported into the United States which are sold by the manufacturer or importer, or removed for consumption or sale, there shall be levied, collected, and paid under the provisions of existing law the following taxes, to be paid by the manufacturer or importer thereof:

"On cigars of all descriptions made of tobacco, or any substitute therefor, and weighing not more than three pounds per thousand, 50 cents per thousand.

"On cigars made of tobacco, or any substitute therefor, and weighing more than three pounds per thousand, if manufactured or imported to retail at not more than 5 cents each, \$1 per thousand. If manufactured or imported to retail at more than 5 cents each and not more than 8 cents each, \$2 per thousand. If manufactured or imported to retail at more than 15 cents each and not more than 20 cents each, \$7.50 per thousand. If manufactured or imported to retail at more than 20 cents each, \$10 per thousand.

"On cigarettes made of tobacco, or any substitute therefor, and weighing not more than three pounds per thousand, \$1.50 per thousand. Weighing more than three pounds per thousand, \$5 per thousand."

SEC. 2. Subdivision (a) of section 401 of the Revenue Act of 1926, as amended (U.S.C., title 26, sec. 761; U.S.C., Supp. III, title 26, sec. 761), relating to the internal-revenue tax on tobacco and snuff, is amended by striking out "18 cents per pound", and inserting in lieu thereof "5 cents per pound."

SEC. 3. This Act shall take effect on the expiration of thirty days after its enactment.

STATEMENT OF WOOD F. AXTON, LOUISVILLE, KY., REPRESENTING THE AXTON FISHER TOBACCO CO.

Mr. AXTON. Mr. Chairman and gentlemen of the committee: I want to thank you for being allowed to present our case. Along in January we asked for a graduated tax on cigarettes. Up to that time there had been no one asking for any reduction in the tax. I myself know that there is too much tax on tobacco and would like to see it reduced. Tobacco has paid too much, too big a share of the tax of the country. There has been too much of a burden put on tobacco. I myself would like to see it reduced and reduced down so that it would give both the consumer a substantial benefit, the producer a substantial benefit, and I believe that generally the manufacturers of tobacco have been getting plenty.

Just to go back to this tobacco tax business and the tobacco business.

Ninety-five percent of the cigarettes, or more, are made by four companies. Those four companies on three occasions without much rime or reason, raised the price of cigarettes in a single day, or maybe a day or two part. They raised it substantially. None of them I think would have done it if he thought that the other ones would not have done so. It must have been done by an agreement. In 1931, working on tobacco bulk, possibly in 1929 and 1930, and the 1930 crop of tobacco being very much less than the 1929 crop of tobacco, everything in this country being down to the very lowest ebb, they raised the price of cigarettes 45 cents a thousand, making over 13 cents a pound increase on the tobacco that came from the farmer. In a few months after that they began to buy their supplies of tobacco for 1931 of the 1931 crop, and they reduced that crop of tobacco over the already reduced price of tobacco the year before, 6.96 cents per pound, making 20 cents per pound spread between the price they were getting and the price of the year before of tobacco in their favor. The 1931 crop of tobacco, to my honest opinion, was the cheapest tobacco that has been sold, that I have seen sold, and next Monday I will have been in the tobacco business 35 years.

Senator BARKLEY. What year was that?

Mr. AXTON. I say, the 1931 crop was the cheapest tobacco that I have seen sold and I have been in the business next Monday, 35 years.

From 1931 to January 1933, they were collecting 61 cents, or getting 61 cents a pound more for their tobacco that went into their cigarettes than we were getting for ours. Part of that time they were working on the cheapest tobacco that ever grew. In June 1932, we entered into the cigarette business and saw that there was an opportunity to make cigarettes and a good cigarette, and sell it for 10 cents a package. We were hardly giving the distributor quite enough, or the retailer and jobber. That business grew very rapidly. So on the 3d of January, I think it was, they cut their price from \$6.85 a thousand to \$6 a thousand.

Senator LA FOLLETTE. You say "they." Whom do you mean?

Mr. AXTON. The Big Four.

The CHAIRMAN. Who are the Big Four? Just for the record.

Mr. AXTON. Commonly known as the Tobacco Trust.

Senator BARKLEY. Give the names.

Mr. AXTON. The American Tobacco Co., the Lorillard Tobacco Co., Liggett & Myers Tobacco Co., and R. J. Reynolds Tobacco Co. They cut their price from \$6.85 to \$6. We went on, and I think it was the 11th of February they cut them down to \$5.50 a thousand less 10 and 2.

Senator COUZENS. Did that mean a reduction in the retail price?

Mr. AXTON. Yes, it did.

Senator COUZENS. To what?

Mr. AXTON. To any price, almost. When they cut the price on the 11th of February, some of the big chain stores had lithograph posters announcing that the cigarettes would be sold for 10 cents a package.

Senator COUZENS. They had heretofore been 15?

Mr. AXTON. They had heretofore been 15. The package of cigarettes cost the jobber at the lowest selling price of cigarettes at that time, 9.7 cents a package to the jobber. Of course the retailer could not buy them for that, but the chain stores had lithographed material to put in the windows announcing that they would sell cigarettes for 10 cents a package.

Senator BARKLEY. What were they being sold for at the same time outside of the chain stores?

Mr. AXTON. Before the first of the year they had been sold generally at 15, because they cost \$6.55 a thousand less 10 and 2, and that made it 12.8 cents a package, and they were generally sold at 15 cents.

Senator McADOO. You mean that the majors, the brands of the major companies were being sold then at 10 cents by the chain stores?

Mr. AXTON. By the chain stores.

Senator McADOO. After that last cut. After they cost the jobber who sold and made a profit to the retailer, is 9.7 cents a package.

Outside of the chain stores, they maintained the price?

Mr. AXTON. No; they did not do that. Many other stores met the price rather than see their customers go to someone else, they met their price and sacrificed the profit, and I have heard it estimated that there is from 700,000 to 1,000,000 dealers in cigarettes in this country.

Senator COUZENS. Seven hundred thousand to one million?

Mr. AXTON. Yes, sir. That deal in cigarettes. So that he has really a place in the picture. There are a lot of those people who make their living of course not entirely on tobacco, but it is a part of the business. Sometimes he will sacrifice all of his profit on tobacco rather than see his customers go other places.

So when we came on the market with this 10-cent cigarette, the production of cigarettes was going down considerably. We came on the market with a 10-cent cigarette and we stopped the decline in the production of cigarettes. They were going down sometimes as much as 20 percent a month, or 18 percent a month. But that was stopped and cut down to the time when it was only 2 or 3 percent a month, and the production of cigarettes for the fiscal year 1932-33 increased so that it amounted to several million dollars more for the Government than they had received the year before. The fiscal year

of 1931 and 1932 was the worst year we ever had I think in the business in this country—that fiscal year.

Senator COUZENS. What is the usual profit that the jobber gets when he sells to the retailer, per package?

Mr. AXTON. We give him 10 and 2. 10 percent for the trade and 2 percent for cash.

Senator COUZENS. That is his profit?

Mr. AXTON. No. He passes, in many instances, 10 percent of that to the retailer and takes 2 percent for himself, the cash discount he takes for himself.

The CHAIRMAN. Does that apply to the Big Four as well as the 10-cent cigarette?

Mr. AXTON. Yes.

Senator GEORGE. What tobacco do you use in the 10-cent cigarette?

Mr. AXTON. Burley and flue-cured, and a small part of Turkish tobacco.

The CHAIRMAN. That is the cheaper grade of tobacco, is it?

Mr. AXTON. Not necessarily so much the cheaper grade of tobacco. We use a pretty good grade of tobacco. We made it so good that in 1933 they gave us over \$100,000,000 of their income trying to put us out of business.

The CHAIRMAN. Did the growers of the cheaper grade of tobacco get the increased price by virtue of this new production of this 10-cent cigarette?

Mr. AXTON. Yes, sir. The growers of all kinds of tobacco did.

Senator McADOO. What would you say the percentage of increase was?

Mr. AXTON. In 1932 it was, I would say, nearly 50 percent more with us in the field than it had been the year before.

Senator BARKLEY. Did that have any effect on the general price of the better qualities, or was that increase limited to the cheaper?

Mr. AXTON. That was an increase on the tobacco crop.

Senator BARKLEY. An average?

Mr. AXTON. Quite close to 40 percent more. Fifty percent more.

Senator BARKLEY. For the total crop?

Mr. AXTON. For the total crop. You know, tobacco, gentlemen, is not just grown on one farm and another farm. I noticed the impression was made that some people grew the fine tobacco and some people grew the common tobacco. The fact of the business is that there are 5 or 6 or 7 grades of tobacco grown on the same stalk. We buy fine tobacco to put in the 10-cent cigarettes and we buy medium tobacco to put in the 10-cent cigarettes, and we buy common tobacco to put in the 10-cent cigarettes.

The CHAIRMAN. How many manufacturers are making the 10-cent cigarettes?

Mr. AXTON. The principal manufacturers making the 10-cent cigarettes are the Axton Fisher Tobacco Co. and Brown & Williamson.

The CHAIRMAN. What percentage of the 10-cent cigarettes that are made, are made by your organization?

Mr. AXTON. I would say 35 percent or more.

The CHAIRMAN. And by the Brown & Williamson Co.?

Mr. AXTON. I would think 40 percent or more.

The CHAIRMAN. Have you made profits?

Mr. AXTON. Yes, sir.

The CHAIRMAN. Would you mind furnishing to the committee the profits for 1931, 1932, and 1933? I may say that we are going to ask the same question of the other people.

Mr. AXTON. We can go back to 1931; yes.

The CHAIRMAN. 1931 to 1933.

Mr. AXTON. Yes, sir. Our profits last year were \$1,689,663.

The CHAIRMAN. On a capitalization of what?

Mr. AXTON. You are speaking of capital and surplus?

The CHAIRMAN. Yes.

Mr. AXTON. About six and a half million dollars. Or \$6,000,000, as near as I can recall those figures, and we owed at that time more than \$5,000,000 which must also be considered working capital

The CHAIRMAN. You have no figures for the Brown & Williamson Co., have you?

Mr. AXTON. No.

Senator McADOO. That was more than 25 percent, wasn't it, of profit?

Mr. AXTON. Yes, sir.

Senator McADOO. Do you mean after payment of taxes and everything else?

Mr. AXTON. After income tax and all.

Senator McADOO. And depreciation?

Mr. AXTON. Depreciation and all. That was available for dividends.

Senator COUZENS. That was over 10 percent of your capital?

Mr. AXTON. Nearer 20 or 25 percent.

Senator COUZENS. I understood you to say your capital was what?

Mr. AXTON. About \$6,000,000, or something like that, capital and surplus.

Senator COUZENS. And you made \$600,000?

Mr. AXTON. No. We made \$1,689,000.

The CHAIRMAN. Is this the way you get out your cigarettes [indicating]?

Mr. AXTON. We did put out that cigarette; yes, sir. We do now.

The CHAIRMAN. Do you put it out in that form?

Mr. AXTON. No; not the 10-cent package of cigarettes. That is an 8-cent package of cigarettes.

The CHAIRMAN. This is an 8-cent package?

Mr. AXTON. Yes, sir.

The CHAIRMAN. What was the object of putting them out in that form?

Mr. AXTON. In order to sell them at a price that would meet the consumers' demand, it was put out in the South, where they roll their own.

The CHAIRMAN. There was no object of preventing the Government from getting its required tax because of that subterfuge form?

Mr. AXTON. Senator, I will tell you about that package now, since it has been brought up.

Senator COUZENS. That package contains four blocks, doesn't it?

The CHAIRMAN. Yes.

Mr. AXTON. When that was presented to us, we took it to our attorney and asked him if there was anything to prevent us from getting that package of cigarettes out. He said, "No." After read-

ing the law. And there is nothing in the law to prevent it. We took it up with the collector of internal revenue in Louisville and they assured us that there was no restriction on that package of cigarettes.

Senator BARKLEY. Will you speak a little louder?

Mr. AXTON. I say, we took it up with the internal revenue department at Louisville, with the collector, and they assured us that there were no restrictions on the class B cigarette weighing over 3 pounds at \$7.20 a thousand.

The CHAIRMAN. On that construction, you had saved a great deal of money in taxes.

Mr. AXTON. Then we took it up with the revenue department and they assured us that there was no difference. When we got our package ready to present to the revenue department, we presented it before we put the package out, and they O.K.'d the package as coming within the legal package.

The CHAIRMAN. When was that?

Mr. AXTON. I think that was O.K.'d along in December.

The CHAIRMAN. Last year?

Mr. AXTON. Last year.

The CHAIRMAN. 1933?

Mr. AXTON. 1933. We have not made enough of them to amount to very much.

Senator COUZENS. Did it reduce the Government's revenue? It did, did it not?

Mr. AXTON. No; I do not think so. Our observation was that about 67 percent of that cigarette came from the roll-your-own, in fact, we made inquiries of the people by telegram, to 50 people, and they averaged up that 67 percent of the cigarettes that went into that package came from the roll-your-own, and the tax on the roll-your-own cigarette is 18 cents a pound, which would be \$1.62 on the amount that goes into that cigarette, whereas the tax on that is \$7.20 and 67 percent of that, according to the information that we got, came from the roll-your-own. I am sure the Government would be ahead on taxes of whatever we have sold of those cigarettes.

Senator BARKLEY. You mean that the tobacco that goes into the roll-your-own proposition pays 18 cents a pound?

Mr. AXTON. Eighteen cents a pound.

Senator BARKLEY. And that the amount of tobacco that has gone into a thousand cigarettes, that that will amount to \$1.62?

Mr. AXTON. Yes, sir.

Senator BARKLEY. Whereas on this package, the Government collects \$7.20?

Mr. AXTON. \$7.20.

Senator BARKLEY. Of the same quantity of tobacco.

Mr. AXTON. The same quantity of tobacco. And 67 percent of the consumers, so far as we were able to find out, of this cigarette, came from the roll-your-own.

Senator COUZENS. In other words, they discontinued rolling their own and purchased these?

Mr. AXTON. Yes, sir. So the Government was not hurt in revenue but benefited to that extent.

The CHAIRMAN. The committee must have been wrong. When this was presented to us, we put a provision in there to stop that. You have no objection to that provision?

Mr. AXTON. No, sir. We are not complaining at all. All we want to do—when you do that, is that we have some fear, based upon that ruling, that we could use up what we have got. We went into that in a prudent way. We first inquired of our attorney, then we asked the collector of internal revenue, then we asked the department here and they took it up and went over it with the attorneys in the revenue department, and they O.K.'d it.

Senator COUZENS. What did you have in mind when you devised that scheme?

Mr. AXTON. To be able to sell that cigarette for 8 cents a package.

Senator COUZENS. And pay less to the Government than the other packages paid.

Mr. AXTON. That is the kind of cigarettes that comes within the class A cigarette. It is a class A cigarette. That can be subdivided by cutting it. But we sell smoking tobacco too, and we furnish the paper with it, and they can be made into 20 cigarettes. It is a little more trouble to do one than the other, but they are both ways, they are done both ways.

Senator BARKLEY. As a matter of fact, as I understand regarding that packages of cigarette, you submitted it to the collector in Kentucky?

Mr. AXTON. Yes, sir.

Senator BARKLEY. And to the Internal Revenue Commission in Washington?

Mr. AXTON. Yes, sir.

Senator BARKLEY. And it was approved?

Mr. AXTON. Yes, sir.

Senator BARKLEY. And you started in and have begun the process of manufacturing that cigarette?

Mr. AXTON. Yes, sir.

Senator BARKLEY. And the new Secretary of the Treasury, after looking it over, disapproves of that and disagrees with the ruling heretofore made by the Bureau of Internal Revenue?

Mr. AXTON. Yes, sir.

Senator BARKLEY. The ruling has not been changed as yet, but probably will be.

Mr. AXTON. Yes, sir; they changed it yesterday. It came out yesterday.

Senator BARKLEY. Whether this bill carries any prohibition on that, the Secretary's ruling has already changed it?

Mr. AXTON. Yes, sir. We are not trying to quarrel with anybody on the matter. We did what any prudent man would do. We went through all the forms with the Government on one side, and we presented it—

Senator KING (interrupting). Have you any considerable stock on hand which would depreciate or could not be used if the ruling of the Secretary of the Treasury shall be continued?

Mr. AXTON. The Secretary of the Treasury and the Department of Internal Revenue in their ruling the other day said that we should be allowed to use up whatever materials we had on hand.

Senator BARKLEY. In view of the limitation of time and the fact that this is past history now, it seems to me that we ought to get on with the more vital part of this question.

The CHAIRMAN. I simply wanted your ideas on that. I was curious about it.

Mr. AXTON. Thank you very much. I do not want to impose upon your time—you have been very patient.

Now, when we come back, the benefit that the 10-cent cigarette is, that it produces more revenue for the Government, it produced many millions of dollars more for the farmer, because when you get real competition into the tobacco business, they do not only bid on one basket of tobacco, but they bid on nearly every basket of tobacco on the floor, and a little competition amounts to a great deal in buying tobacco. It amounts to very much more than you would have any idea.

We have not gone out to buy percentages, to buy just a certain restricted amount of tobacco, but when we were on the floor, there was real competition there. And the first time that I have seen very much. Also, it reduced the price of the package of cigarettes to the consumer, I would say, anyhow, 4 cents a package on an average, and my estimate is that it saved the consumer \$200,000,000 with which to buy other things.

Senator BARKLEY. What is the cost of making a 10-cent package of cigarettes?

Mr. AXTON. The cost to make a 10-cent package of cigarettes is just a fraction under 8 cents now.

Senator BARKLEY. Does that include the tax?

Mr. AXTON. That includes everything.

Senator BARKLEY. I am speaking of the manufacturer.

Mr. AXTON. Just a fraction under 2 cents.

Senator BARKLEY. A fraction under 2 cents?

Mr. AXTON. Yes.

Senator BARKLEY. Do you know what it costs to make a package of 15-cent cigarettes?

Mr. AXTON. I do not know, but it has no relation to the cost of the material, because the biggest average of burley tobacco in Kentucky—they are buying it on a 12-cent average, and it has averaged 10.76 up to now, and they are getting for their tobacco that goes into their cigarettes, 40 cents a pound more now than we are getting for ours.

Senator McADOO. What is the tax on a package of cigarettes that costs 2 cents to make?

Mr. AXTON. It is 6 cents a package.

Senator McADOO. Six cents, and it costs 2 cents.

Mr. AXTON. Yes, sir. And we sell them for 8.38.

Senator BARKLEY. To the jobber?

Mr. AXTON. Yes. That is net cash to us, 8.38.

Senator BARKLEY. You say the manufacturers of the 15-cent cigarettes get 40 cents a pound more for their cigarettes?

Mr. AXTON. Yes, sir. It takes 3 pounds of the farmer's weight of tobacco to produce a thousand cigarettes. Our cigarettes, exclusive of the tax, sell for \$1.19. Their cigarettes, exclusive of tax, sell for \$2.38, or just twice as much as ours. It takes 3 pounds of tobacco or a fraction less than 3 pounds of tobacco of the farmer's weight to make a thousand cigarettes, and 3 into \$1.20 will be 40 cents. I might be a little in error. I should have said 19.75—19%.

Senator BARKLEY. How much of an average do they pay more to the farmer for their tobacco than you pay, per pound?

Mr. AXTON. I don't know. When I see them buying it on the floor sometimes, I think that they don't pay any more, but when I

read their advertisements and hear their crooning and ballyhoo over the radio, that there is nothing but the very finest leaves, I wonder what becomes of the other stuff that they have been buying all the years. [Laughter.]

Senator McAdoo. What would you say was the cost to produce those 15-cent cigarettes?

Mr. Axton. I really do not want to give anything like accurate figures on their business. I would rather not talk about something that I am so confused about between what I see and what I hear.

Senator McAdoo. You do not object to giving an estimate? You have been in the business for 35 years.

Mr. Axton. Last year they sold their cigarettes at 9.7 cents a package, or \$4.85 a thousand net, and I think they made something like \$40,000,000 or \$50,000,000. The year before that—

Senator McAdoo (interrupting). I am talking about the price per package now without the advertising. What do you suppose it costs them to make a package of cigarettes? Your estimate?

Mr. Axton. I would say 8½ cents or something like that—8¼ or 8½. Maybe with the Turkish tobacco they put in it, it may cost them 9 cents or 8½ cents. From 8 to 9 cents. Something like that.

Senator McAdoo. Without the tax then, it costs them approximately 2½ to 3 cents a package—is that right?

Mr. Axton. Something like that. In the neighborhood of that.

Senator King. May I ask you a question?

Mr. Axton. Yes, sir.

Senator King. Is the difference in the price or prices between the commodity which you sell and the commodity sold by these people, these other companies, sufficient to warrant the difference—I am speaking of it intrinsically—between the prices at which you sell to the consumer?

Mr. Axton. I want to get that straight.

Senator King. Is their product so much better than yours as to warrant the difference in the price?

Mr. Axton. No, sir. No, sir. They get 40 cents more for theirs, and the tobacco that goes into theirs, they claim that it costs them 27 cents for all of it. No, indeed. They don't do anything like that.

Senator King. Is there a uniformity in the output so far as the quality is concerned of these large companies to which you have referred? That is to say, taking the companies, A, B, C, and D, is their output of substantially the same quality for each of those companies?

Mr. Axton. In my judgment there would not be very much difference except in the claims. I do not think there is very much difference between them and ours, except just in the claims that are made.

Senator McAdoo. I notice that some of these manufacturers advertise extensively the fact that their cigarettes are toasted. I am not a smoker of cigarettes and I do not know anything about it. I would just like to know if that adds very much to the cost of making the cigarette, this toasting of them, and what particular quality the toasting process imparts to the cigarette.

Mr. Axton. Well, I have always wondered how they had the nerve to talk about that. If you were to toast a tobacco in the plan that they would suggest that this tobacco is toasted—I have seen them showing pictures of frying eggs and toasting bread, and if you were to toast a tobacco in that plan, the threads of the tobacco would

disintegrate, and it would come out nothing but toast, and the same company now is showing around and having a salesman showing around how much longer the threads are and how much stronger they are than the others.

The CHAIRMAN. Mr. Axton, there are 12 minutes remaining on your side. I thought perhaps you would want to hear the other side so that you could perhaps answer their argument later.

Mr. AXTON. If I can have the opportunity to come back.

The CHAIRMAN. Your side has 12 minutes remaining.

Mr. AXTON. Then I will retire.

Senator COUZENS. Before you do that I would like to ask this. Where did the capital of your company come from?

Mr. AXTON. Mostly from earnings.

Senator COUZENS. Who owns your company? Are there a great many stockholders?

Mr. AXTON. There are some preferred stockholders on the outside, and there are some class A stockholders on the outside, and we have divided up among our employees, the inside people, a number of years ago, we have given them a chance to buy a lot of our class B stock. I own the control of the class B stock. My brother and I own a very large percentage of the controlling interest, probably 75 percent of the controlling vote in that business, but we have gotten our employees interested. We have kept our expenses down because we have given our employees the chance to get into our business and become identified with it, and we have made some of them independent in this time, and some of the others are working there not so much for large salaries as they are working for an interest in the business.

Senator COUZENS. Have you any foreign stockholders in your company there?

Mr. AXTON. None at all; no, sir. Not that I know of. Some foreign people might have bought some of our stock on the curb market that I do not know anything about. I have never seen anything of that.

The CHAIRMAN. Will you place in the record a statement of your 1931, 1932, and 1933 profits? And I would like to say to all of the companies represented that I want you to furnish to the stenographer that same data, so that we can know just what you are making, and get a bird's-eye view of it. You have 10 minutes remaining on your side.

Mr. AXTON. Thank you.

The CHAIRMAN. Judge Parker.

Mr. JUNIUS PARKER. Yes, sir.

The CHAIRMAN. Whom do you represent?

Mr. PARKER. I was about to state that.

STATEMENT OF JUNIUS PARKER, NEW YORK, N.Y., REPRESENTING THE AMERICAN TOBACCO CO., P. LORILLARD CO., R. J. REYNOLDS TOBACCO CO., LIGGETT & MYERS TOBACCO CO., AND OTHER TOBACCO COMPANIES

Mr. PARKER. I represent not only the four companies generally called the "Big Four", The American Tobacco Co., R. J. Reynolds Tobacco Co., Liggett & Myers Tobacco Co., and P. Lorillard—

Senator COUZENS (interrupting). Those are generally understood to be the trust?

Mr. PARKER. Well, it used to be.

Senator McADOO. You were charged with being a trust, at any rate.

Mr. PARKER. Yes, sir. But I represent also two other manufacturers who manufacture the cheaper cigarettes, one of them manufactures also the standard cigarettes, and I represent also about 16 tobacco and snuff manufacturers.

Now, lest there be some misunderstanding about this representation, and in order to justify my statement that I represent before this committee, this large group, I think I had better explain the situation. In January 1934 two companies—just two—Brown & Williamson and Axton Fisher, appeared before the House Ways and Means Committee and sought the establishment of this differential. The House Ways and Means Committee appointed a subcommittee of which Representative Vinson, of Kentucky, was chairman, generally known as the "Vinson subcommittee", with instructions to survey, have hearings, and report on all aspects of the tobacco taxes. That subcommittee announced hearings. A meeting of the manufacturers was called to consider the whole question that was to be presented before the Vinson subcommittee.

Those manufacturers met in New York—

Senator LA FOLLETTE (interrupting). Who called the meeting?

Mr. PARKER. The meeting was called by the Tobacco Merchants Association. The Tobacco Merchants Association is an association voluntarily formed, of substantially all tobacco manufacturers, substantially all cigar manufacturers, and it includes Brown & Williamson, Axton Fisher, and the so-called "Big Four." And its duties—

Senator LA FOLLETTE (interrupting). It is a trade association, in other words.

Mr. PARKER. It is a trade association. Nobody has ever suggested I think, Senator, that it has any relation to price maintenance, but it is an effective way of opposing state legislation imposing taxes on the sale of products—

Senator BARKLEY (interrupting). You say it is an effective way of opposing taxes? [Laughter.]

Mr. PARKER. Well, it has been fairly effective—not as effective as I would wish it. Not as effective I think as it ought to be, because I think these State taxes are very obnoxious things. It was under those auspices that the meeting was held. At this meeting there were passed two separate and definite resolutions by unanimous concurrence. Brown & Williamson and Axton Fisher, I should say, were not present at the meeting although they were invited. One was to seek a horizontal reduction of a substantial amount in all taxes on tobacco products, leaving out cigars, because the cigar situation is entirely different. We do not oppose reduction in cigar taxes. We did not understand that the Vinson committee was primarily for that purpose, although it was within the letter of its jurisdiction.

The second was that we were opposed to any differential. We were opposed to any differential on the basis of a consumer price applicable to any tobacco product. We have been having hearings before the Vinson subcommittee, and I spoke to what I am sure the committee at least deemed an interminable and tiresome extent. It concerned two matters, a horizontal reduction and a differential. I

do not feel justified in discussing before this committee anything other than the proposed differential.

You may ask, what interest these tobacco manufacturers, what interest these snuff manufacturers have in the question between these cigarette manufacturers? And the answer is very clear. This differential is a proposed differential between cigarettes that sell for 10 cents a package and cigarettes that sometimes sell for 12½ cents, sometimes sell for 11, sometimes sell for 13, and—

Senator KING (interrupting). All of the same quality?

Mr. PARKER. Well, they do not admit the quality is the same. I never heard anybody suggest that the 10-cent cigarette was as good quality as the standard cigarettes. If they are, why don't they raise the price to 11 cents? That would still give them a tremendous advantage over 12½ cents, which is the customary price for the standard cigarettes.

Senator KING. Are you objecting to a reduction in the price?

Mr. PARKER. Reduction in the price?

Senator KING. Yes.

Mr. PARKER. No, indeed. I am greatly in favor of such reduction in the tax as will permit all of the standard cigarettes to go to 10 cents. I think it would be an enormous benefit to the farmers in this country and the consumers of this country. I am likewise in favor of that because that would put the present cheaper cigarettes at 2 for 15 cents. That is quite all right. But the point I make here is that this is a differential that tobacco manufacturers recognize as one which, if it is once brought into the revenue bill on tobacco, will mean unworkability and destruction to the whole tobacco business, because if you were to differentiate between cigarettes selling for 10 cents, and cigarettes selling for 12 cents, then you can differentiate, and just as logically should differentiate, between the 5-cent package of tobacco and the 10-cent package of tobacco. You might just as well differentiate between the tobacco that sells 2 ounces for 10 cents, and the tobacco that sells at an ounce and a half for 10 cents; and therefore every intelligent tobacco manufacturer realizes keenly the utter destructiveness of this principle. I know of no better illustration that can be made, and some of the Senators have come to know it well, than the attitude of Mr. William T. Reed, of the Larus Bros. Co. He makes some cigarettes. They are all cheap cigarettes. He makes no standard cigarettes. He is a large and a prosperous manufacturer of tobacco, principally in Richmond, Va., and no man stands higher. He is violently and vehemently opposed to this differential, notwithstanding his only cigarettes are the cigarettes that would be the beneficiary of it. Because, in the first place, he has a mind that resents the unfair thing and the unsound thing even if it is to his own interest, and in the second place, he recognizes that the principle involved, once brought into the revenue laws with respect to tobacco, would be ruinous and destructive and unworkable to the whole tobacco business.

Senator BARKLEY. What percentage of his business is cigarette and what percentage is other tobacco?

Mr. PARKER. What percentage is cigarettes?

Senator BARKLEY. What percentage of his total tobacco business is involved in cigarettes?

Mr. PARKER. I think it is small. I do not see how people could with the accuracy which Colonel Axton indicates, figure as to the output of the 10-cent cigarettes, and where they lie. You can get your own production by your own books. You get your total production of cigarettes from the revenue figures, but there is no way of telling except by an estimate, as to what proportion of that is the 10-cent business. Colonel Axton has said glibly, 40 percent for Brown & Williamson and 35 percent for Axton Fisher, of the 10-cent cigarette business. That would mean 25 percent for the Continental and Larus Bros. I do not think he knows any more than I do how much their 10-cent cigarette business is. He knows his own output and he knows the total cigarette output, but he has no data as to what the total 10-cent cigarette output is. I think that Larus Bros.' 10-cent cigarette business is small, in comparison with their tobacco business, but they have no other cigarette business. I think that the Continental Tobacco Co., which I also represent—nobody has every accused it of being one of the Big Four—manufactures all grades of cigarettes, and it, too, has a 10-cent cigarette business, but it has other cigarette business, and very little tobacco business if any.

Senator BARKLEY. Your theory of Mr. Reed's opposition to this graduated tax on cigarettes is his fear that the same principle might be applied to his other tobacco business?

Mr. PARKER. That is one. And the other is that Mr. Reed has a mind which I greatly envy. He sees the destruction of the tobacco growers in this situation, and even if his selfish interests dictated otherwise, his mind sees an unsound thing. I think that is an intellectual characteristic which I greatly esteem, Senator.

Senator BARKLEY. Why does that possibility of destruction—and I am asking this purely for information as to your theory about it—apply to the tobacco business, when all theories of taxation, both in the State and National Governments, with few exceptions, are based upon the percentage basis of value? We tax bonds according to their value.

Mr. PARKER. Yes.

Senator BARKLEY. We tax the personal property, we tax stocks and bonds, we tax automobiles, we tax jewelry, we tax furs, we tax, outside of liquor and bank checks and a few others, the principle of a percentage tax goes all through the Government. I am anxious to know your theory and why that theory in tobacco would be so disastrous. I am purely asking for information.

Mr. PARKER. I quite understand. I think it is disastrous because it is a sales tax on a product. I think it would be disastrous and unworkable for a higher sales tax to be levied on gasoline that sold at 18 cents a gallon, if that is the right price and unit, as compared with gasoline that sold at 15 cents. I do not mind an income tax levied increasingly on the larger incomes. That does not disrupt business. I do not object to a farm tax based on value. That is the ordinary method, and that does not disrupt business, but I think the Internal Revenue Department itself would have great difficulty in administering an internal-revenue law if there was one tax on a tobacco that sold at 5 cents a package and another tax on tobacco that sold at 10 cents, or, stated otherwise—and that is only another method of cheapening it—if you have 2 ounces at 10 cents, you pay one rate of tax, and if you have 1½ ounces at 10 cents, you pay a higher rate of tax.

Senator BARKLEY. That is an administrative matter, that may worry the Treasury Department. I do not think that has any bearing on the destructibility of the tax on the industry. That is what I want to get your view on.

Mr. PARKER. Whether I can express it well or not, I do not see how a manufacturer can conduct his business with those sorts of taxes imposed which interfere with his changing his price, with his changing his packages, with his development of the business as the consumer demand requires.

Senator BAILEY. The tax on the basis of price would tend inevitably to drive every manufacturer to seek the means of making his package of cigarettes as low as possible and would therefore destroy the farmer, would it not?

Mr. PARKER. That is to me, and I think it is to every thoughtful person who tries to divest himself of selfish interests, the real point in this case.

Senator BARKLEY. That is what I would like to get. I am interested in him, the farmer, more than I am in all of your cigarette manufacturers combined.

Mr. PARKER. I know that. And I am enormously interested in him, too.

Senator BAILEY. Would not the effect of that system of taxation be that you induce every manufacturer to seek the means of selling a 5-cent package or a 3-cent package and, of course, at the expense of the price of the raw material?

Mr. PARKER. I think so. Here are two fundamental propositions involved in this case, to my mind, as affecting the tobacco grower. The proposition made with respect to this differential is that it would be a \$2.70 tax, and that the \$2.70 tax would be applicable only to cigarettes that go out at a net price of not more than \$1.40. That leaves to the manufacturer \$1.40 ex-tax for his cigarettes. A price of \$1.40 ex-tax is utterly incompatible with a fair price for leaf tobacco. You can go to any standard cigarette manufacturer, you can investigate his books, he uses some Turkish tobacco, yes; but there is a 35-cents a pound duty on Turkish tobacco, and therefore he uses just as little as is consistent with the popularity of his cigarettes, and he ought to use that much in order to help the consumption of cigarettes to the increase of the consumption of domestic-grown tobacco. You can go to anyone, eliminate all advertising, eliminate all officers' salaries, eliminate everything but the bare cost in an economically, well-equipped organization, and you come to a cost of over \$1.40. Where can the economy be effected save only in the reduction of the price paid for the leaf tobacco? That is proposition no. 1.

Proposition no. 2 is this: If the quality of these cigarettes is anything like Colonel Axton claims, and I, too, discount advertising claims whether they are made in the newspapers or over the radio where the committee hear them—discount if you please that quality, if it is anything approaching that—and this cigarette differential is put in effect by new manufacturers or old manufacturers putting out new brands or old manufacturers changing the formula of the old brands, you drive the business of this country to a 10-cent cigarette. You inevitably drive it to a 10-cent cigarette. It fits in the king's chair so far as the currency system of this country is concerned, and with anything like the quality that is claimed for these cigarettes, and they

can be duplicated by others. There is no monopoly in Brown & Williamson and Axton Fisher in the processes of manufacture or in the economics of manufacture—if you put these cigarettes into the king's chair and sell them at that price, the only cigarette selling would be those at 10 cents a package, the single unit which is tremendous in its pulling power as compared to the double coin. When you talk about their going to an 11-cent price, they talk about it as if it was the destruction of their business. And yet they say they have a high-quality product. What is it? It is the pulling power of 10 cents as compared to 12 or 12½ or 13 cents. You establish by your taxing system and your rate structure, that condition—it is not a threat that I bring from anybody. I do not come from the conference with anything of that sort. I state it as an economic and trade fact, that as certainly as the sun will rise tomorrow, that you drive, and rapidly in my judgment, but certainly inevitably, the cigarette business into the 10-cent class, and that means an utter impossibility. Eliminate all of your advertising, eliminate your salaries to officers, and if you eliminate advertising, you are going to stop the growth of the cigarette business.

Senator KING. Would that be a great evil?

Mr. PARKER. It would be a great evil to the tobacco farmers. If you want to question the social value, that is another thing. It will be a great evil to the tobacco farmers.

Senator McADOO. It would be a great evil to the amount of revenue to the Government.

Mr. PARKER. It would, indeed.

Senator KING. I do not want to interrupt the continuity of your thought, but do you say that it would be improper to establish a differential based upon quality?

Mr. PARKER. Based upon quality?

Senator KING. Based upon quality and price.

Mr. PARKER. There is no suggestion of this being based upon quality. The quality is too indefinite. It must be based upon consumer price. If you have consumer prices so radically different that the rich buy one and the poor buy another——

Senator KING (interrupting). Is that not true as to cigars?

Mr. PARKER. Now, that has been thought to be somewhat true as to cigars, and a differential was established in favor of the 5-cent cigar, and when that differential was established, the 5-cent cigar had 27 percent of the business, and today it has 86 percent of the business. That was established on the theory that it was the moneyed classes that smoked the 10-, the 15-, and the 25-, and the 30-cent cigars, but can anybody tell me that it is the aristocrats of this country, the men rolling in wealth in this country, that smoke Camels and Lucky Strikes and Chesterfield and Old Golds? From my point of view, as I have seen it, I know of nothing more democratic—and I do not use that word in any partisan sense—I know of nothing more democratic than the consumption of these brands of cigarettes, and it is utterly absurd to me when I see pictures that are put out in the papers, and propaganda that the poor man is having to pay as much as the rich man, and the rich man, forsooth, is the smoker of the Lucky Strike, a Camel, a Chesterfield, or an Old Gold.

Senator KING. May I ask you a question here?

Mr. PARKER. Yes, sir; certainly.

Senator KING. Have the Big Four been as considerate of the producers, the farmers that produce the tobacco, in view of their enormous reported incomes, as they should have been?

Mr. PARKER. Now that, Senator, I have to answer—I cannot answer in a word, and yet I do not want to make a question be the basis of a speech.

Senator KING. If you do not deem it pertinent to the inquiry, you need not answer.

Mr. PARKER. I do not mind the inquiry. I do not want to leave the impression that I am using a question as the basis of making a speech, because I do not think that makes a good impression, whether a witness is on the stand, or an advocate before a court.

Senator KING. We are accustomed to speeches, so please proceed. You have your limit of your time.

Mr. PARKER. That is the trouble. That is one trouble. [Laughter.] The point is this. If you ask me if the Big Four have cooperated in active measures for the relief of this situation, in trying to work it out with the farmers, I think they have not gone as far as I would like them to go. I think that Mr. Hutson of the Agricultural Department, and everybody, will tell you that in working out these voluntary marketing agreements, there has been the greatest cooperation from every one of the so-called "Big Four", but I do not think so far as the initiation of—

Senator BARKLEY (interposing). Would you make that same statement as far as the growers' part of the agreement is concerned?

Mr. PARKER. Yes, sir.

Senator BARKLEY. Let me ask you then, in that connection—I sat in on some of the conferences—

Mr. PARKER (interposing). I heard you did.

Senator BARKLEY. Attempting to arrive at a fair price for tobacco, the result of which was that the so-called "Big Four" agreed to buy and to pay for two-hundred-and-sixty-odd millions of pounds of tobacco, a minimum of an average of 12 cents a pound. Two or three other companies agreed on a smaller minimum—Brown & Williamson & Co. and the Continental and one or two others. I believe Axton-Fisher did not go into the agreement.

Mr. PARKER. Yes; they did.

Senator BARKLEY. Well, regardless of that, I had a feed basketful of letters from farmers in my State claiming that while the so-called "Big Four" and others agreed on a minimum of 12 cents a pound, that they had gone into the market and paid either 12 cents or less for the best qualities of tobacco, that they had skimmed the top grades at the minimum price, and had left the poorer grades either as a surplus to be taken over by the Government or for which the farmer had to find a market, or those representing him, wherever he could. Do you know whether that is true or not?

Mr. PARKER. I do not think it is, Senator.

Senator BARKLEY. If it is true, does that show any indication of their solicitude for the grower?

Mr. PARKER. No, sir; it shows the opposite. If they violated their agreement, it shows the opposite and they ought to be condemned for it.

Senator BARKLEY. I am not making that change, but I am telling you the complaints that come to me from growers in my State.

Mr. PARKER. I understand how that statement could be made. These American companies did not enter into an agreement in precisely the form that you speak of. Each of these companies, of these American companies, including the United States Tobacco Co., all of the large domestic users of burley tobacco—it was a different agreement, so far as the other grade was concerned—each company agreed that it would buy as much burley tobacco as it had used in a base year preceding.

Senator BARKLEY. That was about 260 million pounds.

Mr. BARKER. I think it aggregated 260 million. Axton-Fisher, for reasons which I have no doubt appealed to them, would not sign that agreement, but limited their purchases to 1,250,000 pounds. I mean their compulsory purchases. Each one of them agreed to buy of his grades in accordance with his normal demands, and requirements, the normal requirements and demands of the manufacturer. Each of them agreed by the way not to pay 12 cents, but if at the end of the season he had not paid 12 cents, to make good that amount. The normal requirements of the manufacturers vary with the growth and with the decrease in brands. For instance, I will use the name of one company because they are large users of burley tobacco in various lines, I will take the Reynolds Tobacco Co. If Camel cigarettes have grown, and Prince Albert tobacco has diminished, then their needs are more for the higher grades that go into the Camel cigarettes than for the lower grades that go into Prince Albert.

The American Tobacco Co. with its Lucky Strike business, if that has grown, and if its Bull Durham business has gone down, then it needs more of its Lucky Strike high-grade than of its Bull Durham low-grade.

If it can be shown that any one of these companies has violated in letter or in spirit, that agreement, I should be the first to condemn them, and I will not defend them.

Senator BARKLEY. Understand, I am not making the charge; I am telling you what has been conveyed to me in these communications.

Mr. PARKER. There is a vast deal, I am told, Senator Barkley, of this burley crop that is very good, but there is a vast deal of it that cannot be used in any of the cigarettes made by these gentlemen. It cannot be used. It is unworkable, incapable of use in some of the high grade smoking tobaccos, like Velvet and Prince Albert and Tuxedo. Some of it may be used in Granger, but I have not heard any convincing evidence and I would be slow to believe it without convincing evidence, that any of these companies has operated in violation of the letter and spirit of that agreement.

Senator BARKLEY. Of course, it was not contemplated that anybody would be compelled to buy unusable tobacco.

Mr. PARKER. No.

Senator BARKLEY. The complaints that have come to me are that instead of buying the normal average of quality used by these companies, that they have gone on the floors and centered on the high qualities of tobacco.

Mr. PARKER. I can see that there might be a selfish temptation to do that. But it would be a very serious thing for them to do, and it would take more than rumors—

Senator BARKLEY (interposing): It would go a long way toward discounting their generous attitude toward the grower. I do not

make the charge, but I do call attention to it, because I have received numerous complaints to that effect.

Mr. PARKER. I have seen it in the papers, that there is complaint. I think it is the natural complaint of farmers who are disappointed, and they perhaps see low grades going very low, and that brings down their average, and realizing what these contracts are, they can well imagine that the large buyers are centering on the higher grades.

If they are acting contrary to the letter and spirit of that contract, I condemn them.

Senator BAILEY. Isn't it a fact that the average price of cigarette tobacco produced in North Carolina, which is the greatest producing State of the tobacco which makes up the cigarettes in a very large degree, averages above 16 cents this past year, and does that fact not negative the theory proposed here?

Senator BARKLEY. That is a different contract.

Mr. PARKER. Yes, sir, that is a different contract.

Senator BAILEY. We can get the analogy. The contract in North Carolina was 17, and the average price was 16. Of course that indicates that somebody paid a great deal more than 17 cents for tobacco, because there are low grades on the one side and high grades on the other, and the 16 and a fraction is in the middle. Does that not indicate that there was a great deal more than 17 cents paid for tobacco?

Mr. PARKER. It indicates this, Senator, definitely, and what I have said heretofore. The highest grade of flue-cured tobacco is the tobacco that goes into standard cigarettes. If you have an average in North Carolina of 16 cents a pound, that means that the tobacco that goes into Lucky Strike, Chesterfield, and Old Gold—I am not going to distinguish between them, because of their claims in their advertising, but the tobacco that goes into them as a group costs at least 25 cents.

Senator BARKLEY. Of course you would have a contract under your flue-cured agreement of 17 cents, and if you paid an average of 16—

Senator BAILEY (interposing). They did not pay an average of 16. The whole market average was 16.

Mr. PARKER. Senator, if I may say so, realizing as I do the difference between the condition of the crops, the flue-cured agreement was more fortunate for the farmers, as I see it, than the burley agreement. The flue-cured agreement was that these large American companies, and the small ones too, would go on and buy just as much as they used last year without reference to their stocks or need, that they would buy in their orderly way and for their orderly needs, and if at the end of the season the group purchases had not averaged 17 cents a pound, then they would bear an assessment on a percentage basis, reports being made to the Agriculture Department, to raise the average of these group purchases to 17 cents. The effect of that was that each individual was under an individual duty, so far as the market was concerned, only to buy what he used last year. He was under no duty as to any particular price. The fact is, that although a large part of the demand for flue-cured tobacco was for foreign requirements—not covered by the marketing agreement, the very existence of this marketing agreement lifted the market price until what Senator Bailey has said was the whole market average.

Senator BARKLEY. The point that I started to make, and it does not apply only to flue-cured, but to burley as well, is that if you have

an average of 16 or 17 cents, or whatever it may be, and some of it brought 25 and 30, the indications of course are inevitably that a great deal brought less than 16 to make that average. If we have an average of 12, some may have brought 15 and some 20, and some 25, and some way down to 5 and 4, perhaps.

Mr. PARKER. That is right.

Senator BARKLEY. So that the average that we were seeking to obtain was a minimum of 12.

Mr. PARKER. That is right.

Senator BARKLEY. And according to the contract, if it does not amount to that, the companies agree to make up the difference to make it a minimum of 12 by other methods——

Mr. PARKER (interrupting). The only question in this contract is

Senator BARKLEY (interrupting). I do not want to get too much into that on the cigarette basis. But I suppose that you have already observed from the tenor of my questions and my manner that I am concerned about the farmer getting the highest price possible out of his crop, and I know and we all know in my State that heretofore the farmer, the producer of this tobacco, has to fight every inch of the way with all of these companies in order to get a decent price, and when there has been less competition in the market, the price has gone down; and when there is more competition, the price has come up.

Mr. PARKER. I have always known of your interest in tobacco, of course, Senator Barkley. But let us remember this, that even with the competition that existed, and even with the prices that obtained, low as they were, there is an enormous over-production in burley tobacco today.

Senator BARKLEY. That is questionable.

Mr. PARKER. I said in this interminable and tiresome argument that I made the day before yesterday, that I do not believe that there is permanent help for the farmer unless there is something to bring correspondence between production and demand, but I think the farmer would be enormously benefited by an increased demand.

Senator BARKLEY. Oh, yes; I will say, and I am going to put it into the record here, that I have for the last 6 years been introducing a bill for a horizontal 50 percent reduction in taxes.

Mr. PARKER. There is one pending now.

Senator BARKLEY. In this committee. The condition of the Treasury has been such that we have not been able to make any headway to date. I still am optimistic that we may. But in connection with the enormous surplus to which you refer, I think you are wrong about this, but I have been informed that very fortunately the surplus of the 1933 crop is not going to be as large as was anticipated.

Mr. PARKER. I am delighted to hear it, because that will of course make for a better price.

Senator BARKLEY. I hope that is true.

Senator KING. I think I had better suggest to you that you have only 19 minutes.

Senator BAILEY. Is it not true with respect to the matter of price, with respect to the grades, that the bottom leaves of tobacco always sell low, because they are low grade?

Mr. PARKER. Yes; Senator Bailey, Colonel Axton was quite right. Every farmer and plant produces different types of tobacco, and almost every manufacturer buys different types.

Senator BAILEY. Is there not another big difference in the curing? One man knows how to cure tobacco, and another man does not.

Mr. PARKER. I assume that is true, but I am presuming that your North Carolina farmers have all learned to cure tobacco.

Senator BARKLEY. I hope that is no reflection on the curing quality of Kentucky.

Mr. PARKER. No; but I happen to have been born in North Carolina.

Senator BAILEY. While they know a good deal about it, there is always a great deal of difference between one man and another in the curing of tobacco.

Senator KING. As well as in curing hams.

Mr. PARKER. I am nearly through with my presentation, because there are just these two questions. Everybody knows that the standard cigarettes use the highest type of tobacco, whether it be flue-cured or burley. Nobody can tell except the Liggett & Myers people, for instance, what goes into Chesterfield cigarettes, because they buy some of the highest grades for Chesterfield, they buy some of the lower grades for Velvet, they buy some still lower for Granger, they buy some still lower for plug. You must have a tobacco-tax structure that protects the farmer in his profits as a unit, and that was one reason that we urged upon you, I mean, urged upon the committee, a horizontal reduction in taxes, including all forms of tobacco; the high grades in North Carolina and in the burley, and that which goes into the standard grades. It is impossible for me to believe that a cigarette that is free to go into an 11-cent class, and that is all they have to do under the present conditions, is in danger of destruction, for they can adjust themselves by simply advancing to 11 cents. When companies are afraid to do that, you need not tell me that they use types of tobacco that are used in Chesterfield, Lucky Strikes, Camel, and Old Gold. They cannot do it. Those types of tobacco, Senator Barkley, I speak to you and to Senator Bailey, because I think you are both intensely interested in the tobacco-farmer situation, and I think Senator George is, and I think Senator Byrd is, if you cut off the demand for these higher grades, you may increase temporarily the demand for lower grades, with the growth of the 10-cent cigarettes, but very soon the higher grades will go to that, and who will buy at 10 cents a 10-cent tobacco when he can get for 10 cents what had been a 20-cent tobacco? And thus you reduce the whole price level. That is the effect that I see.

Senator BAILEY. That is, that the differential that is proposed would tend inevitably to reduce the farmer's price, but a horizontal cut would tend to increase it inevitably. Isn't that it?

Mr. PARKER. That is the whole story. I am not talking about a horizontal-tax reduction, because I did not know that this committee is considering it.

Senator BARKLEY. In view of what happened a day or two ago, we may have to consider some horizontal raises.

Mr. PARKER. Please do not.

Senator BARKLEY. Not on tobacco, I would say, however. [Laughter.]

Mr. PARKER. I have already appeared twice.

Senator BARKLEY. Is Colonel Axton correct in stating that on the average 3 pounds of tobacco goes into 1,000 cigarettes?

Mr. PARKER. Yes; you see, the revenue law limits it. There is always a differential. In order to enjoy a \$3 tax, the size of the cigarette is limited to 3 pounds.

Senator BARKLEY. Here is what I want to get at. Assuming that that is true, that 3 pounds of the 16-cent tobacco goes into the product of the sales of the product, that sells at \$7.50 and 15 cents a package.

Mr. PARKER. Of course, Senator, there you make a mistake. I do not quite see a 15-cent cigarette. They have never sold a 15-cent cigarette. They sell anywhere from 15 cents to 10.

Senator BARKLEY. I have some smokers in my family, and they all pay 15 cents.

Mr. PARKER. That is because of the community they buy in, but they do not, here in Washington.

Senator BARKLEY. I want to take this 15-cent cigarette as an illustration, assuming that the average price of tobacco to the farmer is 16 cents.

Mr. PARKER. It is more. It ought to be more.

Senator BARKLEY. It is 16 cents up to date in your State.

Mr. PARKER. No; Senator Bailey has just said that the average of North Carolina is 16 cents, and I say that if the average is 16 cents in North Carolina, the average we pay is 25 cents.

Senator BAILEY. I will say for Senator Barkley's information that that takes in 60 percent of our acreage which goes abroad.

Mr. PARKER. And it takes in the tobacco that goes into Bull Durham.

Senator BARKLEY. What would be the average price to the farmer of your tobacco?

Mr. PARKER. I should judge from 24 to 30 cents.

Senator BARKLEY. Well, take 25. Then 75 cents is the price that the farmer gets for a product that the public pays \$7.50 for. If you take the tax all off on \$3, that leaves \$4.50 outside of the tax that the public pays for a product which the grower got 75 cents for, so that there is a difference of \$3.75 between what the farmer got for 3 pounds of tobacco and what the manufacturer gets for it.

Mr. PARKER. No; what the consumer pays.

Senator BARKLEY. Yes; what the consumer pays. What I am interested in is finding some way by which the farmer can get more of that \$3.75 or that \$4.50, whichever it is, that the public pays for this product, other than the 75 cents if it is a 25-cent average, or in the case of Kentucky burley, 36 cents, if it is a 12-cent average, or 48 cents if it is a 16-cent average. That is what I am interested in. If the whole tax were taken off, and no tax at all were on cigarettes, what assurance have we that there will be a greater division to the farmer who produces the tobacco, than the 36 or 48 cents that he gets for his work, 13 months out of every 12, and the \$4.50 which the public pays when it goes to a drug store or a grocery store or anywhere else and buys these cigarettes?

Mr. PARKER. If you want me to give you a practical and truthful answer, the problem is difficult for me to solve. I am not going to take the position that if you reduce this tax, that these manufacturers are going out and make a donation to the farmer. Tobacco is sold at auction. I know of no way of buying tobacco except to the highest bidder.

Senator BAILEY. If the price should be reduced, as is suggested, on a horizontal basis, it would broaden the market.

Mr. PARKER. Enormously.

Senator BAILEY. And therefore the surplus would be consumed, and therefore it would tend to raise the price.

Mr. PARKER. If you could figure a way—and I am not going to argue this, Senator Barkley—

Senator BARKLEY (interposing). I am just trying to get information.

Mr. PARKER. If you could see your way to bring about a 10-cent price on the standard grades, it would enormously increase the demand for tobacco, and it would enormously increase the demand for the higher grades of tobacco, because it would lift a great deal of the roll-your-own, which I do not say has been lifted by the 10-cent cigarette as it is at the present time. I do not think the public likes the 10-cent cigarette as well as Colonel Axton likes it. If you had the standard cigarettes at 10 cents, and the cheap cigarettes at 7½ cents, you would lift a vast deal of this granulated tobacco, which is a lower grade, into the higher grade. You would increase the demand for the higher grades, and you would do a great deal to work up and increase the demand which is to me essential to work out a higher price for the supply.

Senator BARKLEY. Would a process of that sort help to guarantee the farmer getting some of the benefits of these enormous bonuses that have been paid the high officers of some of the tobacco companies?

MR. PARKER. Well, now, Senator, I am not embarrassed by the matter of bonuses—

Senator BARKLEY (interposing). I am not seeking to embarrass you, but when we consider the deplorable plight of the grower of tobacco, and consider that in the same year when that price existed, the president of one company gets \$1,600,000 as a bonus for services to that company, it is difficult to explain that situation to a man who has bent his back in the sun to produce that tobacco.

Mr. PARKER. Of course that is an engagement between the owner of the business and the management.

Senator BARKLEY. You are not responsible for that.

Mr. PARKER. Of course I know about it. That was an engagement between the owners of the business, the stockholders and the management, whom they employed. I do not think it makes much difference to the Kentucky tobacco farmers, whether that money was paid to the management or distributed to stockholders. I do not think it makes much difference whether they are dealing with the 50 percent on the actual capital or the 35 percent on the capital and surplus of Axton & Fisher. I do not think it is of much interest to the tobacco farmers that Colonel Axton who got more than anybody else in the way of return, last year—

Senator COSTIGAN (interposing). You concede it is of interest to the stockholders?

Senator BAILEY. You say Colonel Axton made more than anybody else in the United States?

Mr. PARKER. That is as I read the account.

Senator BARKLEY. I am not interested in what he made.

Senator BAILEY. You are interested in what the American Tobacco Co. people made. Why are you not interested in what he made?

Senator BARKLEY. I don't know what anybody got, but I do know what Mr. Hill got. There is a record made by the Federal Trade Commissioner, giving the entire list. I do not happen to know them all. I am making no distinction between any bonus receiver. What I am interested in, is to know just how far to discount the interest of any manufacturer, the producer, when it has been guilty, and any of them, or all of them together, of driving the price to the producer as low as possible, and out of that product that he buys at that low price, he has obtained for himself \$1,600,000 or \$1,000,000 or \$500,000 or \$100,000.

Mr. PARKER. It makes little difference to the tobacco farmer, whether it is paid out that way or distributed as dividends to the stockholders.

Senator BARKLEY. It makes little difference to the tobacco farmer, but it sounds better if it went to the stockholders than if one man got it all. That is not a matter that the farmer can control, but it does arouse a spirit that ought not to be encouraged. It ought not to be necessary for the people who grow tobacco to feel that way about those who buy from them.

Mr. PARKER. I quite understand it, and I quite understand the human nature that is involved in it. Of course this bonus matter would involve a considerable discussion. I have my own theory of the bonus matter. I do not approve of it in its entirety, I do not like it as much as stock ownership, but it is to be remembered that it is paid to management, which goes up when the profits increase, and it goes down when the profits diminish, and that bonus, I am told, for the whole American Tobacco people this year, aggregated less than \$40,000.

The CHAIRMAN. I voice the sentiments of the Senator from Kentucky, that there is a tremendous sentiment against bonuses.

Mr. PARKER. I do not like bonuses as well as I do stock ownership, and possibly I do not like it because of the interest of the officers themselves—for the poor fellow who got a bonus of \$1,000,000 for his 1932 work, and has to pay a tax on it in 1933, has got \$650,000 to pay in income tax, whereas the man who owns the principal income, or his principal increment from his stock interest, as Colonel Axton does, can let it accumulate there for the benefit of this stock without having to pay income tax on it.

Senator BARKLEY. Which is another indirect tax going into the Treasury, wrung out of tobacco, in addition to the \$450,000,000 collected on tobacco.

The CHAIRMAN. Judge Parker, your time is up.

Mr. PARKER. I think it is. I have presented the two propositions I wanted to present.

The CHAIRMAN. I understand that you presented this matter to the House Committee.

Mr. PARKER. I ask leave to file something additional.

Senator BARKLEY. All of these companies have been requested to file their financial statements.

Mr. PARKER. I happen to have a statement of the earnings for 1933, but I have not those for 1932 and 1931.

The CHAIRMAN. If you will get those up and have the other companies which you represent give them to us, and send them in, so that we can put them in the record, it will assist the committee.

UNITED STATES TARIFF DUTY COLLECTED ON IMPORTED PRODUCTS, BY CALENDAR YEAR

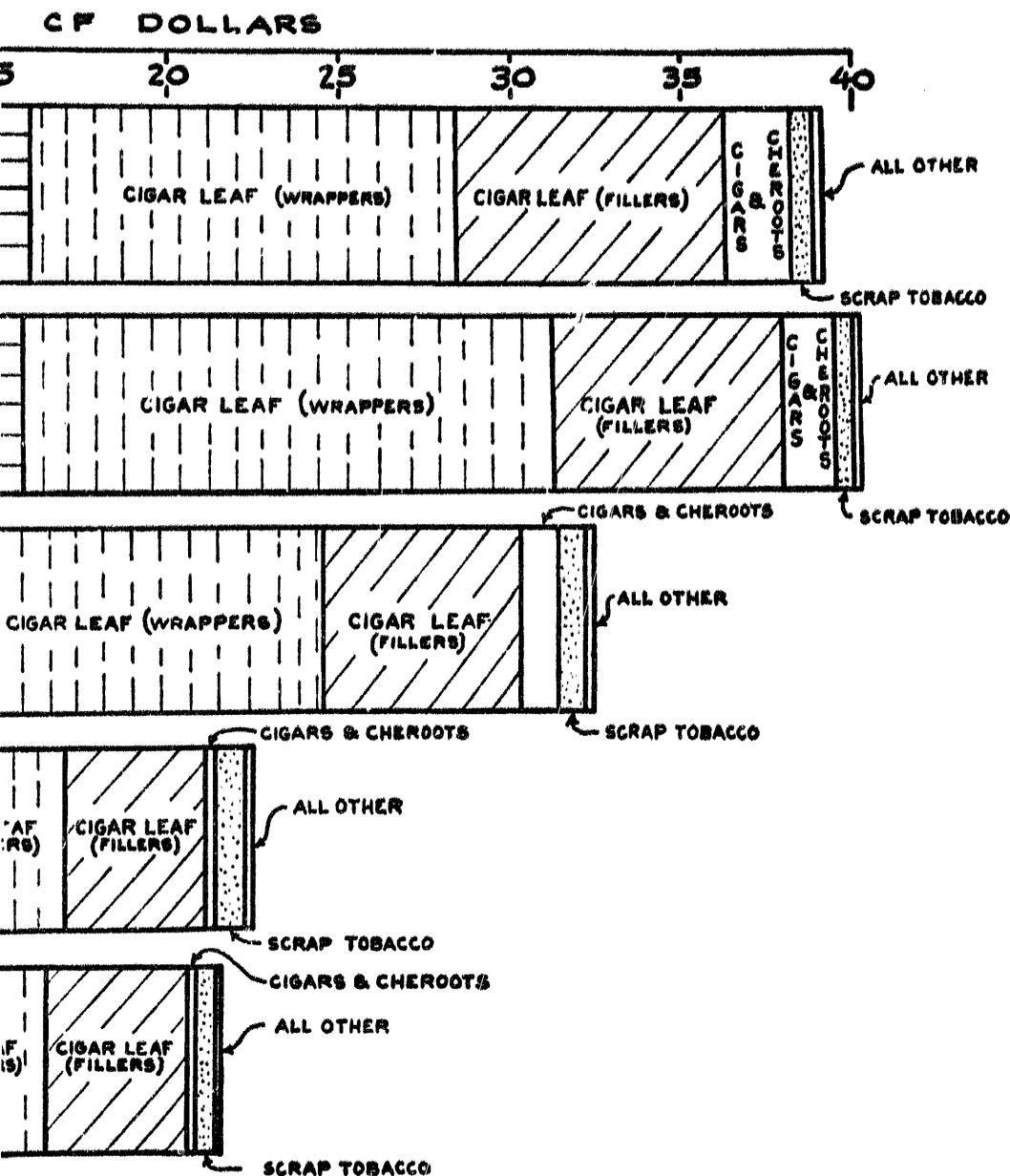
		MILLIONS OF DOLLARS			
		0	5	10	15
<u>1929</u>	CIGARETTE LEAF (UNSTEMMED)				
<u>1930</u>	CIGARETTE LEAF (UNSTEMMED)				
<u>1931</u>	CIGARETTE LEAF (UNSTEMMED)				CIGAR LEAF (WRAPPERS)
<u>1932</u>	CIGARETTE LEAF (UNSTEMMED)				CIGAR LEAF (WRAPPERS)
<u>1933</u>	CIGARETTE LEAF (UNSTEMMED)				CIGAR LEAF (WRAPPERS)

Source: Foreign Commerce and Navigation of the United States.

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TRIFF COMMISSION

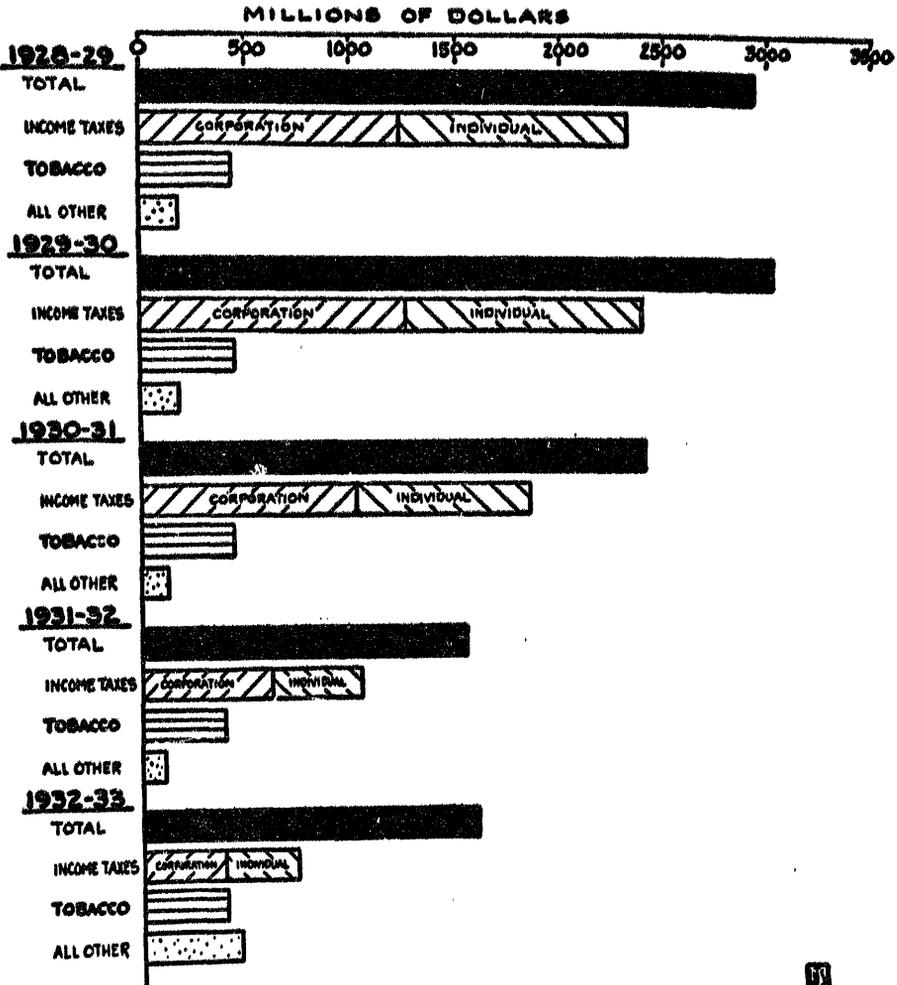
PORTS OF TOBACCO AND TOBACCO UNDER YEARS, 1929-1933.



Senator BARKLEY. May I ask somebody who appeared before the House committee—I have here several charts from the Tariff Commission of the comparative collections from internal revenue on tobacco, and all other internal-revenue taxes. Did anybody put that in the record of the House hearing?

Mr. PARKER. I cannot tell you that.

**UNITED STATES TARIFF COMMISSION
UNITED STATES RECEIPTS OF INTERNAL REVENUE BY
PRINCIPAL SOURCES, FISCAL YEARS, 1928-29 TO 1932-33.**



SOURCE: Reports of Commissioner of Internal Revenue.

Senator BARKLEY. I would like to place in the record several papers that we received from the Tariff Commission with reference to the tobacco taxes as compared to all other internal-revenue taxes.

Mr. PARKER. Are you through, Senator?

Senator BARKLEY. Yes.

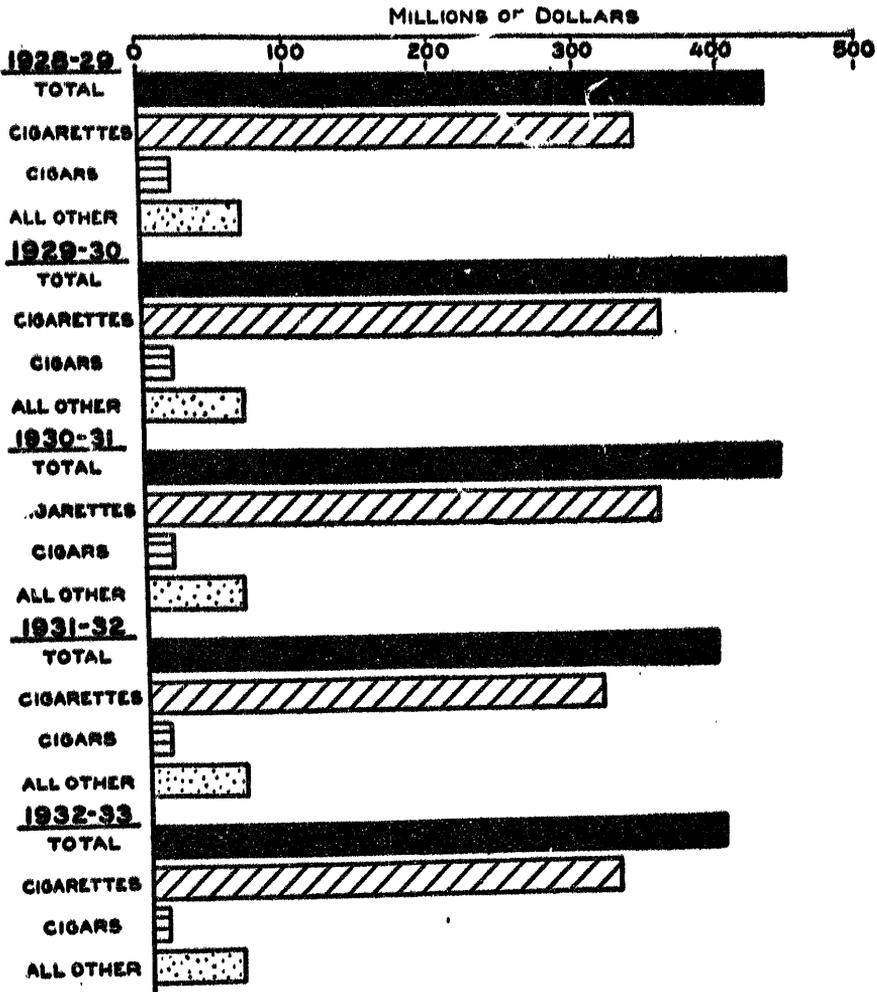
Mr. PARKER. Let me ask you a question lest there be misunderstanding. The folks that I represent that publish statements are The American Tobacco Co., Liggett & Meyers Tobacco Co., R. J.

Reynolds Tobacco Co., P. Lorillard Co., American Snuff Co., George W. Helme Co., and United States Tobacco Co. I do not think any of the other companies I represent publish statements.

The CHAIRMAN. Furnish them to us or have them furnished to us for the information of the committee.

Mr. PARKER. You mean these six?

UNITED STATES TARIFF COMMISSION
INTERNAL REVENUE ON TOBACCO MANUFACTURES
BY PRINCIPAL CLASSES, FISCAL YEARS 1928-29 TO 1932-33.



Source: Reports of Commissioner of Internal Revenue.

Senator BARKLEY. They know what they made, even if they do not publish them.

Mr. PARKER. Take Larus Bros. Co. That is a family owned company. I do not know that they publish a statement.

The CHAIRMAN. They can tell us how much the profits were that they made. That is what we want to know on this proposition.

Mr. PARKER. I thought you would be satisfied, perhaps, with the 6 or 7 companies which include all of the Big Four.

The CHAIRMAN. Any that you represent, if they will be kind enough to give it to us, we will be glad to have it.

Senator BARKLEY. Any that have an available account from which they can obtain a statement of their profits.

Mr. PARKER. Thank you very much.

Senator COUZENS. I would like to ask Mr. Parker what effect he thinks it would have on consumption if we raised this \$3 tax 100 percent to help pay these veterans and Government employees that we approved the other day?

Mr. PARKER. You mean raise the taxes how much?

Senator COUZENS. A hundred percent on the \$3 rate. How much would that affect consumption?

Mr. PARKER. I declare I don't know, Senator. All of this tax structure is quite technical.

Senator BARKLEY. I think the time of the gentleman has expired, Senator. [Laughter.]

Mr. PARKER. Well, Senator, you found us somewhat separated before, but you will find us united on that proposition.

Senator KING. The committee may very seriously consider the increasing of the tax, in view of the demands of the Treasury.

Mr. PARKER. The difficulty about the business is what your packages are going to be. You put 20 percent additional—

Senator COUZENS (interposing). You could get by with your 15-cent package there—based on the profits you have made. On that basis, I think you could.

Mr. PARKER. I do not think we could.

The CHAIRMAN. Thank you very much. Now, Mr. Axton, you have 10 minutes more.

Mr. PARKER. May I say one more word? Being encouraged, I will say by questions—

The CHAIRMAN. This last question, you mean? [Laughter.]

Mr. PARKER. No; certainly not. Being encouraged by all of the questions before, and discouraged by Senator Couzens' question I have taken up all of my time, and there are some farmers here who I think would like to say something, because they know what would be the effect.

The CHAIRMAN. I will tell you, Mr. Parker. I do not know how the committee feels. We will take that up later; but it seems to me that it is such a controversial proposition, that we cannot deal with it in this revenue bill. That is the way it appears to me. It ought to come up in a separate bill, since the House is considering it. I thought we had an easy nut to crack when the Secretary of the Treasury came down and made this recommendation, but I find it is not any easy nut to crack, at all.

Senator COUZENS. Not easy with me, at least.

The CHAIRMAN. Mr. Axton?

FURTHER STATEMENT OF WOOD F. AXTON, AXTON-FISHER TOBACCO CO., LOUISVILLE, KY.

Mr. AXTON. I just want to correct the statement that I was the largest paid executive. My salary last year was \$10,000.

Senator BAILEY. That is not what he stated. He said your reward.

Mr. AXTON. My income, he said.

Senator BAILEY. Let us hear about that.

Mr. AXTON. He said that I was the largest paid executive of anybody.

Senator BAILEY. He said you made more money. Since you have come to rebut that, tell us how much you have made last year?

Mr. AXTON. I got less than \$90,000 in dividends. I got \$1,500 bonus.

Senator BAILEY. What was carried to surplus to the interest of stock?

Mr. AXTON. Even that is less than these salaries of these officers of the other companies, which have been much reduced, and if they held anything like in proportion of the stock that an officer generally holds, their income was far above mine.

Senator BAILEY. That does not answer the question.

Mr. AXTON. But I am not ashamed of my income. I have been working for it for a long time.

Senator BAILEY. Will you tell us?

Mr. AXTON. The way we can make a 10-cent cigarette is by keeping our salaries and bonuses in moderate balance. The other people who get a bonus in our plant get the same bonus as I do, and that applies to at least one third of them or more. Possibly one third of the employees get a bonus.

The CHAIRMAN. Mr. Axton, may I ask you—

Senator BAILEY. I want an answer to my question. I do not intend to be diverted. He volunteered here, and he undertook to tell us that he was paid \$10,000 in salary.

Senator BARKLEY. Before he had a chance to state anything else—

Senator BAILEY. Just a minute. He has since admitted that he got \$90,000 in dividends. That is not the whole truth, and we want the whole truth. What did you get by way of surplus, carried to surplus for the benefit of the stock which you hold?

Mr. AXTON. Carried to the surplus?

Senator BAILEY. Yes; profits were made. Your stock shares in the profits. We all know that.

Mr. AXTON. I can't furnish you that. Possibly \$450,000, or something like that.

Senator COSTIGAN. In 1 year?

Senator BAILEY. You got \$450,000 and \$90,000, which makes it \$540,000, and \$10,000 salary, makes \$550,000. That is what you got.

Mr. AXTON. With the dividends, and all.

Senator BARKLEY. Of course, we are going into the surplus; that was put aside to be shared by all of the stock, and I think it is fair that we require the same statement of all of the companies.

Senator BAILEY. I understand we were. But this is something which he volunteered. He said he did not get more than \$10,000 and he says now that it is about \$550,000.

Senator BARKLEY. I was talking about bonuses that went to individuals, not to surpluses that go to stock.

Mr. AXTON. I wanted to correct the impression that I was getting a tremendous salary out of this business, because I was not.

Senator BARKLEY. Your stock is closely held between you and your brother. You testified to that, that you owned 75 percent of it.

Mr. AXTON. Yes.

Senator BAILEY. What is the use of having a salary in a corporation where 75 percent of the stock is held by two men? What difference does the salary make, or bonuses either?

The CHAIRMAN. I wish that the companies would understand that in furnishing these statements of profits, that they also furnish a statement over this series of years, to show what amounts were passed to surplus, and in addition to that, if you will, to furnish in the record a statement of those who were paid bonuses and the amount of the bonuses, and any salaries over \$10,000 a year to employees.

Mr. PARKER. Do you mean the officials?

Senator BARKLEY. For the same 3 years?

The CHAIRMAN. Yes. That is fair to all of the companies, because we want to get the correct picture. Is there anything else, Mr. Axton?

Mr. AXTON. No, sir.

The CHAIRMAN. I have a request to hear Mr. M. J. Flynn, who wanted to put some matter into the record.

Is Mr. Flynn in the audience?

(No response. Later Mr. Flynn filed the following brief:)

BRIEF OF M. J. FLYNN, REPRESENTING THE CIGAR MAKERS' INTERNATIONAL UNION

The Cigar Makers' International Union, affiliated with the American Federation of Labor, with membership employed in the production of cigarettes, strongly urges that the Revenue Act of 1926 be modified with respect to the internal-revenue tax on cigarettes.

The present tax is \$3 per thousand on those cigarettes weighing less than 3 pounds per 1,000 and \$7.20 per 1,000 on those cigarettes weighing more than 3 pounds per 1,000.

The Cigar Makers' International Union requests that these specific rates be changed to an ad valorem basis so that the tax may fall equitably upon all producers and consumers of cigarettes. We suggest that this tax on cigarettes be fixed at 50 percent on the retail selling price.

A tax of 50 percent would result in a tax of \$2.50 per 1,000 cigarettes on all those cigarettes retailing at 10 cents per pack of 20 cigarettes; a tax of \$3.12½ per 1,000 on those cigarettes retailing at 12½ cents per pack or two for 25 cents; a tax of \$3.75 per 1,000 on those retailing at 15 cents per pack, and so on.

The present flat rate of \$3 per 1,000 on cigarettes, weighing not more than 3 pounds per 1,000, is a tax which weighs unfairly upon the people of low incomes in favor of the higher-income group. Workers, farmers, and other low-income consumers have only been able to buy cigarettes at 10 cents per package since the price paid for leaf tobacco to the tobacco grower fell to a disastrously low level. The flat-rate tax has served in the past to maintain the dominance of the Big Four producers, a group which constitutes a virtual monopoly. Behind this protection of the flat rate of \$3 per 1,000 the Big Four raised their prices during the depression year of 1931, and by this increase they secured additional millions from the unprotected consumers. At that time they controlled some 95 percent of the American market. The profits of the Big Four for 1931 were, we understand, the highest for all time.

The resentment of the consumers against this indefensible action of the Big Four, together with the deflated price of tobacco and other costs of manufacture, made it possible to promote the sale of 10-cent cigarettes on a scale which had been impossible in times of normal cost levels. The rise of the independent 10-cent cigarette not only increased the sale of leaf tobacco and augmented the revenue of the Government, it also forced a reduction in the cigarettes produced by the Big Four monopoly, when competition of the 10-cent cigarettes cut heavily into the sales of what are termed the popular brands.

The growth of the independent 10-cent package of cigarettes has thus been of enormous benefit to the tobacco grower, to the consumers who were forced to economize in every possible way, to the workers employed, and to the Treasury.

The wage rates paid by the manufacturers of the low-priced cigarettes are higher than the wages paid in the factories controlled by the Big Four, despite the

lower retail price at which the independents sell their cigarettes. The independents have therefore helped the workers in two respects. They have provided the workers with cigarettes at a lower price and have paid out more in wages.

At one time the sale of 10-cent cigarettes had captured about 25 percent of the American market and, at the present time, we understand at least 10-percent of all the cigarettes sold are sold by the independents at 10 cents per pack.

The program of the A.A.A. to assist the tobacco growers and that of the N.R.A. to help the workers and industry has once more raised the costs of production to the point where the present flat tax of \$3 per 1,000 threatens to destroy the opportunity to supply cigarette smokers with a 10-cent pack of cigarettes. The change in the tax, as suggested by the Cigar Makers' International Union, would insure the continuance of good cigarettes, containing American-grown tobacco, paying relatively as high a tax as that imposed on higher-priced cigarettes, being sold to the public for 10 cents per package of 20.

The record of the Big Four in dealing with tobacco growers, with industrial workers and with the cigarette smokers is convincing evidence of the urgent need for protection of the public, if the advantages of the New Deal program of the A.A.A. and the N.R.A. are not to be nullified by the destruction of independent competition.

The present flat tax on cigarettes is therefore nothing less than a menace to the program of the present Administration and the substitution of an ad-valorem tax, whereby the present discrimination against the workers, farmers, and other low-income groups, would be eliminated, is an essential part of the program.

The change which the Cigar Makers' International Union suggests is in line with the present method of taxing cigars. The internal-revenue tax on cigars is graduated whereby those less able to pay pay a smaller tax than those who are better able to pay.

Summarizing our plea, the producers of the 10-cent pack of cigarettes use only American-grown tobacco, thus helping to provide a market for the American tobacco growers; the independents, who produce the 10-cent pack of cigarettes, prior to 1931, controlled a relatively small part of the American market as the Big Four monopoly controlled 95 percent of the market and the public were forced to pay such price as the monopoly dictated; in recent years the war-time tax on cigars has been reduced 50 percent; the tax on cigars is graduated so that those who are better able to pay are forced to pay a higher tax than those who, through economic necessity, have to purchase a cheaper cigar; the present flat-rate tax on cigarettes levies a higher percentage on those less able to pay; the present tax on cigarettes is the only war-time tax still in effect and the beneficiaries of the present flat-rate tax are those who sell their cigarettes for 15 cents and 20 cents a pack with the Government getting no additional revenue out of the millions taken from the cigarette-smoking public.

Senator BARKLEY. Mr. Chairman, without taking this out of the time of the gentleman, would it be possible to give a few minutes to some representatives of the growers? I do not know who wants to speak on this subject, but I do not believe that we would take all of the time between two or three companies, when there are several growers here who are interested to make a statement, and I think they should be allowed to do it.

Senator KING. I move that we give 10 minutes to a representative of the growers.

Senator BARKLEY. That is about the usual proportion that he gets out of this tobacco situation.

STATEMENT OF H. M. ROBERTSON, LOUISVILLE, KY., REPRESENTING THE BROWN & WILLIAMSON TOBACCO CORPORATION

Mr. ROBERTSON. Mr. Chairman, and gentlemen of the committee, I represent the Brown & Williamson Tobacco Corporation, of Louisville, Ky., with factories at Winston-Salem, N.C., Peterson, Va., and one of the principal manufacturers of the 10-cent cigarettes.

I would like first to present to this committee a clear idea as to what is the nature of the present tax on cigarettes. At the present time

there is a flat \$3 tax, regardless of the price or value of the cigarettes. There are on the market today two principal classes of cigarettes. There are the so-called "15-cent cigarettes", which sell from about 12 cents to 15 cents, varying in the different stores, and there is the 10-cent cigarette. The first class is about 95 percent made by the Big Four, the latter class is made by a large number of smaller manufacturers.

The first class of cigarettes is sold by the manufacturers to the trade after discounts and after taxes are deducted, at \$2.38 a thousand. A thousand cigarettes, as has been testified, contains about 3 pounds of tobacco.

The 10-cent class of cigarettes is sold by the manufacturer to the trade, after discounts and after tax, at \$1.19 a thousand, or exactly one half the price. The \$3 flat tax therefore constitutes a tax of 252 percent on the 10-cent cigarette, whereas on the higher price cigarette it constitutes a tax of only 126 percent.

I would like to now state the situation in the cigarette business. Prior to 1932, 95 percent or more of all of the cigarettes sold in the United States were made by these Big Four manufacturers; they all came out of the old Tobacco Trust; they never had different prices; and whenever one of them went up all of them went up; and whenever one of them came down, all of them came down.

Senator BAILEY. The 10-cent people have always maintained the 10-cent price?

Mr. ROBERTSON. Yes, sir; we have. There is only one price you can have them sell for, and that is 10 cents.

Mr. Parker is correct about the 10-cent price. Those companies never had any substantial competition by any outside companies, and therefore the \$3 tax as a practical matter was a fair tax, because there was only one class of cigarette in this country, and there was only one set of manufacturers.

In 1932, as Colonel Axton told you, this 10-cent cigarette came on the market, and due to the purchasing power of the people it became——

Senator BAILEY (interposing). Do you think the \$3 tax is fair to the farmers?

Mr. ROBERTSON. Do I think it is fair to the farmers?

Senator BAILEY. You said it was fair. Do you think it is fair to the farmers?

Mr. ROBERTSON. Senator Bailey, I subscribe to the view that it is questionable how far the tax is paid by the farmer. It is a tax on the consumer which affects the farmer solely on the question of reducing the consumption, and therefore the demand for tobacco.

Senator BARKLEY. I understood you to say the \$3 tax was fair as among manufacturers.

Mr. ROBERTSON. Prior to the time I stated. That was what my statement was intended to convey. These 10-cent cigarette manufacturers therefore in 1932 became a serious threat, a real competition to the Big Four cigarette manufacturers, who had had control of all the cigarette business in this country up to that time. As to the result to the farmer of what happened during the period while the control of this cigarette business was in the hands of four people, and while the competition was restricted to four of them is not further restricted, I would like to read a statement of the Department of Agriculture bearing on this subject.

The Department of Agriculture in an official statement made last September said:

An analysis of returns obtained by tobacco growers and others in the tobacco industry indicates that there is an inequitable distribution of consumer expenditures for tobacco products. One of the reasons for this is that, although tobacco is grown by approximately 400,000 farmers, practically all of the product is purchased and manufactured by a small number of manufacturers.

In 1923 the combined total of the amount paid to the tobacco growers for all tobacco retained for use in the United States, and the net profits of the manufacturers, was approximately \$250,000,000.

That is for the year 1923. Then it goes on:

Of this amount, \$174,000,000, or 70 percent, was received by the tobacco growers, and \$76,000,000, or 30 percent, was manufacturers' profits. Since that time the manufacturers' profits have increased steadily, and the amount paid to the farmer has declined. This decline has been particularly great during the past 4 years. In 1931 the combined total of these items was \$213,000,000, of which the tobacco growers received \$66,000,000, or 31 percent, and the manufacturers' profits were \$147,000,000, or 69 percent.

We believe that that condition of lack of competition for whatever reason shows, and there is bound to be a lack of competition with only four manufacturers controlling the business, and that it is to the welfare of the farmer and the consumer and, of course, we have the selfish interest ourselves, of wanting to stay in business, that any further competition in the same business that could be added would to a large extent help this situation and help the market for the farmer, and keep the prices of these cigarettes down. It is obvious from the point of view of the consumer that the person who is spending 10 cents should not pay 60 percent of the expenditure—and these are generally the poorer class of people—they are people who would otherwise be rolling their own cigarettes, people who are scratching around for the last cent, they should not pay 60 percent, whereas in the case of the other cigarettes, the so-called "15-cent cigarette", they pay a much lower rate of tax.

Mr. Parker has referred here to the difference of quality of tobacco. He has made it appear that the higher-priced cigarettes are of a little higher quality of tobacco. I do not know what qualities of tobacco he has given his cigarette, and I would be willing to tell the exact grades and prices that we pay for those that we have in our cigarettes, and I will state to this committee that the average price of the American tobacco that we have in this cigarette was about 17 cents a pound, and when our costs, including the processing tax going to the farmer is considered, it today is 16 cents, the amount we pay to the farmer is about 16 or 17 cents a pound, and we are at that price right at the breaking point, and can pay no more, and that is what we are asking this relief for—to be in a position to pay higher prices, more for tobacco. The reason we think from the point of view of the farmers that this is a fair method of tax, and why we believe it will help the farmer is that we do not believe that there is a great difference in the grades of tobacco used in these cigarettes and those used in the other cigarettes. We have no way to ascertain what they use except we know what they buy in the market.

Senator BYRD. Why don't the people buy the 10-cent cigarettes more universally if they are as good as the 15-cent cigarettes?

Mr. ROBERTSON. It is not advertised. I am glad you asked that question. It does not undertake to appeal to what we think are 75

percent of the smokers, and the people who are willing to pay the 1 or 2 or 3 cents on account of this vast advertising, and we admit that 75 percent of the smokers will unconsciously, due to the advertising, purchase cigarettes that they know about, but we are appealing to a class of people who are seeking to save this 1 or 2 or 3 or 4 or 5 cents or whatever it may be, and we think these people would otherwise be rolling their own, and paying the Government 18 percent for the tobacco they use, which would come to a tax of \$1.20, whereas in this ready-made cigarette—I do not like the word “differential” because there is something insidious about that—but with this recognition of price as ability to pay, we think that will result in there being paid \$2.70 a pound against \$1.20.

Senator BYRD. Your company does not advertise at all?

Mr. ROBERTSON. Except small posters that we put in the window.

Senator BYRD. Don't you think that it is a great opportunity when you make a cigarette of equal quality and sell it at 10 cents, of the same quality, that that is a great opportunity for you?

Mr. ROBERTSON. We cannot advertise at the price we sell.

Senator BYRD. Even if you had a much larger volume of business?

Mr. ROBERTSON. No, sir; because the the costs on the cigarette come right up to the limit.

Senator BYRD. What was the profit of your company last year?

Mr. ROBERTSON. I do not remember the exact figures, but it was about between 2 and 2½ million dollars.

Senator BYRD. What percentage would that be on your invested capital?

Mr. ROBERTSON. About 10 percent.

Senator KING. What part of your sales consisted of the 10-cent cigarette?

Mr. ROBERTSON. In dollar value, I think more than 50 percent of our sales.

Senator BYRD. Is the control of your company owned in this country?

Mr. ROBERTSON. It is owned by the British-American Tobacco Co.

Senator BYRD. And that is controlled in London, isn't it?

Mr. ROBERTSON. Its board of directors sits in London. I would like to state for the record that the British-American Tobacco Co. was formed in 1902 by the old American Tobacco Co. and by the Imperial Tobacco Co. of Great Britain. The American Tobacco Co. owned two thirds of the stock, the Imperial Tobacco Co., of England, owned one third, and in the dissolution in 1911, the stock of the American Co. was distributed to American stockholders. Where that stock is held now we do not know, because we do not have records, because our common stock is in bearer form.

Senator BYRD. So that your company is really one of the old subsidiaries of the trust?

Mr. ROBERTSON. Of the trust.

Senator BYRD. The same as the Big Four?

Mr. ROBERTSON. Yes, sir.

Senator KING. But since the dissolution, you have sort of run alone?

Mr. ROBERTSON. We have run alone; yes, sir.

Senator BAILEY. You run under the British direction?

Mr. ROBERTSON. Yes, sir; the company is controlled by the British-American Tobacco Co.

Senator BYRD. I would like to get this clear. You contend that you pay the same price for the tobacco that is used in your 10-cent cigarettes that is paid by the companies that manufacture the 15-cent cigarettes?

Mr. ROBERTSON. Senator Byrd, I claim, and I am speaking now—I do not have access to their books, and I do not know what tobacco they use in their cigarettes. I would be glad to have a comparison made as to these costs. I will furnish the costs of the American tobacco in our cigarettes, but I think the actual facts, from what I can gather, from our leaf man, are these. Tobacco is in 50 or 100 grades, for each of the various types. The very highest price, flue-cured tobacco—and I think Mr. Parker was not quite accurate in his statements when he said that these were put into these domestic cigarettes—the very highest type, the Bright Yellow types, are all for export—those fancy tobaccos do not go into the domestic cigarettes.

But as to the medium smoking grades, in each cigarette there are half a dozen different grades of tobacco. Assume that they start their grades at 30 cents, they use these grades down to the law, and perhaps the medium grades, so we are in competition certainly on 80 percent of the grades in this 10-cent cigarette.

That is what my leaf people tell me.

Senator BYRD. But you have not answered my question. You told me in my office, as I understand it, that you would guarantee to me that you paid just as high a price for tobacco used in your 10-cent cigarette as the companies that manufacture the 15-cent cigarette.

Mr. ROBERTSON. I think I said, Senator Byrd, that if we would get this reduction, that we could pay and would pay if the competition of the market requires us to do it, up to 23 cents a pound for tobacco, which I believe is as high as they pay.

Senator BYRD. You do not pay it now?

Mr. ROBERTSON. I do not know. I have stated our figures and what I believe ours are.

Senator BARKLEY. What percentage of Brown & Williamson's business is cigarettes?

Mr. ROBERTSON. About 15 percent of it.

Senator BYRD. Is not the part of the tobacco that you purchase, exported?

Mr. ROBERTSON. No, sir. No part of the tobacco we purchase is exported. In regard to the British-American, I might say that they are the largest purchasers and exporters of American tobacco in poundage. As to value, I do not know.

Senator BYRD. Did you sell any for the British-American that was exported by them and purchased by you?

Mr. ROBERTSON. A separate organization buys the tobacco.

Senator BYRD. When you quoted the figures that you were paying 17 cents, was any part of that tobacco exported through you or through your parent company, the British-American Co.?

Mr. ROBERTSON. No, sir.

Senator BYRD. Or was it all used in your cigarettes?

Mr. ROBERTSON. It was all used in the cigarettes. I was not speaking of what we paid on the market. I was speaking of the particular costs of tobacco that went into this cigarette. Of course, that was not exported.

Senator BAILEY. You are not talking of what you paid on the warehouse floor.

Mr. ROBERTSON. The 13-cent price is what was paid on the warehouse floor.

Senator BAILEY. That goes into the average?

Mr. ROBERTSON. That 13-cent price is the average price of the various tobaccos. There may be 10 or 15.

Senator BAILEY. Let us compare that with the average in North Carolina of 16 cents, and a fraction this year. You paid far below the average, didn't you?

Mr. ROBERTSON. This was the cost at the time we bought these tobaccos.

Senator BAILEY. In the degree that you paid below the average, somebody else had to pay above it, and it was probably these 15-cent cigarette people.

Mr. ROBERTSON. Yes, sir. That is correct.

Senator BARKLEY. Where do you buy your tobacco, cheaply?

Mr. ROBERTSON. We buy burley and flue-cured.

Senator BARKLEY. Do you buy in North Carolina and Kentucky?

Mr. ROBERTSON. North and South Carolina, Virginia, and Kentucky.

Senator BARKLEY. You have a factory in Virginia, one in Kentucky, and one in North Carolina?

Mr. ROBERTSON. Yes, sir.

Senator BARKLEY. The 13-cent average is the average of all of your purchases in all of these States?

Mr. ROBERTSON. This was the average out of the past year's crops, which average much below that.

Senator BARKLEY. Your 13-cent average is your whole purchase, regardless of location.

Mr. ROBERTSON. No, the 13-cent average is the average for the tobaccos that go into this particular cigarette.

Senator BARKLEY. I know that, but you buy them from 4 or 5 different States.

Mr. ROBERTSON. Yes.

Senator BAILEY. What percentage did you buy, about, in flue-cured?

Mr. ROBERTSON. You mean for this cigarette?

Senator BAILEY. Yes.

Mr. ROBERTSON. I could not answer that question now.

Senator BAILEY. You buy a great deal of it?

Mr. ROBERTSON. Yes, we bought a very large amount of it.

Senator BARKLEY. What was the total percentage of purchases of tobacco last year?

Mr. ROBERTSON. Of all kinds?

Senator BARKLEY. Yes.

Mr. ROBERTSON. You mean of the 1933 crop?

Senator BARKLEY. Yes.

Mr. ROBERTSON. About 54,000,000 pounds.

Senator BARKLEY. How does that compare with 1932?

Mr. ROBERTSON. That was much under 1932.

Senator BARKLEY. For what reason?

Mr. ROBERTSON. Because in 1932, this 10-cent cigarette was growing, and we bought very long stocks of supplies, so that we found ourselves with the business on it declining, due to the decrease in the

price of the other cigarettes, and we found ourselves with 2 or 3 years' supply of tobacco. We did not want to buy any of this year's crop, but the Government asked us to do it, and we did it for that reason

SENATOR BYRD. Only about 25,000,000 of the 54,000,000 is used, on the 10-cent cigarette. That is what I understood you to tell me.

MR. ROBERTSON. That was tobacco that was just bought in the last 3 or 4 months. It has not been used on anything.

SENATOR BYRD. I asked you how much tobacco you bought last year that was used in the 10-cent cigarette, and I understood you to say that it was 25,000,000 pounds—is that correct?

MR. ROBERTSON. I do not think I said that.

SENATOR BYRD. How much was used last year or purchased for purposes of use in the 10-cent cigarette?

MR. ROBERTSON. I do not know that we purchased tobacco exactly that way. We have dozens of sorts of smoking tobaccos and other cigarettes, and we go out and make our requirements, and what we purchase for one brand or another—

SENATOR BYRD (interrupting). The purpose of my inquiry is to try to ascertain what percentage of the tobacco crop goes into the 10-cent cigarette. Can you give me that information?

MR. ROBERTSON. We estimate and Mr. Parker said you could not say. I think Mr. Parker is a much better business man, and his people know much more about what is going on in the trade. We know from the revenue figures, we know that the 10-cent cigarettes are produced from our own figures, mostly in Kentucky. There are no other 13-cent cigarettes in any substantial amount produced there. We estimate on the basis of those figures that during the year ending June 1933, about 15 percent of all cigarettes were a 10-cent cigarette, and if it were true that there were about 18,000,000,000 cigarettes at 3 pounds per thousand, that would be 48,000,000 pounds of tobacco.

SENATOR BYRD. That is out of a total production of 600,000,000?

MR. ROBERTSON. Yes, sir. But of course, the total production—speaking of flue-cured, and about 40 to 60 percent of that is export, and the flue-cured tobacco cigarette in this country is only about 300,000,000 pounds a year. My 56,000,000 pounds included burley.

From these facts then, as we view this situation, this matter has gotten down to a question of whether the position of the Big Four in the cigarette industry is to be disturbed. The question is whether this competition which is offered by these additional companies who have and who are competing in the most severe way for the last 2 or 3 years, shall be done away with. We believe that this competition will result in substantial benefits to the farmer and to the consumer, as we think the record already shows. Colonel Axton mentioned the fact that the price of this tobacco when you had this competition, went up in 1932. At that time, the available supplies of tobacco were perhaps the longest they had ever been, and yet, the price on the market to the farmer went up 50 percent in the case of burley, and 40 percent in flue-cured. We think that competition was of great help in this matter.

SENATOR KING. Your time has about expired. Can you finish in a few minutes?

MR. ROBERTSON. Yes. There is one other point that I wish to direct attention to. That was the statement that if cigarettes are

classified, that all cigarettes will go to 10 cents. The fact is, that certainly the profits on the 15-cent cigarette at the present time are 65 cents a thousand. Those companies made money in 1933, and since that time they have raised their price 53 cents a thousand, so a fair estimate, as my expert tells me, is that they are making 65 cents a thousand. The profit on this 10-cent cigarette even under this graduated schedule, using the cost of tobacco which is lower than the tobacco we will have to buy, cannot be more than 15 or 20 cents a thousand. If that is true, and someone has a brand that has always shown, even in the depression that they do 75 percent of the business, are they going to stop making those brands, and make a less profitable one?

Further, the competition which the 10-cent cigarette can give in the medium grades of tobacco, assuming the others use only the very highest types of tobacco, has an effect of raising the price to the whole market, and the result of that will be that the farmers will have this competition which should give them better prices on the market, rather than having his buyers limited only to four persons.

Senator KING. Senator Barkley, did you wish to say something?

Senator BARKLEY. I think we should hear from somebody here representing the growers. I do not know who is here to speak for them. I see Mr. Caywood, whom I know, is here in the audience. He is from Bourbon County, Ky.

Senator BAILEY. If there are some North Carolina farmers here, they should be heard from.

Senator BYRD. Virginia is here, too.

Senator BAILEY. I think the farmers are here, and should be heard. But I do not think the hearing should be ex parte.

Senator BARKLEY. I think we should hear one in favor of the differential, and one against it, no matter where he comes from. I happen to know that Mr. Caywood, from my State, is against it, and I would like to give him an opportunity to make a brief statement.

Senator KING. Does the committee concur in allowing 15 minutes' additional time, and one to each side?

Senator GEORGE. I think we can go ahead and hear one from each side.

Senator LA FOLLETTE. I think the time should be divided between those who are for the differential and those who are against it.

Senator KING. That is the procedure that we will follow. How much time do you think you will require?

Mr. H. S. CAYWOOD. Ten minutes, I think, will be sufficient.

Mr. PARKER. If he speaks for 10 minutes——

Senator LA FOLLETTE (interrupting). I think the time should be divided on the issue. The question is whether the differential should be agreed to or not, and the time should be divided between those who are in favor of it and those who are against it, and not what kind of tobacco they grow.

Mr. PARKER. Many of these witnesses have to go to the House at 1 o'clock for the hearing there.

Senator KING. I think we will allot 20 minutes, and divide the time.

Senator LA FOLLETTE. Are you for or against the differential?

Mr. CAYWOOD. Mr. Chairman and gentlemen, I am for a flat tax, and also a large flat tax.

Senator KING. State your name and your representation.

STATEMENT OF H. S. CAYWOOD, TOBACCO PRODUCER, BOURBON COUNTY, KY.

Mr. CAYWOOD. I am a producer of tobacco in Bourbon County, Ky. Eight of us gentlemen came up here that grow around a million pounds of tobacco, and I also have some gentlemen from Montgomery County here.

You gentlemen have heard this discussion between these manufacturers, and I think we are convinced, and you are convinced, that they can take care of themselves. What we are here for is to ask for a flat reduction in the taxes. Our people, as every other tobacco-growing State, and you gentlemen represent tobacco-growing States, they have been and are in a deplorable condition. They are growing tobacco for a loss. Our farmers are in debt, and we feel that if you give us a flat reduction and let all of these manufactureres sell cigarettis for 10 cents, or 7 cents, or 5 cents, that you won't lose a great deal of revenue. I realize as well as anybody that the Government needs revenue, and I think you are going to do a wonderful thing for the farmers. I do not believe we can do a greater thing for the farmers than to reduce this tax on tobacco.

Tobacco produced over \$400,000,000 last year—in 1932—I think it is 1932. I want to be correct. If I make any statement that is not correct, I hope some gentleman will correct me. Over \$400,000,000. The producer of domestic tobacco in America received \$68,000,000 for their product gross.

Senator BAILEY. The Government gets a little bit better than a dollar a pound, and the farmer gets 16 cents in North Carolina and 11 cents in Kentucky.

Mr. CAYWOOD. We grow a very fine burly tobacco in Central Kentucky, and every pound that grows into a thousand cigarettes the Government gets over a dollar a pound taxes out of it. And we sold our burly tobacco this year—these are the figures—the Government estimated 424,000,000, and we had about 40 or 50 million left. If I know what I am talking about, and I hope I do, as I say, I want to be corrected, that tobacco averaged 10.76. You gentlemen are all trying to help the farmer. I know you are. Everybody is interested in the farmer. 10.76 is —

Senator BARKLEY (interrupting). 10¼ cents a pound.

Mr. CAYWOOD. That is what it brought. With tobacco selling at that price, it is impossible for the tenants to hardly exist. He will get around 5 cents a pound for his half of the tobacco, and it will cost him \$2 a hundred to strip it, the tenant and the landlord, and he gets net of \$3 a hundred, from \$2 to \$3 a hundred. I know you will figure you will lose a great deal of revenue by cutting this tax 40 or 50 percent, but if we anticipate, and we feel that we are on the up-grade, the last 2 months, January and February of this year, the increase in cigarettes, has been over 2,000,000,000. Because of that, and anticipating that that goes through the year for 12 months, it is 25,000,000,000 cigarettes. You cut that to \$1.80, and that increase will produce \$45,000,000.

The scale of these very cheap roll-your-own has increased in the last 3 years, as I understand it—I have not those actual figures, but it was brought out in the other hearing, that that is a fact, from 12,000,000,000 to around 55,000,000,000. If we can reduce the price

of cigarettes, the best ones, as they call them, for 10 cents, and the others for 7.5 cents, we feel that we will very much increase the consumption of cigarettes.

Senator KING. Do you think a decrease in the price of cigarettes will increase the production of tobacco and increase the price to the farmer?

Mr. CAYWOOD. Yes, sir. Senator, this is the idea. Why has that increase from 12,000,000,000 to 55,000,000,000 come on in the last 3 years? Because it is the dire necessity. The man that wants to smoke has not got the price to pay the 10 cents or the 15 cents. Consequently, he rolls his own. And if we can bring that down to where it is in his power, if it is possible, to pay 5 or 7.5 cents, or if he wants to buy a 10-cent cigarette, we feel that we will put that class that is paying 18 cents a pound on tobacco into the class that is paying the Government tax, say about 3 cents. If—in that way we feel that it will increase the revenue quite materially. That is our position. We feel that.

They say, how are you going to pass it on to the producer? I say, if we are not able to have that done, if I did not believe that we could pass it to the producer, I would advise you gentlemen not to cut it at all. But I believe that you have two ways to pass it to the producer. The set-up you have in the matter today is trying to help the man that is down and out. I believe every one of you gentlemen in Congress is trying to do that. The day of big salaries, and bonuses, for a while, I think, is gone. I believe they are going to pass it on to somebody else. That is my judgment.

Another thing, we have got a production cut to what we think is around consumption at the present time. That is, signed up, the burley agreement—that is supposed to be, isn't it, Senator? We have got it signed up so that we feel that production is going to be brought down according to the consumption. If these folks don't want to pass that on, you gentlemen have power to put a processing tax on and make them do it.

I am appealing for help to the producer. This tax was raised from \$1.50, when the war came on, to \$2.05. When prohibition was enacted, it was raised to \$3. We are not in the war, and the prohibition amendment has been repealed. It does look as though we should have some relief.

Now, gentlemen, I am not going to take up your time, but there is just one thing I want to say to you again. We are all men, and we are all trying to work together, and trying to help humanity. In every State—well, in my State—they are dumping in \$750,000 a month for relief. That is around \$10,000,000 a year, and I anticipate that other States growing tobacco have practically the same condition. If we can put our tobacco growers, 100,000, representing six or seven hundred thousand people, if we can put them on their feet and give them a purchasing power, I believe the Government can lay that aside in a year or two, and we will all go along together, and we can pay our expenses and pay the merchants, and everybody.

Senator BAILEY. Before you take your seat, I think you made a very fine presentation for the farmers. You made the statement that the farmer by stripping his tobacco, the tenant farmer would get about \$3 a hundred.

Mr. CAYWOOD. On 10-cent tobacco.

Senator BAILEY. At 800 pounds produced on the acre, and that is rather high——

Mr. CAYWOOD (interrupting). Around 700. We produce more in Bourbon County.

Senator BAILEY. Let us call it 800. That is \$24 for an acre of tobacco. He has to go over that acre 8 or 9 times.

Mr. CAYWOOD. No. He gets half of that.

Senator BAILEY. I will get to that.

Mr. CAYWOOD. That is right.

Senator BAILEY. I took the half to start with at \$3.

Mr. CAYWOOD. That is right.

Senator BAILEY. Call it 10 cents from your figures. He gets half of the 10 cents, which is 5 cents. That is right, isn't it?

Mr. CAYWOOD. Yes, sir.

Senator BAILEY. I am talking of the tenant farmer. He divides.

Mr. CAYWOOD. That is correct.

Senator BAILEY. He pays \$2 for stripping.

Mr. CAYWOOD. If he strips it himself, he won't earn over 75 cents a day.

Senator BAILEY. It will come to \$24 on your statement, for 800 pounds. That is what the tenant farmer gets, and that is on an acre.

Mr. CAYWOOD. That is net.

Senator BAILEY. He will plow over that acre eight times.

Mr. CAYWOOD. He will plow it a good many times.

Senator BAILEY. That is about 17 miles that he has to plow.

Mr. CAYWOOD. It is a long ways.

Senator BAILEY. That is not all. Then he has to get the wood and cure it.

Mr. CAYWOOD. We do not cure it by wood. Ours is hung in the barn. Ours is air dried.

Senator BAILEY. But let us come down to the point. He will plow 16 or 17 miles to get \$24 on the outside. He has to plow that much; is that right?

Mr. CAYWOOD. Yes, sir.

Senator BARKLEY. That does not include the distance that his head travels going up and down all through the year. [Laughter.]

Mr. CAYWOOD. May I file these letters for the record?

The CHAIRMAN. Yes.

NORTH MIDDLETOWN, KY., March 30, 1934.

Hon. PAT HARRISON,

Chairman Senate Finance Committee, Washington, D.C.

We, producers of burley tobacco in Bourbon County, Ky., appear before you to urge a reduction of tax on cigarette tobacco of at least 50 percent.

Prior to 1917 this tax was \$1.25 per thousand and as a war measure was raised to \$2.05 per thousand. Later, when prohibition became effective, it was carried to \$3 per thousand. Since the war is over and the prohibition amendment has been repealed, we feel that our product, which is the real money crop of Kentucky, should be relieved in part of this burdensome tax.

We are quite certain that a lower tax on cigarettes will increase the consumption, and that even with this lower rate and the increased consumption that would result there should be little, if any, loss of revenue to the Government. We feel that this reduction of tax will enable the manufacturer to pay the producer a higher price for his raw material, and the territory that grows the cigarette type of tobacco is more dependent upon the prices of this product for recovery than all else.

The Government realizes one fourth of its revenue from tobacco. This is a tax of over \$1 per pound on all tobacco that goes into cigarettes, and according to

the Government report for the fiscal year ending June 30, 1933, amount to \$402,739,059.25, while the producer received for the tobacco \$68,000,000 gross that was retained for domestic manufacture. It is estimated that the Government receives a tax on burley tobacco of the cigarette type from 4 to 7 hundred dollars per acre, according to the yield and quality, and that from this same acre the landowner and the tenant receive gross approximately \$100 per acre, which means dissatisfaction for both landlord and tenant. With burley tobacco selling around these prices—that is, 10 cents per pound—it is impossible for the tenant to get an ordinary living wage and for the landowner to pay taxes, carrying charges, and preserve the fertility of the land.

We have no fight to make with the manufacturers who are selling 10-cent cigarettes, or with any of the manufacturers, for that matter. We want them all to make a reasonable profit and at the same time to pay a living price for the tobacco. We earnestly solicit that there be a reduction in the tax on burley tobacco, and especially on the cigarette tobaccos, and we urge that this reduction be on a flat rate rather than a graduated scale, for in our opinion it would be a very grievous mistake to make a reduction in tax on the lower-priced cigarettes without making a like reduction on higher-priced cigarettes, as this would seriously penalize the prices on all of the finer and best tobacco; and in our opinion the graduated tax would force all tobacco to a lower level, and this would be disastrous in the extreme to all growers of the finer-quality cigarette tobacco.

We, the undersigned growers and members of this committee, are now producing around 1,000,000 pounds of tobacco each year, and we are respectfully urging your consideration of these facts as given above.

Respectfully,

H. S. CAYWOOD, *Chairman*,
 JOHN W. JONES,
 C. C. CLARKE,
 W. A. THOMASON,
 CATESY WOODFORD,
 T. G. PREWITT,
 A. B. HANCOCK,
 N. F. BRENT,
Committee.

WASHINGTON, D.C., March 28, 1934.

HON. PAT HARRISON,
Chairman Subcommittee, Finance Committee of the Senate,
Washington, D.C.

DEAR SIR: We, the undersigned, growers of burley tobacco and representatives of other burley tobacco growers of Montgomery and Bath Counties, Ky., wish to go on record as endorsing the resolution regarding cigarette tax reduction offered by tobacco growers of Bourbon County, Ky.

We furthermore beg that your committee recommend under the A.A.A. and N.R.A. codes that the benefit of this tax reduction be passed on to those growers who have signed the Government acreage reduction contract if and when such tax reduction is effected.

Respectfully submitted.

ALLEN PATTERSON,
 C. C. CHENAULT, JR.

STATEMENT OF RALPH M. BARKER, CARROLLTON, KY.

Senator KING. Which side are you on?

Mr. BARKER. I am for the farmer first, last, and all the time, but I bought tobacco for the 10 centers.

Gentlemen, I do not know anything about all of these big figures, and millions that they are talking about around here, but I do know the actual conditions that exist where I live. At Carrollton, Ky., we sell 12,000,000 pounds of tobacco a year over our market. Since the "10-center" has come in, I know that we have a lot more competition than we ever had before.

Senator KING. Do you sell more?

Mr. Barker. No, sir; we do not sell any more, but we have more competition on what we have to sell.

Senator KING. Do you get a higher price?

Mr. BARKER. We get an average of the market, whatever it is, and whatever it amounts to. I know also that on the Carrollton, Covington, and Madeson markets, last year, that the "10 centers" paid more for the tobacco than three of the other companies did. Those facts, I know.

Senator BAILEY. You began your statement without stating what your representative capacity was. Would you mind telling us?

Mr. BARKER. I did not get that.

Senator BAILEY. Do you represent any organization or business?

Mr. BARKER. For Ralph M. Barker, yes, sir. I have been with every farmers' organization that ever was formed. I buy tobacco on commission for anybody that wants to buy it.

Senator BAILEY. You are a broker?

Mr. BARKER. I am for 2 months in the year, and I try to earn enough money to run my tobacco farm for the other 10 months, and if you do that, you are doing a pretty big job to run a farm.

I have been in every tobacco organization that the farmers ever have had, and if any of you think that any of these companies are going to do anything for any of your organizations, you are just having a nice dream. They don't give you a thing, but they do everything that is possible to break down any organization that is formed by the farmers. Mr. Barker stated yesterday that the only way for the farmers to get together and get a fair price for their tobacco was through cooperation. Ask Mr. Barker how much cooperation we ever got from the American Tobacco Co. Not one of them except Liggett & Myers bought a pound of tobacco from our organization until public sentiment forced them to do it, and they patronized the outside markets and bought tobacco higher on the outside than we would have sold it from our organization. They have done everything that was low-down and mean and contemptible to break down our organization, any organization we have ever formed. If any of these gentlemen say that I am not telling the truth, they can jump up and say so, and I will tell you what they have done to us. There never has been a time that any farmers' organization that I was ever connected with, and I have been connected with all of them, that they voluntarily came in and took our tobacco. They went on the outside markets and bought all of the tobacco they could get. Then they came around to us and took what was necessary to fill out the various lines that they wanted.

And these are facts. If you reduce the tax, that farmer is not any more going to get any of it than you are, directly. And unless you do something to make him pass that on to the farmer, he won't get a cent of it.

Senator BAILEY. Will you tell us whom you buy tobacco for, principally?

Mr. BARKER. For anybody that gives me an order; 29 percent of the business last year was bought for Brown & Williamson, Axton-Fisher, Larus, and anybody that will give me an order.

Senator BAILEY. What percentage for Axton-Fisher? What was it; was it 29 percent for Brown & Williamson, or altogether?

Mr. BARKER. I bought 29.5 percent of all of the tobacco sold at Carrollton, and I bought 25 percent of it for the independent com-

panies. What the proportion is, I cannot tell without going through my books.

Senator BAILEY. Why don't you complain about Brown & Williamson?

Mr. BARKER. They were not in the picture. Mr. Axton came in and bought every pound of tobacco that he used in his company, from our association. Liggett & Myers came in as soon as we were formed, and bought tobacco from us. The rest of them would not buy a pound.

Senator BARKLEY. What is your organization?

Mr. BARKER. It is a burley tobacco growers' cooperative association. We had 110,000 members from Ohio, Kentucky, Tennessee, and a few in West Virginia. That organization was broken down because the men from the Big Four went on the outside and bought enough tobacco to break us down and paid more money to the fellow on the outside than to the ones on the inside.

Senator BARKLEY. Are you speaking of last year, or the year before, or previous years?

Mr. BARKER. Previous years.

Senator BARKLEY. When the Burley Tobacco Growers' Association was an organization, a going, active organization—is it still active?

Mr. BARKER. The charter is still in operation, but they are not operating.

Senator BARKLEY. They have not been active in the last 2 or 3 years?

Mr. BARKER. They have not been active in the last 2 or 3 years.

Senator BARKLEY. What you mean by "buying on the outside" is that the companies bought tobacco from farmers who did not belong to the association?

Mr. BARKER. Yes, sir.

Senator BARKLEY. Instead of buying it from the association, representing these members?

Mr. BARKER. Yes, sir. Not only that, but they encouraged the production of tobacco in territory where it had never been grown before in order that they could come in and work down our organization. They sent feed out to everybody and gave thousands of pounds of feed away. They went down into one district and another district, or wherever they could get anybody to grow tobacco, and started them to growing burley. Take the records of the production now, and go back 10 years, and see where the burley was produced, and where it is produced now.

Senator GEORGE. Is it your position that this differential given to the 10-cent cigarette would be helpful to the burley growers, or hurtful?

Mr. BARKER. Helpful, because it allows those gentlemen to come in with more competition to the tobacco. It is not what they buy, however, that figures in the result. They may only buy a few thousand pounds of tobacco, but they are there every day, pumping and thumping away at the other fellow. What they buy is not the whole picture. It is what they make the other fellow buy, and the competition they hand to the other fellow that is on the market. If they are eliminated, that competition is gone, every bit of it. But I know for a fact that tobaccos that I have bought all my life, from 2 to 8

cents, are selling today from 8 to 16 cents. We used to go out and buy these common tobaccos, at 2 and 3, and 4 cents a pound. Now, I would like to show you where it is 8, or 10, or 11 cents, and that has been brought about by the 10-cent manufacturers. By giving them a slight differential, it will enable them to pay more for the tobacco, and buy more, and stay there. I did on every pile of smoking tobacco that is on the floor, and I do not get very many of them, but there is nobody comes in that gets any of that under the market price, and if we were not on those markets, and if it was not in competition on all of these markets, that these 10-cent cigarettes give, I believe it would be a lot lower.

Senator BAILEY. You say you bid an practically every pile but you do not get much?

Mr. BARKER. That is right.

Senator BAILEY. Who outbids you?

Mr. BARKER. The other companies.

Senator BAILEY. Then they are paying more?

Mr. BARKER. They would not pay it if we did not make them pay it.

Senator BAILEY. But they pay more?

Mr. BARKER. We make them do it. We pay the highest price on the Carrollton market this year of anybody on the market.

Senator BAILEY. You said you bid it and somebody else gets it, and these 15-cent fellows outbid you and get the tobacco.

Mr. BARKER. That is exactly what the farmer wants. He wants the competition. I don't care a rap who gets it.

Senator BAILEY. He would rather have the better price that they pay than the lower bid that you offer?

Mr. BARKER. They don't get it all. They don't bid the highest price on all of that.

Senator BAILEY. I am asking you a plain question.

Mr. BARKER. I am answering it that way.

Senator BAILEY. The farmer would rather get more than less, and you are arguing that he should, and yet you testify that you are offering him less than the other people.

Mr. BARKER. I am testifying that I do not get it all and the other fellow don't get it all, either.

Senator BAILEY. You say you got very little of it.

Mr. BARKER. We got 25 percent of it, 29½ percent, which with the little old company that I have got, is doing pretty good against these fellows with all their millions.

Senator BARKLEY. For the record, to show how this business is conducted, it is taken in on the floor and auctioned off, is that correct?

Mr. BARKER. Yes, sir.

Senator BARKLEY. It is bid up?

Mr. BARKER. Yes, sir.

Senator BARKLEY. You may bid a certain price and somebody else comes along and bids another price, and if you want to raise the price, you bid again?

Mr. PARKER. Yes, sir.

Senator BARKLEY. If it comes up to the point where you think it is not advisable to buy, you quit bidding and he takes it?

Mr. BARKER. Yes, sir.

Senator BARKLEY. And if he does not want it at that price, you get it?

Mr. BARKER. Yes, sir.

Senator BARKLEY. Your position is that the presence of more bidders in the market for that tobacco tends to increase the price although you may not get what you have previously bid for?

Mr. BARKER. It certainly does, and that is an absolute fact.

Senator LA FOLLETTE. What have you to say about this statement that if this differential is put into the law, that the result will be to create a demand for the cheaper tobacco, and to lessen the demand for the more expensive grades?

Mr. BARKER. No, sir; I don't think so.

Senator LA FOLLETTE. Why not?

Mr. BARKER. I do not think there is a snap-of-the-fingers difference between the tobacco that goes into the 10-cent cigarette and that which goes into the 15-cent cigarette, from a burley standpoint. The Turkish and those other things, I don't know anything about.

Senator BAILEY. I would like to ask the Senator from Wisconsin what the brand of cigarette is that he is smoking.

Senator LA FOLLETTE. A 15-cent cigarette.

Mr. BARKER. Senator, I would bet that I can lay all of these brands along there without any label or paper at all, and there is not 1 man out of 25 that can go and pick out a 10 or a 15 or a 25 center. I am willing to make that test, and if anyone can do it, I will shut up my mouth and never say another word about it.

Senator GEORGE. They say that is true of liquor.

Mr. BARKER. I don't know anything about liquor. [Laughter.]

Senator BAILEY. If that is true, why don't these 10-cent people put them up to 15 cents?

Mr. BARKER. Because they think they can sell more at 10 cents. You cannot sell a 10-cent cigarette and pay the enormous company salaries, the radio and all that kind of thing.

Senator BAILEY. Is that the only reason?

Mr. BARKER. That is about the only reason.

Senator BAILEY. Mr. Axton testified that he got \$550,000 last year.

Mr. BARKER. I don't know anything about those figures.

Senator BAILEY. Colonel Axton testified to that.

Mr. BARKER. What I am interested in is how much, of all that they make, that we can get down there on the farm.

Senator BAILEY. Now, I would like Mr. Fenner, of North Carolina, to be heard.

STATEMENT OF WILLIAM E. FENNER, OF ROCKY MOUNT, N.C.

Senator GEORGE. You are a tobacco grower?

Mr. FENNER. Yes, sir.

Senator GEORGE. You, of course, grow bright leaf, flue-cured?

Mr. FENNER. Yes, sir. I am a tobacco grower and a tobacco warehouseman. I operate warehouses in North Carolina, Georgia, and Kentucky.

Senator BARKLEY. Where is your warehouse in Kentucky?

Mr. FENNER. Morrisburg; and I have been planting 150 acres of tobacco for the last 20 years. I do not represent any farm organiza-

tion. I have never had the pleasure or the privilege to represent any farm organization. I have never held any position with them, I never had any salaried position with them. I am representing the farmer as I know him and come in contact with him, and I feel that I come in contact with as many farmers as any one man.

Senator BARKLEY. Have you been a member of a farmers' organization?

Mr. FENNER. No, sir.

Senator BARKLEY. Have they had such organizations in your community?

Mr. FENNER. Yes, sir.

Senator BARKLEY. You did not belong?

Mr. FENNER. No, sir; I did not. They did not last long.

This question, of course, gentlemen, has been discussed pro and con, and I am speaking purely as a planter and as a warehouseman who sells tobacco for the farmer, whose interests and my interests are interlocked. My business is on a commission basis. The more money the farmer gets for his tobacco, the more money I get for selling it for him, therefore I am naturally interested in the farmer, as well as my individual crop.

Some gentleman made a statement awhile ago that nobody had said anything about the reduction in the tax on cigarettes until this graduated reduction was suggested. Probably he does not know anything about it, but I think the Senator from North Carolina, Senator Bailey, was at the meeting of the farmers in North Carolina, about four or five thousand farmers, last September, the first of September or the last of August, where, if I remember correctly, a resolution was passed at that meeting asking Congress to reduce the tax on cigarettes, which they thought were exorbitant, and they thought was one of the reasons why they did not get any better prices for their tobacco.

Senator BAILEY. Not only that, but I made a speech on the Senate floor in December 1932 asking for the reduction.

Mr. FENNER. The farmer, as has been brought out here, averaged in North Carolina last year, 16 cents a pound in Rocky Mount, or \$16.90. This tax—we honestly believe that if the tax were reduced on cigarettes, a general reduction, a horizontal reduction, it would mean that the consumption of cigarettes would be increased materially in the United States, and that is where we have got to get our consumption increased to a large extent if we get it at all, because as I understand, and I think it is correct, that foreign countries are growing a great deal of tobacco for their own use, which is taking the place to a great extent of our tobacco; therefore, if we get an increase in the consumption of our tobacco, we have to get it in the United States, and I feel there would be no better way to get these results than by reducing the tax on cigarettes so as to allow the manufacturer to reduce his price on the manufactured material, so that it would cause a larger consumption due to the smaller price on these cigarettes.

In reference to the graduated scale of reduction or the differential in the tax, I feel and I think I am speaking for the farmers, all of the farmers whom I have talked to, and I have made it a point to talk to a great many, and without a single exception—some of the most prominent and the largest farmers we have in North Carolina are here—we are opposed to a graduated cut or differential cut in the taxes, and our reason for that is this.

So far as we can see it, and so far as the statements that have been made here today, it looks like the 10-cent cigarette and the 15-cent cigarette man have gotten along pretty well, and it does not look like he needs much help, but these farmers do need help, because we have been through a period of 3 or 4 years when it has been a pitiful sight to see. Senator George, down in your State, you have seen it, and you know that that is correct down there, what the tobacco farmers have been through, not only tobacco farmers, but we are speaking of tobacco now, so I mention them particularly.

Senator GEORGE. I am quite familiar with it.

Mr. FENNER. I think, gentlemen, in my humble way, and I am honest in saying this, and I have no axe to grind except the farmers' axe, because it automatically helps me if he is helped, I believe if you would make a differential cut of the tax on cigarettes, that you would probably help the manufacturer, but that you would not help the farmer, but it would be a great calamity to the farmer. I cannot see in just what little vision I have how anybody can argue the fact that the making of a differential in the tax on cigarettes, which in all probability would cause the 15 or the 12½ or the higher-priced cigarettes to come down presently to the 10-cent cigarette, if that 10-cent cigarette were to get a big run as a business proposition, they would have to come down and get in line with it. What would that mean as I see it? It would mean this, and I can speak because I know what I am talking about, because I have been selling tobacco every day for the past 30 years. There is a great deal of difference between the prices paid for tobacco that goes into the common cigarettes or the lower-priced cigarettes—I would not say "common," but the lower-priced cigarettes—and the tobacco that goes into the higher-priced cigarettes.

In running a sale, which I do, because I run my sales personally myself, I know who these buyers are buying for, and therefore it puts me in a position to know which ones are buying the better grades of tobacco.

Senator GEORGE. You think a differential would necessarily result in the purchasers of the higher-grade tobacco trying to get down within the manufacturing cost of the lower-taxed article.

Mr. FENNER. Yes, sir. I think you would have the better grades of cigarettes, the grades of tobacco that the farmers make their money out of, they would be in less demand, and the lower grades of tobacco would be in greater demand. As a matter of fact, I think that you would have a dead-line there. For instance, if you say the average for the 10-cent cigarette this past year was 13 cents, that was the dead-line, practically. If the other companies had been putting out 10-cent cigarettes, their dead-line would have been 13 cents, and where would we have gotten 16 or 19 on an average?

Senator BAILEY. Your average would have been 8 or 9 cents on that?

Mr. FENNER. It just throws away your competition on a demand for the better grade of tobaccos, and those are the tobaccos that the farmer makes his money on if he does that. Unfortunately, some farmers, some more than others, raised a great deal of common tobacco, and it takes the better grades of tobacco to bring up their average so that they can make a profit out of it. As I said, I am speaking purely from the standpoint of the farmers. It looks to me like the 10-cent cigarette makers have a place and deserve it. And

the 15-cent cigarette makers, and the 12-cent cigarette makers deserve the place they have. In the interests of the farmers, as I see it, it should be that the better-grade tobaccos should not be sacrificed to go in the lower-grade cigarettes. If, as the gentleman said, there is no difference between the prices and the quality of tobacco in a lower-grade cigarette and a better-grade cigarette, then why do these other companies who make the better grade of cigarettes buy the better grade of tobaccos? Why don't they buy the lower-priced tobaccos? They can make a great deal more money by buying cheaper-grade tobacco on the floor.

Senator BAILEY. You said the deadline was 13 cents for the cheaper grades?

Mr. FENNER. The average was 13 cents.

Senator BAILEY. What do you say as to the 15-cent people?

Mr. FENNER. I would say the 15-cent people got somewhere around 20 cents or better.

Senator GEORGE. It depends entirely upon the proportion of high-grade tobacco that goes into the cigarette.

Mr. FENNER. Yes; there is no chance for the farmer to make any money out of the low-grade tobacco selling around 8 or 9 or 10 cents. As to the competition of the lower grades of tobacco, there is some competition now on the lower grades of tobacco. These 5 companies or 6 companies that have been referred to here this morning as the Big Four, and Axton, Fisher, and Brown & Williamson are not the only people that buy tobacco. The Imperial Co. of Great Britain and Ireland are some of the big buyers of Bright tobacco. Then, independent buyers buy a great deal of tobacco, and the largest part of the independent buyers purchase the lower grades of tobacco.

Senator BAILEY. What is their price? What do they pay? We have the 13-cent deadline for the 10-centers, and 20 cents for the 15-cent cigarette. Take the British American. About what do they average?

Mr. FENNER. That is hard to say. They buy over a range. They buy from the commonest to the best.

Senator BAILEY. You say that they buy a great deal of low grade?

Mr. FENNER. Yes; low grades for China.

Senator BARKLEY. They buy a lot of dark tobacco for export?

Mr. FENNER. Yes, sir.

Senator BAILEY. And that brings the average down on the market.

Mr. FENNER. Certainly, it would. And, of course, gentlemen, we are bound to admit that if you reduce these taxes for the time being, the Government would lose revenue, but I honestly believe from the bottom of my heart that in the course of time and not very long, that the Government on account of the increase of consumption that would come about by being able to sell cigarettes at a lower price, to the consumer, that that slack would soon be taken up, and in a short time, a year or two, the Government would be getting more money than they are getting now at present in taxes.

Senator BYRD. What percentage do you think they should be reduced?

Mr. FENNER. Well, Senator Byrd, these farmers down there say about 40 or 50 percent.

Senator BYRD. Would a 20-percent reduction be much value?

Mr. FENNER. Yes; I think any reduction would be of value; yes, sir. And I want to say this, speaking for the farmers, if I do not believe that part of those—I am not hoggish enough to say that I want all of this reduction to go to farmers—I realize it, and I think it would not be fair or just, but I certainly feel that if the farmers are going to get a part of the benefits of this reduction, and the consumer a part of it, I would be absolutely against this bill if they did not, and I would not be standing here talking for it, but rather, against it, just as long as I could stand on my feet. The manufacturers from their statement that they have voluntarily given you, show that they get along pretty well. That is more money than I ever heard of. I would not even know how to put the figures down.

We have been carrying a big burden, and although I am from a prohibition State, when you took the tax off of liquor and put it on tobacco—you know, we don't drink a drop down in North Carolina. [Laughter.] We let you take the tax off of liquor and put it on these fellows, and we carried the load, but now that you put the tax back on liquor, we ask that you give us a little relief and let us pick up a little bit.

Senator BAILEY. Would you call on me to testify that you did not drink a drop of liquor in North Carolina?

Mr. FENNER. I meant so far as you and I are concerned. [Laughter.]

The ACTING CHAIRMAN (Senator George). Mr. Carpenter asked for a minute.

STATEMENT OF O. O. CARPENTER, LEXINGTON, KY.

Mr. CARPENTER. Gentlemen, I am a farmer. I am vice president and manager of the Central District Warehousing Corporation, of Lexington, Ky., who represents 20,000 of these old pool members that Mr. Parker was talking about, and I have been sent here to Washington to stand for a flat reduction and against the graduating tax, and I think our people through central Kentucky, almost to a man, are for a flat reduction, and bitterly opposed to the graduating tax.

Senator BARKLEY. You said you represent twenty-odd thousand?

Mr. CARPENTER. Twenty thousand stockholders of the Central District Warehousing Corporation. That is the one that is located in central Kentucky, that is still functioning?

Senator BAILEY. It is a farmers' organization?

Mr. CARPENTER. Yes, sir.

Senator BARKLEY. I was surprised that you had 20,000 stockholders.

Mr. CARPENTER. We did have 45,000. We still have 20,000.

Senator BARKLEY. That came along and took the place of the old pool in the distribution of the farmers' product?

Mr. CARPENTER. We sold 38,000,000 pounds of burley tobacco in 1931. We paid the stockholders in 5 years \$580,000.

Senator BARKLEY. What proportion was that of the crop of the Kentucky burley tobacco?

Mr. CARPENTER. There was 450,000,000 in 1931.

Senator BARKLEY. About one eighth?

Mr. CARPENTER. We have sold approximately 30,000,000 this year.

Senator BARKLEY. Is there any further statement you wish to make?

Mr. CARPENTER. No, sir. That is just what I wanted to get on the record. I have been here a week, and I have not got to say a word. This is the first time, and I got just 1 minute that I asked for, and that is all I took.

BRIEF OF THE AMERICAN FARM BUREAU FEDERATION IN REGARD TO CIGARETTE TAXES, BY CHESTER H. GRAY, WASHINGTON REPRESENTATIVE, MARCH 30, 1934

The tax on cigarettes in the form that is now carried in the revenue law of the Nation is unfair to farmers, does not secure adequate revenue to the Government, gives undue preference to imported tobaccos, and has a depressing influence on the prices received by farmers for most domestic-grown tobaccos.

The principle of taxation which is applied to estate, gift, corporation, individual income, to cigars, and to practically all commodities taxed by the Federal Government, should be applied to cigarettes. The principle referred to is the one of graduation in the tax rate rather than maintaining a flat rate for all units of the commodity taxed. Ability to pay taxes is also a feature of the recommendations herein being made by the American Farm Bureau Federation. They who choose to use cigarettes which sell at retail beyond 10 cents per package, or they who choose to use cigarettes which sell at retail beyond 15 cents per package, undoubtedly are able to pay a slightly higher rate of tax than are those who either choose or are forced by economic conditions to use cigarettes selling at retail for 10 cents or less per package. Accordingly, the general recommendations of the American Farm Bureau Federation is for the cigarette tax to be on a graduated rather than on a flat-rate basis. Several results will accrue if the graduated method should be used. More revenue would be secured, which is perhaps the matter of first importance. A stimulation of prices received for tobaccos by farmers will result, thus placing the graduation of the tax proposition along side the Agricultural Adjustment Act in an effort to secure price parity for producers of our domestic crops. The graduated tax on cigarettes will develop a tendency to use home-grown rather than foreign tobaccos. Finally, this kind of tax applied to cigarettes will assist in solving the unemployment problem by giving more labor to American citizens who produce domestic cigarettes, rather than giving employment to laborers in foreign factories where imported cigarettes are produced.

It must not be forgotten that the operations of the N.R.A. have increased the costs of manufacturing cigarettes and have, or will, increase the cost of this product to the retail purchasers. If these results are evident or probable, either now or in the near future, the inevitable result will be the lessened use of domestic tobaccos, as well as a probable decrease in prices to the farm producers thereof. If the present tax on the cheaper cigarettes should be continued at the same rate which applies to the higher-priced cigarettes, the N.R.A. costs, together with the continuation of the Federal tax, will either greatly reduce the volume of use of tobacco in the cheaper cigarettes, or drive those cigarettes off the markets entirely. To overcome this trend, there should be adopted a graduation in the cigarette tax which will permit a greater use of the cheaper brands, with its consequent enlargement of national consumption of home-grown tobacco, with the inevitable result of an increased price received by the farmer who produces the tobacco.

The cheaper brands, it is generally understood, are made of domestic tobacco, and naturally employ American laborers. The higher-priced brands are not wholly, but are in part, imported either in the manufactured form or in bulk tobaccos which are mixed with domestic tobaccos. This situation places the cheaper brands in position where they should receive first consideration by the Federal Government. The legislation adopted in the extraordinary session of the Seventy-third Congress undoubtedly intended to give preference to American labor, to American industry, and to American agriculture. By the adoption of a graduated tax plan on cigarettes all of these desirable accomplishments can be aided.

The plan recommended by the American Farm Bureau Federation is as follows:

- (1) A Federal tax of 5½ cents per package on cigarettes selling at retail for 10 cents or less per package.
- (2) A Federal tax of 6 cents per package on cigarettes selling at retail at not more than 15 cents, but more than 10 cents per package.

(3) A Federal tax of 6½ cents per package on cigarettes selling at retail beyond 15 cents per package.

There is attached hereto as a part of the statement of the American Farm Bureau Federation, a statement by Secretary Ben Kilgore, of the Kentucky Farm Bureau Federation.

BRIEF OF KENTUCKY FARM BUREAU FEDERATION BY BEN KILGORE, SECRETARY

On February 12 the executive committee of the Kentucky Farm Bureau Federation met in Louisville to consider the problem of a graduated tax on cigarettes in proportion to their retail selling prices. Tobacco price situations of 1931 and 1932 made us feel we should face this problem courageously and constructively in the interest of all tobacco growers of our State.

The outstanding evidence, which caused our committee to take unanimously favorable action, was the improved average burley prices in 1932 over 1931, for which we felt the 10-cent cigarette was certainly partially and probably largely responsible. The following facts may be enlightning:

Burley tobacco

	Total supply	Average price per pound
1931.....	<i>Pounds</i> 950, 223, 000	<i>Cents</i> 8.6
1932.....	1, 002, 035, 000	12.6

In 1932 the 10-cent cigarette manufacturer became an active competitive bidder for burley tobacco. To our committee these figures were unanswerable as to the fact that this extra competition was of direct benefit to all burley growers in Kentucky. We believe this competition is desirable and we believe it is our duty to do everything in our power to preserve this competition for the benefit of our people.

A brief résumé of the story may prove interesting. The introduction of the 10-cent cigarette into the tobacco world 2 years ago had a marked effect on the leaf market, the manufacturing industry, and the retail field. Cigarette consumption had been decreasing. The average price of flue-cured tobacco had dropped from 12.26 cents in 1930 to 9.25 cents per pound in 1931. The price of burley had dropped from 15.59 cents to 8.63.

Then the 10-cent cigarette made its appearance. Cigarette consumption increased.

The price of flue-cured tobacco jumped back to 11.60 cents in 1932 and of burley to 12.60 cents.

Since that time the "10-center" has been an important factor in the tobacco industry and has been a constant target for the 15-cent cigarette industry, as represented by the four leading manufacturers.

The 10-cent cigarette manufacturers, whose leaders are two independent companies operating in Kentucky, Brown & Williamson Tobacco Corporation and the Axton-Fisher Tobacco Co., have been at a disadvantage in this battle.

The largest cost element in cigarettes is the Federal tax of 6 cents on a package of 20. Fixed in 1919, when 15 cents was the bottom retail price for cigarettes the tax is the same for all classifications, regardless of cost to the consumer.

Automobiles are taxed in proportion to their selling price. There is a graduated tax on cigars, proportional to their selling price. The tax on cigarettes is not graduated because in the past there has been no need for graduation.

Manufacturers of 10-cent cigarettes during the first period of their operation were able to pay the tax, disproportionate though it is, because they were content with a comparatively small profit.

Increased costs under the N.R.A. due to an upward adjustment of wages, the shortening of working hours, the rise in prices of materials, the processing tax on tobacco, have cut into the small margin allowed for profit, however.

Manufacturers assert that production of 10-cent cigarettes will no longer be practicable unless the Federal tax is graduated so as to be more proportional to the selling price of cigarettes.

Congress has been asked to cut by three fifths of a cent the tax on cigarettes selling for not over 10 cents a package; to increase by three fifths of a cent the tax on cigarettes selling at more than 15 cents; and to retain the 6-cent tax on cigarettes retailing for more than 10 cents and not more than 15 cents a package.

As has been pointed out already, entrance of the 10-cent cigarette into the tobacco market had a definite effect on growers' prices.

In 1931 and 1932 when prices of practically all commodities were low and when the four leading cigarette manufacturers enjoyed practically 97 percent of the business, the price of 15-cent cigarettes were raised 45 cents a thousand, less 10 and 2 percent.

This raise was equivalent to 10 to 12 cents a pound on leaf tobacco, yet the 1931 crop sold at possibly the lowest price in 30 years, quality considered. The reduction to the farmer almost equalled the raise on the price of cigarettes.

Production of cigarettes began to drop. Then the 10-cent cigarette was placed on the market. Cigarette sales then jumped and 1933 saw a continued increase in cigarette consumption.

Appearance of the "10-center" had increased the demand for tobacco and had injected into the leaf market a competition from which buyers for the Big Four previously had been safe.

This element of competition, as provided by buyers for 10-cent cigarette manufacturers, should not be underestimated in value. It will be recalled that in January and February 1933 the Big Four companies cut their prices. Makers of "10-centers" found that they had more tobacco than they could well use and dropped out of the market. The price of burley went down at once.

The most certain method of increasing the price of leaf tobacco is to maintain and increase the consumption of tobacco. The tobacco export trade has been demoralized and the only way tobacco consumption in this country can be increased is by maintaining the lowest possible prices to the consumer. The surest and most practical method of keeping retail prices at a low level is to maintain the present competitive conditions in the industry.

Profits of tobacco manufacturers increased from 30 percent in 1923 to 68 percent in 1932. Gross receipts of the farmer for his tobacco decreased during that period from 70 to 32 percent. The figures show convincingly that the four big cigarette manufacturers would not suffer from competition.

The 10-cent cigarette manufacturers have passed on to the farmer the largest possible part of the consumer's dollar. The difference between leaf costs of "10-centers" and "15-centers" is more apparent than real.

The American tobacco grower is benefited by the 10-cent cigarette because more of his tobacco is consumed with each smoke of that type and the price he receives for his tobacco is substantially the same as that received for tobacco in other cigarettes.

The manufacturer of 10-cent cigarettes can and will pay for domestic tobaccos in their cigarettes the parity price provided under the Agricultural Adjustment Act if the tax is graduated to permit an equitable profit.

Graduation of the tax will not, it is believed, result in any loss of revenue for the United States. In the period of decreased cigarette consumption, before the appearance of the 10-cent cigarette, many smokers changed from "tailor-mades" to "roll-your-owns."

Appearance of the 10-cent cigarette regained much of this lost cigarette consumption. Should the "10-centers" disappear, without doubt many smokers would return to "roll-your-owns."

Since the tax on loose tobacco, such as that used in hand-rolled cigarettes, is only 18 cents a pound, while the tax on cigarette tobacco is \$1 a pound, the advantage, so far as the Federal Government is concerned, of retaining the "10-centers" in the field is obvious. The difference in revenue from 10-cent cigarettes and loose tobacco would mean a loss of \$590,400 a month for the Government, it is estimated.

On the other hand, if the 10-cent cigarette is permitted to remain on the market through the adjustment of the tax, there is no doubt that its consumption will continue to increase. This means an increased market for the farmer and increased revenues for the Government.

The consumer is to be considered also. It is estimated that the fact that there was a 10-cent cigarette on the market has saved consumers \$150,000,000 in 1 year. The smoker has a right to smoke a 10-cent cigarette.

Manufacturers of "10-centers" cannot raise their price to the consumer, for to pass the single-coin mark would be to enter into direct competition with "15-centers".

The plea for differential in internal-revenue rates on the lower-priced cigarettes is based, in short, on the contention that the 10-cent cigarette has a right to

existence; that its presence in the tobacco field is vastly beneficial to the farmer; that rather than decrease Federal revenues, a lowered tax would increase them; that the American smoker is benefited by the 10-cent cigarette.

For the benefit of all cigarette-tobacco farmers, support of the graduated tax is considered tremendously important.

The clerk sent the following telegram to Mr. Junius Parker, New York City, and to Mr. H. M. Robertson, Louisville, Ky., on April 6, 1934:

APRIL 6, 1934.

It is requested that you furnish the committee immediately the financial statements for 1931, 1932, and 1933 of the tobacco companies you represent. Also furnish the salaries and bonuses paid for the same years. This information was requested by the committee during hearing held on March 30.

FELTON M. JOHNSTON,
Clerk, Committee on Finance.

(Subsequently the following communications were received from Mr. H. M. Robertson, Brown & Williamson Tobacco Corporation, Louisville, Ky., and from Mr. Junius Parker, of New York City:)

BROWN & WILLIAMSON TOBACCO CORPORATION,
Louisville, Ky., April 9, 1934.

FELTON M. JOHNSTON, Esq.,
*Clerk, Senate Finance Committee,
Senate Office Building, Washington, D.C.*

DEAR SIR: Your telegram of April 6, reading as follows: "It is requested that you furnish the committee immediately the financial statements for 1931, 1932, and 1933 of the tobacco companies you represent. Also furnish the salaries and bonuses paid for the same years. This information was requested by the committee during hearing held on March 30", was received in the afternoon of that day and I confirm my telegram in reply as follows: "Your telegram re financial statements and statements salaries and bonuses my client received. As office closed Saturday will be unable to furnish information until Monday, at which time it will be forwarded to you."

We have not prior to this time furnished the information subject of your telegram because I have been unable to obtain a copy of the transcript of the hearing of March 30 in order to ascertain exactly what information was to be furnished by this company.

I am enclosing herewith financial statements of this company for the years 1931, 1932, and 1933, and a list showing full amounts of all salaries and bonuses to officers and employees during such years.

From the statements made at the hearing it was my understanding that information was desired only with respect to amount of salary and bonus paid to any individual in excess of \$10,000 per year, and accordingly we have not shown payments of this kind which did not amount to \$10,000 per year in any year. We will, of course, be glad to furnish such information as to any lesser salary and bonus payments and will do so upon the request of the committee.

According to my recollection of what took place at the hearing on March 30, there was also to be furnished to the committee the amount of any dividends received by officers and employees on stock of the tobacco companies in question and any other payments of any kind directly or indirectly on account of any financial interest in the company of an officer or employee or in any way arising on account of services to the company. This is to advise you that no officer or employee of this company owns or at any time has owned any stock of the company or had any financial interest in the company or any contract or arrangement for purchase of stock; nor has any officer or employee received in any year from the company any amount in excess of \$10,000 per year by way of dividends, payment for services, or in any other way except as set forth in the attached list.

I would be much obliged if you would acknowledge receipt of this letter and would advise me whether the information as to salaries and bonuses furnished by the companies requested to do so is to be made public and, if so, would let me have a statement of the payments of this kind made by the other companies who were requested by the committee to furnish this information.

Very truly yours,

H. M. ROBERTSON.

Brown & Williamson Tobacco Corporation and Brown & Williamson Tobacco Sales Corporation consolidated financial statement, Dec. 31, 1931

ASSETS

Goodwill, brands, patents, etc.....		\$188,367.81
Real estate, machinery and fixtures, office and restaurant fixtures, automobiles, etc.....		4,592,394.66
Stocks and merchandise on hand and in transit.....		3,381,224.59
Cash in banks and in transit to banks.....		974,327.24
Accounts receivable, customers.....	\$1,771,956.14	
Notes and other accounts receivable.....	49,842.30	
Sundry contingent funds.....	72,713.55	
		<u>1,894,511.99</u>
Sundry debtors and debit balances.....		203,609.26
Total assets.....		<u><u>11,237,435.55</u></u>

LIABILITIES

Capital authorized:		
40,000 shares 7 percent cumulative preferred stock, par value each \$100.....		\$4,000,000.00
400,000 shares common stock without nominal or par value.....		
Capital issued:		
Preferred, 40,000 shares at \$100 each.....		4,000,000.00
Common, 400,000 shares at \$1 each.....		400,000.00
Total.....		<u><u>4,400,000.00</u></u>
Purchase adjustment suspense.....		180,603.88
Accounts payable.....		16,328,559.59
Sundry provision accounts and funds for depreciation.....		1,627,760.71
Total liabilities.....		<u><u>22,536,924.18</u></u>
Surplus, deficit, Jan. 1, 1931.....		10,253,851.27
Add net loss during 1931.....		1,045,837.36
Surplus, deficit.....		<u><u>11,209,488.63</u></u>

I have examined the books of the companies and have obtained all the information and explanations that I have required and in my opinion, the above consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the companies' affairs according to the best of my information and the explanations given to me and as shown by the books of the companies.

E. M. LEWIS, Treasurer.

Brown & Williamson Tobacco Corporation and Brown & Williamson Tobacco Sales Corporation—Consolidated financial statement, Dec. 31, 1932

ASSETS

Goodwill, brands, patents, etc.....		\$188,367.81
Real estate, machinery and fixtures, office and restaurant fixtures, automobiles, etc.....		6,147,963.74
Stocks and merchandise on hand and in transit.....		11,082,832.89
Cash in banks and in transit to banks.....		2,321,601.23
Accounts receivable, customers'.....	\$3,833,565.88	
Notes and other accounts receivable.....	21,467.47	
Sundry contingent funds.....	116,153.81	
		<u>3,971,187.16</u>
Sundry debtors and debit balances.....		139,439.34
Total assets.....		<u><u>23,851,302.17</u></u>

Brown & Williamson Tobacco Corporation and Brown & Williamson Tobacco Sales Corporation—Consolidated financial statement, Dec. 31, 1932—Con.

LIABILITIES

Capital authorized:		
40,000 shares 7 percent cumulative preferred stock, par value each \$100.....		\$4,000,000.00
400,000 shares common stock without nominal or par value.....		
Capital issued:		
Preferred, 40,000 shares at \$100 each.....	\$4,000,000.00	
Common, 400,000 shares at \$1 each.....	400,000.00	
Total.....		4,400,000.00
Purchase adjustment suspense.....		180,603.88
Accounts payable.....		23,885,728.33
Sundry provision accounts and funds for depreciation.....		3,445,715.21
Total liabilities.....		31,912,047.42
Surplus, deficit, Jan. 1, 1932.....		11,299,488.68
Deduct net earnings during 1932.....		3,238,833.38
Surplus, deficit.....		8,060,655.25

I have examined the books of the companies and have obtained all the information and explanations that I have required and in my opinion the above consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the companies' affairs according to the best of my information and the explanations given to me and as shown by the books of the companies.

E. M. LEWIS, *Treasurer.*

Brown & Williamson Tobacco Corporation and Brown & Williamson Tobacco Sales Corporation—Consolidated financial statement, Dec. 31, 1933

ASSETS

Goodwill, brands, patents, etc.....		\$188,367.81
Real estate, machinery and fixtures, office and restaurant fixtures, automobiles, etc.....		6,254,454.70
Stocks and merchandise on hand and in transit.....		16,628,380.34
Cash in banks and in transit to banks.....		1,030,250.91
Other investments.....		3,375.00
Accounts receivable, customers'.....	\$2,954,383.07	
Notes and other accounts receivable.....	12,014.32	
Sundry contingent funds.....	125,622.69	
Sundry debtors and debit balances.....		3,092,020.08
		150,945.65
Total assets.....		27,347,704.49

LIABILITIES

Capital authorized:		
40,000 shares 7 percent cumulative preferred stock, par value each \$100.....		\$4,000,000.00
400,000 shares common stock without nominal or par value.....		
Capital issued:		
Preferred, 40,000 shares at \$100 each.....	4,000,000.00	
Common, 400,000 shares at \$1 each.....	400,000.00	
Total.....		4,400,000.00
Purchase adjustment suspense.....		180,603.88
Accounts payable.....		23,204,074.77
Sundry provision accounts and funds for depreciation.....		4,195,976.77
Total liabilities.....		31,980,655.42

Brown & Williamson Tobacco Corporation and Brown & Williamson Tobacco Sales Corporation—Consolidated financial statement, Dec. 31, 1933—Con.

LIABILITIES—continued

Surplus, deficit, Jan. 1, 1932.....	\$8,080,055.28
Deduct, net earnings during 1932.....	3,427,794.32
Surplus, deficit.....	4,652,260.96
Total.....	27,347,794.40

I have examined the books of the companies and have obtained all the information and explanations that I have required and in my opinion, the above consolidated balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the companies' affairs according to the best of my information and the explanations given me and as shown by the books of the companies.

E. M. Lewis, Treasurer.

List of all officers and employees of Brown & Williamson Tobacco Corporation receiving for the years 1931, 1932, and 1933, salaries, bonuses, or any other compensation for services or payments by way of dividends or otherwise from that company in excess of \$10,000 per year and the amount of such payments

	1931	1932	1933
George Cooper.....			\$83,084.00
George E. Gary.....	\$20,000	\$20,000	27,000.00
T. V. Hartnett.....	10,000	10,000	24,000.00
E. M. Stokes.....	12,000	12,000	20,000.00
F. J. Gaither.....			10,500.00
E. M. Lewis.....			11,500.00

NEW YORK, April 9, 1934.

Mr. FELTON M. JOHNSTON,
Clerk, Committee on Finance,
United States Senate, Washington, D.C.

DEAR MR. JOHNSTON: Your telegram of April 6, asking for certain information from tobacco companies whom I represented before the Finance Committee of the Senate at a hearing held on March 30, did not reach me until Saturday morning. I had not up to that time read the stenographer's minutes of the hearing (although I had glanced at my own statement and authorized Mr. Dushkind to correct stenographic errors), and had been awaiting such opportunity before attempting to comply with suggestions made by Chairman Harrison and perhaps other members of the committee. While I was in my office Saturday, that day is almost dies non here, and it was only today that I have been able to get from the Tobacco Merchants' Association and go over the stenographer's minutes.

This examination confirms my recollection that I did not and could not have assumed the responsibility of producing all of the records mentioned in your telegram. My authority was limited to acting as spokesman for the group in presenting their views on the tax problem before the Senate Finance Committee, and I, of course, could not authoritatively undertake to furnish statements of companies which have not been published. In this connection, I am sure you will permit me to call your attention to the colloquies that appear on pages 1717-1718 of the stenographer's minutes.

I am pleased to hand you herewith statement taken from the data published by the Standard Statistics Co., showing the profits for 1931, 1932, and 1933, of the following companies: Liggett & Myers Tobacco Co., the American Tobacco Co., R. J. Reynolds Tobacco Co., P. Lorillard Co., Phillip Morris & Co., American Snuff Co., George W. Helme Co., and United States Tobacco Co.

The first five of these companies represent all the companies who make in substantial amount cigarettes, except the principal makes of 10-cent cigarettes, Messrs. Brown & Williamson and Axton Fisher whom I did not represent at all.

Insofar as bonuses and salaries are concerned: You will note from Senator Barkley's remarks as set forth on page 1715 of the stenographer's minutes, that the Federal Trade Commission has already submitted to the Senate a detailed record giving the entire list of bonuses and salaries so far as such were paid to officers or directors. It is my understanding that this was furnished by the Federal Trade Commission direct to the Senate and is available to any committee thereof, but it was not furnished to any special committee.

I trust that the information that I am herewith handing you, and the reference I have made as to sources of other information, will be satisfactory to you and the committee, and I greatly regret the delay that has occurred.

Very truly yours,

JUNIUS PARKER.

Net income

	1931	1932	1933
Liggott & Myers Tobacco Co.....	\$23, 121, 382	\$23, 075, 213	\$10, 731, 175
The American Tobacco Co.....	40, 183, 385	43, 269, 020	17, 401, 208
R. J. Reynolds Tobacco Co.....	30, 309, 817	33, 074, 800	21, 153, 722
F. Lorillard Co.....	4, 846, 373	4, 559, 052	2, 380, 255
Phillip Morris & Co.....	416, 006	498, 833	417, 957
American Snuff Co.....	1, 016, 132	1, 818, 020	2, 002, 003
George W. Helme Co.....	2, 147, 090	2, 017, 500	1, 950, 774
United States Tobacco Co.....	3, 020, 779	3, 534, 934	3, 306, 482

The chairman received the following communication from W. F. Axton, president of the Axton-Fisher Tobacco Co., Louisville, Ky.:

THE AXTON-FISHER TOBACCO CO., INC.,
Louisville, Ky., March 31, 1934.

Senator PAT HARRISON,

Chairman Senate Finance Committee, Washington, D.C.

DEAR SENATOR: At the request of your committee, I am enclosing you statements of the Axton-Fisher Tobacco Co., for 1931, 1932, and 1933.

The dividends I received from the Axton-Fisher Tobacco Co. in 1931 were \$86,984, in 1932 were \$86,984, and in 1933 were \$87,944.

The salary I received was \$10,000 in each of these years and I received a bonus of 15 percent on salary received for each of these years.

My stockholdings for the first quarter in the Axton-Fisher Tobacco Co. were, in 1931, 52,365 shares class B and 1,000 shares class A; in 1932, 52,365 shares class B and 1,000 shares class A; and in 1933, 52,365 shares class B and 1,000 shares class A. In the last three quarters of the year my holdings were the same as the first quarter except that I purchased on the open market 400 shares of class A stock.

The salaries of the other officers and directors of the Axton-Fisher Tobacco Co. are as follows:

	<i>Per year</i>
E. J. Helek, vice president.....	\$5, 000
R. L. Axton, director.....	5, 000
E. D. Axton, secretary-treasurer.....	7, 500

Each of those received the same salary for 1931, 1932, and 1933, and a bonus of 15 percent for each of these years, based on their salary.

In testifying before your committee, I got a little confused and stated that I owned the majority of the stock when I should have said that I controlled the majority of the stock, as I am trustee for 7,000 shares of stock on which I receive no dividends myself.

Preferred stock in our company receives \$6 per share which is accumulative and preferred to all other dividends.

The class A stock receives \$3.20 per share which is accumulative and is preferred to class B stock.

After the dividends have been paid on the preferred and class A stock and 5 percent of the highest amount of preferred stock outstanding has been retired, the class B stock is entitled to receive \$1.00 per share dividends.

Then should there be any further distribution of dividends above the amount mentioned on class A and class B stock, the class A stock as a class will receive the same amount as the class B stock. In other words there will be as much allocated to the 45,465 shares of A stock as will be allocated to the 112,012 shares of class B stock.

I did not receive any stock dividends nor did anyone else receive any stock dividends in any of the 3 years, nor did I purchase any of this stock from my company.

It would be impossible for me to determine at this time my portion of the earnings passed to surplus.

Trusting this is the information your committee desires I am,

Very respectfully,

W. F. AXTON.

CONDENSED BALANCE SHEETS, INCOME, AND SURPLUS STATEMENTS

THE AXTON-FISHER TOBACCO CO., INC.,
Louisville, Ky., December 31, 1931.

To our stockholders:

We herein hand you statement of the Axton-Fisher Tobacco Co., Inc., as of December 31, 1931, which shows we made a net profit of \$605,552 after depreciation and income taxes for the year 1931.

While our sales for 1931 show a small gain over 1930, earnings were somewhat lower due to increased advertising expenditures in latter part of year.

During the year we purchased in the open market and retired 4,500 shares of class A stock and 500 shares preferred stock.

After preferred dividends were paid, earnings were sufficient to cover dividend on class A stock now outstanding three and eight tenths times over.

While we cannot with certainty predict the future, yet we believe we will have substantial increased earnings this year over 1931.

Very respectfully,

W. F. AXTON, *President.*

Condensed balance sheet of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., at the close of business Dec. 31, 1931

ASSETS

Current:

Cash in banks and on hand.....		\$153, 114. 16
Accounts receivable, net of allowance for cash discounts:		
Customers.....	\$367, 508. 30	
Employees.....	23, 071. 72	
Others.....	12, 905. 69	
		403, 485. 71
Inventories, at cost, not in excess of realizable value (including advances for crop purchase and materials in amount of \$66,091.71).....		3, 427, 558. 36
Prepaid insurance, interest, etc.....		11, 936. 69
Total current assets.....		3, 996, 094. 92
Investments, at ledger values.....		100. 00
Accounts receivable, doubtful of collection.....		3, 943. 55
Land, buildings and equipment, at ledger values.....	\$924, 509. 25	
Less allowance for depreciation.....	284, 935. 41	
		639, 573. 84
Brands and trade-marks, at ledger values.....		317, 608. 04
Deferred charges.....		14, 861. 52
Total.....		4, 972, 181. 87

Condensed balance sheet of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., at the close of business Dec. 31, 1931—Continued

LIABILITIES

Current:

Notes payable:	
Banks and bankers.....	\$1,345,000.00
Others.....	17,800.53
Total.....	<u>1,362,800.53</u>
Accounts payable, vendors, etc.....	89,210.12
Accrued expenses, taxes, etc.....	83,444.02
Dividends payable.....	66,735.60
Total current liabilities.....	<u>1,602,190.27</u>
First mortgage 6-percent serial bonds (2,600 payable annually on Mar. 31, and final payment of \$5,600 on Mar. 31, 1935) due Mar. 31, 1932, and subsequent thereto.....	13,601.00

CAPITAL

Preferred capital stock, 6 percent cumulative, par \$100, authorized 20,000 shares, outstanding 8,500 shares.....	850,000.00
Common capital stock:	
Class A cumulative dividend \$3.20 per share, par \$10, authorized 50,000 shares, outstanding 45,500 shares.....	\$455,000.00
Class B par \$10, authorized 200,000 shares, outstanding 107,000 shares.....	1,070,000.00
Total.....	<u>1,525,000.00</u>
Capital surplus.....	123,822.50
Earned surplus, as annexed.....	857,568.10
Total.....	<u>3,356,390.60</u>
Grand total.....	<u><u>4,972,181.87</u></u>

We have audited the accounts of the Axton-Fisher Tobacco Co., Inc., as of December 31, 1931, and, in our opinion, the accompanying balance sheet and income account set forth the financial position of the company at December 31, 1931, and the results of operations for the year ended that date.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

CINCINNATI, OHIO, February 17, 1932.

Condensed statement of income and surplus accounts of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., for the year ended Dec. 31, 1931

SURPLUS ACCOUNT

Earned surplus, unappropriated, Jan. 1, 1931.....	\$630,024.52
Add income for the year ended Dec. 31, 1931, as annexed.....	605,552.00
Deduct sundry adjustments.....	<u>\$1,438.42</u>
Dividends declared:	
Preferred stock, cash.....	52,170.00
Common stock, class A, cash.....	153,200.00
Common stock, class B, cash.....	171,200.00
Total.....	<u>376,570.00</u>
Balance, Dec. 31, 1931.....	<u>378,008.42</u>
Total.....	<u><u>857,568.10</u></u>

Condensed statement of income and surplus accounts of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., for the year ended Dec. 31, 1931—Continued

INCOME ACCOUNT	
Net sales.....	\$6, 292, 837. 07
Cost of sales.....	4, 148, 157. 39
<hr/>	
Gross profit.....	2, 144, 079. 68
Selling expenses.....	\$1, 359, 172. 81
Administrative and general expenses.....	131, 440. 68
<hr/>	
	1, 490, 613. 49
<hr/>	
Profit before other income and Federal taxes.....	654, 066. 19
Other income, net.....	34, 855. 13
<hr/>	
Profit before Federal taxes.....	688, 921. 32
Allowance for Federal income taxes.....	83, 369. 32
<hr/>	
Net profit.....	605, 552. 00

THE AXTON-FISHER TOBACCO CO., INC.,
Louisville, Ky., December 31, 1932.

To our stockholders:

It is with great satisfaction that I submit to you herewith annual report of the Axton-Fisher Tobacco Co., for the year ending December 31, 1932.

While sales for the year were pleasing the earnings of \$1,416,952.14 were particularly gratifying.

After dividends of \$376,388.96 were paid on all classes of stock there was carried to surplus the sum of \$1,040,563.18.

The per share earnings on the present outstanding preferred stock were \$79.60, and on the present outstanding class A common stock, \$29.86.

On January 3, cigarette prices were reduced by the four leading companies evidently for the sole purpose of checking the growth of 10-cent cigarettes in this country. The Axton-Fisher Tobacco Co., with several other "independent" manufacturers, had brought the price of cigarettes within the depressed state of incomes of the public. The growth of these brands was so rapid that an effort was made to curb this growth by reduced prices.

While our remarkable increase in sales has been checked somewhat by the reduction in prices of the so-called big four brands, nevertheless, we are enjoying a good volume with resultant satisfactory earnings.

Earnings for January of this year were \$253,600 or more than sufficient to pay dividends for the entire year on both preferred and class A stocks.

We are deeply appreciative of the interest and cooperation on the part of every stockholder, and for your enthusiastic efforts in behalf of our company and its brands.

Very respectfully,

W. F. AXTON, *President.*

Condensed balance sheet of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., at the close of business Dec. 31, 1932

ASSETS	
Current:	
Cash in banks and on hand.....	\$354, 890. 93
Accounts receivable, net of allowance for cash discounts:	
Customers.....	\$1, 549, 846. 29
Employees.....	30, 220. 72
Others.....	66, 961. 32
<hr/>	
	1, 647, 028. 33
Inventories, at cost, not in excess of realizable value (including advances for crop purchase and materials in amount of \$24,979.37).....	3, 097, 719. 49
Prepaid insurance, interest, etc.....	10, 098. 02
<hr/>	
Total current assets.....	5, 109, 736. 77

Condensed balance sheet of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., at the close of business Dec. 31, 1932—Continued

ASSETS—continued

Investment in capital stock of Leaf Tobacco Supply Co., Inc., a wholly-owned subsidiary.....	\$964,000.00
The assets of the Leaf Tobacco Supply Co., Inc., consist of cash and other assets aggregating \$98,180.28 and tobacco inventories amounting to \$3,236,635.96 at cost plus carrying charges. The liabilities consist of loans aggregating \$1,929,096.71, secured by tobacco pledged as collateral, and outstanding accounts payable aggregating \$441,719.53. The Axton-Fisher Tobacco Co., Inc., is neither directly nor contingently liable on the above loans.	
Investment in capital stock of the Liberty Coal & Coke Co., par value.....	100.00
Accounts receivable, doubtful of collection.....	11,621.67
Land, buildings, and equipment at ledger values (including payments of \$43,939.62 on an optional purchase contract of \$123,030.96).....	\$1,231,670.50
Less, allowance for depreciation.....	325,205.20
	<u>906,465.30</u>
Brands and trade marks, at ledger values.....	318,623.54
Deferred charges.....	16,539.55
	<u>7,327,086.83</u>

LIABILITIES

Current:	
Notes payable:	
Banks and bankers.....	\$1,540,000.00
Others.....	18,128.07
	<u>1,558,128.07</u>
Accounts payable.....	98,836.36
Accrued bonuses, royalties, etc.....	45,103.95
Accrued Federal income taxes 1932, estimated.....	226,851.19
Dividends payable.....	80,062.10
	<u>2,008,981.67</u>
First mortgage 6 percent serial bonds (\$2,600 payable annually on Mar. 31, and final payment of \$5,600 on Mar. 31, 1935) due Mar. 31, 1933, and subsequent thereto.....	10,800.00

CAPITAL

Preferred capital stock, 6 percent cumulative, par \$100, authorized 20,000 shares, outstanding 17,800 shares.....	\$1,780,000.00
Common capital stock:	
Class A cumulative dividend \$3.20 per share, par \$10, authorized 50,000 shares, outstanding 45,500 shares.....	455,000.00
Class B par \$10 authorized 200,000 shares, outstanding 111,900 shares.....	1,119,000.00
	<u>1,574,000.00</u>
Capital surplus, as annexed.....	55,972.49
Earned surplus, as annexed.....	1,897,332.67
	<u>5,307,305.16</u>
Total.....	<u>7,327,086.83</u>

The Board of Directors, The Axton-Fisher Tobacco Co., Inc.:

We have examined the accounts of the Axton-Fisher Tobacco Co., Inc., and its wholly owned subsidiary the Leaf Tobacco Supply Co., Inc., as of December 31, 1932, and in our opinion, the foregoing balance sheet and accompanying income and surplus accounts set forth the financial position of the company at December 31, 1932, and the results of operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountants and Auditors.

LOUISVILLE, KY., February 25, 1933.

Condensed statement of income and surplus accounts of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., for the year ended Dec. 31, 1932

SURPLUS ACCOUNT

	Earned	Capital	Combined
Balance, Jan 1, 1932	987,508.10	\$123,822.50	9081,300.00
Add income for the year ended Dec 31, 1932, as annotated	1,416,952.14		1,416,952.14
Deduction on preferred stock retired		6,000.00	6,000.00
Total	2,274,520.24	129,822.50	2,404,402.74
Deduct			
Additional income taxes, 1931	79.61		798.61
Excess of par value of preferred stock and class B common stock sold over net proceeds thereof		73,910.01	73,910.01
	798.61	73,910.01	74,708.62
Net before dividends	2,273,721.63	55,912.49	2,329,694.12
Cash dividends declared:			
Preferred stock	58,031.26		58,031.26
Common stock, class A	145,000.00		145,000.00
Common stock, class B	172,757.00		172,757.00
Total	375,788.26		375,788.26
Balance Dec 31, 1932	1,897,933.67	55,912.49	1,953,806.16

INCOME ACCOUNT

Sales		\$17,608,700.00
Cost of sales		14,043,673.71
Gross profit		3,565,026.29
Selling expense	\$1,794,879.08	
Administrative and general expenses	174,442.79	
		1,969,321.87
Profit before other income and Federal income taxes		1,595,704.42
Other income, net		48,100.20
Profit before Federal income taxes		1,643,804.62
Allowance for Federal income taxes, estimated		228,851.19
Net profit		1,416,952.14

THE AXTON-FISHER TOBACCO CO., INC.,
Louisville, Ky., December 31, 1932.

To our stockholders:

I submit to you herewith annual report of the Axton-Fisher Tobacco Co., for the year ending December 31, 1932.

With a substantial increase in sales for the year, our earnings were \$1,689,663.01, which was \$272,710.87 more than we earned in 1932 which was particularly gratifying.

After dividends of \$432,144.03 were paid on all classes of stock, there was carried to the surplus \$1,257,518.88.

The per share earnings on the present outstanding preferred stock was \$99.06 a share, and on the present outstanding class A common stock \$34.80 a share.

At the beginning of the year cigarette prices were reduced by the four large companies, which they admitted was for the sole purpose of checking the growth of 10-cent cigarettes in this country. While it is very gratifying to know that our 10-cent cigarettes have been increasing in sales, it is also very gratifying to

know that our Spud sales have increased very much indeed, last month showing considerably over 100 percent increase over the corresponding month of last year.

We deeply appreciate the interest and cooperation on the part of every stockholder and your enthusiastic efforts in behalf of our company and its brands.

Very respectfully,

W. F. AXTON, *President.*

Condensed balance sheet of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., at the close of business Dec. 31, 1935

ASSETS

Current:	
Cash in banks.....	\$856,496.06
Accounts receivable, net of allowance for cash discounts:	
Customers.....	\$1,107,155.18
Officers and employees.....	49,933.75
Others.....	37,672.03
	<u>1,194,760.96</u>
Inventories, at cost, not in excess of realizable value (including advances for crop purchase and materials in amount of \$56,293.08).....	4,640,391.30
Prepaid insurance, interest, etc.....	20,423.86
	<u>6,212,072.18</u>
Total current assets.....	6,212,072.18
Investment in the capital stock of Leaf Tobacco Supply Co., Inc., a wholly owned subsidiary.....	1,000,000.00
The assets of the Leaf Tobacco Supply Co., Inc., consist of cash and other assets aggregating \$54,764.12, tobacco inventories amounting to \$3,514,720.78 at cost plus carrying charges, and real estate and buildings net of allowance for depreciation \$124,982.12. The liabilities consist of loans aggregating \$2,483,132.29, secured by tobacco pledged as collateral, lien notes on real estate \$80,000, and accounts payable and accrued items aggregating \$131,334.73. The Axton-Fisher Tobacco Co., Inc., is neither directly nor contingently liable on the above loans.	
Investment in stock of Liberty Coal & Coke Co., par value.....	100.00
Cash on deposit and account receivable with collateral, subject to foreign exchange restrictions.....	24,611.81
Accounts receivable, doubtful of collection.....	24,715.26
Land, buildings, and equipment, at ledger values.. \$1,638,066.60	
Less, allowance for depreciation.....	395,831.66
	<u>1,242,234.94</u>
Brands and trade marks, at ledger values.....	325,319.85
Deferred charges.....	66,915.33
	<u>8,895,969.37</u>

LIABILITIES

Current:	
Notes payable:	
Banks and bankers.....	\$1,800,000.00
Others.....	18,412.08
	<u>\$1,818,412.08</u>
Accounts payable:	
Vendors.....	67,675.14
Officers and employees.....	41,972.13
Others.....	4,875.78
	<u>114,523.05</u>
Accrued bonuses, royalties, etc.....	78,256.19
Accrued Federal income taxes, 1933, estimated.....	268,533.57
Dividends payable.....	70,095.70
Provisions for processing tax on manufacturing.....	35,793.06
	<u>2,385,613.65</u>
Total current liabilities.....	2,385,613.65
First mortgage 6-percent serial bonds (\$2,600 due Mar. 31, 1934, and \$5,600 due Mar. 31, 1935).....	8,200.00

Condensed balance sheet of the Axton-Fisher Tobacco Co. Inc., Louisville Ky., at the close of business Dec. 31, 1933—Continued

CAPITAL

Preferred capital stock, 6 percent, cumulative, par \$100, authorized 20,000 shares, outstanding 17,056 shares.....	\$1,705,600.00	
Common capital stock:		
Class A cumulative dividend \$3.20 per share, par \$10, authorized 50,000 shares, outstanding 45,465 shares.....	454,650.00	
Class B par \$10 uthorized 200,000 shares, outstanding 112,012 shares.....	1,120,120.00	
Total.....	1,574,770.00	
Capital surplus, as annexed.....	65,893.79	
Earned surplus, a sannexed.....	3,155,891.93	
		\$6,502,155.72
Total.....		8,895,969.37

The Board of Direcotrs, the Axton-Fisher Tobacco Co., Inc.:

We have examined the accounts of The Axton-Fisher Tobacco Co., Inc., and its wholly owned subsidiary the Leaf Tobacco Supply Co., Inc., as at December 31, 1933, and in our opinion, the foregoing balance sheet and accompanying income and surplus accounts set for the financial position of the company at December 31, 1933, and the results of operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY,
Accountnats and Auditors.

LOUISVILLE, KY., March 9, 1934.

Condensed statement of income and surplus accounts of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., for the year ended Dec. 31, 1933*

SURPLUS ACCOUNT

	Earned	Capital	Combined
Balance, January 1, 1933.....	\$1,897,332.67	\$55,972.49	\$1,953,305.16
Add income for the year ended Dec. 31, 1933, as annexed.....	1,689,663.01	11,826.30	1,699,663.01
Discount on preferred stock retired.....	1,040.28	.....	1,040.28
Refund income taxes, 1931.....	.....	.....	.....
Total.....	3,588,035.96	67,798.79	3,655,834.75
Deduct excess of par value of preferred stock and class B common stock sold over net proceeds thereof.....	.....	1,905.00	1,905.00
	.....	1,905.00	1,905.00
Net before dividends.....	3,588,035.96	65,893.79	3,653,929.75
Cash dividends declared:			
Preferred stock.....	107,436.03	.....	107,436.03
Common stock, class A.....	145,544.00	.....	145,544.00
Common stock, class B.....	179,164.00	.....	179,164.00
Total.....	432,144.03	.....	432,144.03
Balance, Dec. 31, 1933.....	3,155,891.93	65,893.79	3,221,785.72

Condensed statement of income and surplus accounts of the Axton-Fisher Tobacco Co., Inc., Louisville, Ky., for the year ended Dec. 31, 1938—Continued

INCOME ACCOUNT	
Sales.....	\$23,704,029.07
Cost of sales.....	19,269,985.75
Gross profit.....	4,440,043.32
Selling expenses.....	\$2,208,660.29
Administrative and general expenses.....	256,281.03
	2,464,941.32
Profit before other expenses and Federal income tax.....	1,975,101.10
Other expenses, net.....	16,904.82
Profit before Federal income taxes.....	1,958,196.28
Allowance for Federal income taxes, estimated.....	268,533.57
Net profit.....	1,689,662.71

(Whereupon, at 1 p. m., the hearing adjourned.)